

GUIDE TO STOCK EXCHANGE MEMBERS

REGULATIONS ACCORDING TO THE FIRST PART OF THE RULES

STOCK EXCHANGE MEMBERSHIP

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REGULATIONS TO THE FIRST PART OF THE RULES

STOCK EXCHANGE MEMBERSHIP

Chapter I – Introduction

1. Cancelled.
2. In these Regulations:

terms	definitions
"illiquid credit"	- credit given by the NBCM to its client, which the NBCM may not and/or cannot bring for repayment within 21 days.
"other liquid credit"	- other credit that is liquid credit.
"full collateral"	- monetary assets charged by the client in favor of the NBCM to secure credit and/or guarantees given by the NBCM to the client, the maximum value of which for collateral purposes, in accordance with sub-paragraph 14.a. below, is not less than the amount of credit and guarantees given by the NBCM to the client.
"secured other liquid credit"	- other liquid credit, against which the NBCM has received full collateral.
"unsecured credit"	- credit against which the NBCM has not received full collateral.
"secured liquid guarantees"	- guarantees given by the NBCM in favor of its client, against which the NBCM has received full collateral.
"other guarantees"	- guarantees that are not secured liquid guarantees.
"other assets"	- intangible assets, fixed assets, investment in subsidiaries and included companies, deferred taxes, pre-paid expenses, and any asset that is not a monetary asset.
"trading volume"	- in securities traded in Israel - the volume of trade on the Stock Exchange and off the Stock Exchange, in accordance with the data of the Stock Exchange Clearing House. in securities traded overseas - the volume of trade, pursuant to the NBCM's reports, which shall be based on the reports of foreign brokers, through which the NBCM acts.

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terms**definitions**

"money market fund" - as defined in the Joint Investment Trust (Assets that may be Bought and Held by a Fund and their Maximum Amounts) Regulations, 5755-1994.

"exchange-traded fund (ETF)" - as defined in the Joint Investment Trust (Assets that may be Bought and Held by a Fund and their Maximum Amounts) Regulations, 5755-1994.

"value day transaction" - a transaction the execution date attributed to which in the member's books precedes the date on which it was actually executed.

"supervised client" - a client of an NBCM, which is one of the entities detailed below, the volume of assets managed by which is to a value of at least NIS 10 billion or which has equity of at least NIS 500 million.

The amounts as aforesaid shall not be linked to the index.

And these are the entities:

- a. a joint investment trust fund, or fund manager within the meaning thereof in the Joint Investment Trust Law, 5754-1994, or company for the management of a fund as aforesaid;
- b. a provident fund or managing company, as defined in the Control of Monetary Services (Provident Funds) Law, 5765-2005;
- c. an insurer, within the meaning thereof in the Control of Insurance Business Law, 5741-1981;
- d. a banking corporation;
- e. a first-rate international bank;
- f. an international investment house.

"dual listed security" - a security traded on a stock exchange in Israel and on an overseas stock exchange.

Chapter II –

Qualification Conditions and Procedure for the Admittance of Members

3. Cancelled.

4. Cancelled.

4A. Cancelled.

4B. **Remote member**

The qualification conditions for remote membership are as follows:

- a. A company that was incorporated in one of the following countries: EU countries, the United States, the U.K., Switzerland, Japan, Canada, Norway, Hong Kong, Singapore and Australia, and has been a stock exchange member, for at least three years, of one or more of the following stock exchanges:

LSE (London), NYSE, EURONEXT, NASDAQ, CME (Chicago),
CBOE (Chicago), ICE, TSX (Toronto), ASX (Australia),
DEUTSCHE BORSE, EUREX (Germany), SIX (Switzerland),
TSE (Tokyo), SGX (Singapore), HKEX (Hong Kong).

- b. A remote member shall have equity of not less than the highest of the following alternatives:
- 1) the equity required of it by the competent authority, in the country in which it was incorporated;
 - 2) the equity required of it by any stock exchange of which it is a member, in the country in which it was incorporated;
 - 3) the equity required of it by the competent authority in any one of the countries in which it operates as a stock exchange member, and from which it is applying to operate on the Stock Exchange;
 - 4) the equity required of it by any stock exchange of which it is a member, in each one of the countries from which it is applying to operate on the Stock Exchange;
 - 5) the equity required from an NBCM as provided in the second alternative in paragraph 5.b. below.

5. **An NBCM's equity**

- a. An NBCM shall, at all times, have equity of not less than the amounts prescribed in sub-paragraph b. below, and initial equity of not less than the amounts prescribed in sub-paragraph e. below.

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

An NBCM's equity and initial equity shall be examined in accordance with the financial statements of the NBCM itself, and not in accordance with the NBCM's consolidated financial statements.

- b. An NBCM shall, at all times, have equity of not less than the higher between:
- 1) the amount of the operating risk, within the meaning thereof in sub-paragraph c. below, plus the amount of the monetary risk, within the meaning thereof in sub-paragraph d. below;
 - 2) NIS 16.9 million.

Notwithstanding the aforesaid, by the end of three years from the date of commencing its activity as a member, an NBCM shall have, at all times, equity of not less than the amount obtained in accordance with sub-paragraph 1) above or NIS 5.6 million, whichever is higher.

c. **The amount of the operating risk**

The amount of an NBCM's operating risk shall be the sum of all the following amounts:

- 1) an amount equal to 0.03% of the overall value of the shares and convertible securities in the securities portfolios of the NBCM's clients, save for the nostro, which were held by the NBCM at the end of the month preceding the previous calendar month;
- 2) an amount equal to 0.01% of the value of the monetary assets, save for shares and convertible securities, in the securities portfolios of the NBCM's clients, save for the nostro, which were held by the NBCM at the end of the month preceding the previous calendar month;
- 3) cancelled.
- 4) an amount equal to 0.02% of the NBCM's trading volume, in bonds and T-bills traded in Israel, and from Repo transactions cleared by TASECH, in the six calendar months ending one day prior to the beginning of the previous calendar month, deriving from the NBCM's activity for its clients, including from its nostro activity;

- 5) an amount equal to 0.02% of the NBCM's trading volume in bonds and T-bills traded overseas, in the six calendar months ending one day prior to the beginning of the previous calendar month, deriving from the NBCM's activity for its clients, including from its nostro activity;
- 6) an amount equal to 0.05% of the NBCM's trading volume, in shares and convertible securities traded in Israel, in the six calendar months ending one day prior to the beginning of the previous calendar month, deriving from the NBCM's activity for its clients, including from its nostro activity;
- 7) an amount equal to 0.05% of the NBCM's trading volume, in shares and convertible securities traded overseas, in the six calendar months ending one day prior to the beginning of the previous calendar month, deriving from the NBCM's activity for its clients, including from its nostro activity;
- 8) the amount obtained by multiplying NIS 6.24 by the NBCM's trading volume in derivatives, in the six calendar months ending one day prior the beginning of the previous calendar month, deriving from the NBCM's activity for its clients, including from its nostro activity.

For such purpose, "**derivatives**" - derivatives that are traded on a stock exchange in Israel, derivatives that are traded on an overseas stock exchange and derivatives that are not traded on a stock exchange.

Notwithstanding the aforesaid:

- in the case of an NBCM the amount of the operating risk of which, according to the aforesaid, is more than NIS 36.9 million and less than NIS 72.3 million, the amount of its operating risk shall be NIS 36.9 million, plus half the difference between the sum of all the amounts detailed in sub-paragraph 1) to 8) above and NIS 36.9 million.
- in the case of an NBCM the amount of the operating risk of which, according to the aforesaid, is NIS 72.3 million or more, the amount of its operating risk shall be NIS 54.6 million, plus 35% of the difference between the sum of all the amounts detailed in sub-paragraph 1) to 8) above and NIS 72.3 million.

d. The amount of the monetary risk

The amount of an NBCM's monetary risk shall be the overall sum of the amount of the monetary risk inherent in the credit given by the NBCM to its clients and the guarantees provided by the NBCM in favor of its clients, in accordance with sub-paragraph 1) below, plus the amount of the monetary risk inherent in the nostro activity, in accordance with sub-paragraph 2) or 3) below, as the case may be, and plus the amount of the monetary risk inherent in the NBCM's holdings of other assets, in accordance with sub-paragraph 4) below:

- 1) **The amount of the monetary risk inherent in the credit given by the NBCM to its clients and the guarantees provided by the NBCM in favor of its clients**
- a) For the purpose of calculating the amount of the monetary risk inherent in the credit given by the NBCM to its clients and in the guarantees provided by the NBCM in favor of its clients, the NBCM must routinely attribute, in its computer systems, the collateral it has received from the client, in accordance with the maximum value thereof for collateral purposes, pursuant to sub-paragraph 14.a. below, first on account of the monetary credit and/or guarantees that it has given to the client, thereafter on account of other liquid credit that is the client's liability to the NBCM by reason of its activity in derivatives traded in Israel, and thereafter on account of the other credit given by the NBCM to the client, that is not the client's liability to the NBCM by reason of its activity in derivatives traded in Israel.
- b) The amount of the monetary risk inherent in the credit given by the NBCM to its clients and in the guarantees provided by the NBCM in favor of its clients shall be the result obtained by multiplying the sum of the credit and/or guarantees given by the NBCM to its clients multiplied by the guarantee and/or credit risk coefficient, as provided below, as the case may be:
- (1) by reason of secured liquid monetary credit - 2.5%;
 - (2) by reason of secured liquid guarantees - 2.5%;
 - (3) by reason of other secured liquid credit that is the client's liability to the NBCM by reason of its activity in derivatives - 10%;
 - (4) by reason of other secured liquid credit that is the client's liability to the NBCM by reason of its Repo activity - 10% ;
 - (5) by reason of other secured liquid credit that is the client's liability to the NBCM by reason of short sales of securities that are not T-bills issued by the State of Israel - 10%;
 - by reason of other secured liquid credit that is the client's liability to the NBCM by reason of a short sale of T-bills issued by the State of Israel - 5%;
 - (6) by reason of illiquid monetary credit and/or unsecured monetary credit - 100%;
 - (7) by reason of other guarantees - 100%;

- (8) by reason of other illiquid credit and/or other unsecured credit that is the client's liability to the NBCM by reason of its activity in derivatives - 100%;
- (9) by reason of other illiquid credit and/or other unsecured credit that is the client's liability to the NBCM by reason of its Repo transactions - 100%;
- (10) by reason of other illiquid credit and/or other unsecured credit that is the client's liability to the NBCM by reason of short sales - 100%.

2) **The amount of the monetary risk inherent in the nostro activity**

The amount of the monetary risk inherent in an NBCM's nostro activity shall be the overall sum of the amount of the monetary risk inherent in its unencumbered liquid monetary assets, plus the amount of the monetary risk inherent in its liquid monetary assets that are not unencumbered assets, plus the amount of the monetary risk inherent in its activity in derivatives, plus the amount of the monetary risk inherent in its Repo transactions, plus the amount of the monetary risk inherent in its short sales, plus the amount of the monetary risk

inherent in its monetary obligations, plus the amount of the monetary risk inherent in its underwriting obligations, plus the amount of the monetary risk inherent in its obligations to purchase securities on issue, and plus the amount of the monetary risk inherent in its assets that are recognised as unencumbered, and all as provided in sub-paragraphs a) to h) below.

Notwithstanding the aforesaid, an NBCM may calculate the amount of the monetary risk inherent in the nostro activity in accordance with a private model, as provided in sub-paragraph 3) below, provided that it complies with the conditions thereof.

a) **The amount of the monetary risk inherent in unencumbered liquid monetary assets that are not derivatives**

- (1) The amount of the monetary risk inherent in unencumbered liquid monetary assets that are not derivatives, which are held in nostro, shall be 100% of such assets' value, less their maximum value for collateral purposes, in accordance with sub-paragraph 14.a. below.

- (2) Notwithstanding the provisions of sub-paragraph (1) above, an NBCM that holds bonds issued by the State of Israel, or by the government of a country the credit rating of which is as set forth in sub-paragraph 14.a.1)a) below, against which the NBCM sold short, from the nostro, or another bond issued by such issuer (hereinafter referred to as "**other bond**"), may attribute to such bond a monetary risk amount that is equal to zero, on fulfillment of the following conditions:
- (a) the NBCM has means, including professional personnel and computer systems for the management and control of risks, enabling it to routinely calculate the amount of the monetary risk inherent in the bond against which the NBCM sold short, from the nostro or the other bond;
 - (b) the difference between the average duration of the bond and the average duration of the other bond is not more than three years;
 - (c) the bond and the other bond that were issued by the same issuer are linked to the same underlying asset;
 - (d) the value of the bond is not higher than the value of the other bond.

If the value of the bond is higher than the value of the other bond, the amount of the monetary risk inherent in the part of the bond that exceeds the value of the other bond shall be 100% of the value of the part of the bond, less the maximum value for collateral purposes of such part of the bond, in accordance with sub-paragraph 14.a. below;

- (e) the NBCM has received, in advance and in writing, the approval of the Stock Exchange's CEO, or someone authorised by the CEO, to attribute a zero value to the amount of the monetary risk inherent in the bond.

- (3) Notwithstanding the provisions of sub-paragraph (1) above, where the NBCM has a credit balance in a dual listed security, and a short balance in the same dual listed security on a stock exchange other than that on which the credit balance exists - the amount of the monetary risk shall be calculated only in relation to the credit balance in excess of the short balance as aforesaid (hereinafter in this sub-paragraph referred to as "**the offset balance in the dual listed security**") and shall be 100% of the value of the offset balance in the dual listed security, less the maximum value for collateral purposes of the offset balance in the dual listed security, in accordance with sub-paragraph 14.a. below.

However:

- (a) insofar as the offset balance in the dual listed security is equal to zero, the amount of the monetary risk shall be zero.
- (b) insofar as the credit balance as aforesaid is less than the short balance as aforesaid, the amount of the monetary risk shall be calculated in accordance with sub-paragraph e)(3) below.

b) The amount of the monetary risk inherent in monetary assets that are not unencumbered assets, and that are not derivatives

The amount of the monetary risk inherent in monetary assets that are not unencumbered assets, and that are not derivatives, which are held in nostro, shall be 100% of such assets' value.

Notwithstanding the aforesaid, an NBCM which holds a short-term foreign currency bank deposit that is charged to secure a short-term liability of the NBCM in such foreign currency, may attribute to the bank deposit a monetary risk amount that is equal to zero, provided that the date of the bank deposit's maturity is not later than the date of the liability's maturity, and that the value of the deposit is not higher than the value of the liability.

If the value of the deposit is higher than the value of the liability, the amount of the monetary risk inherent in the amount of the deposit that exceeds the value of the liability shall be 100% of the difference between the value of the deposit and the value of the liability.

c) The amount of the monetary risk inherent in activity in derivatives

- (1) The amount of the monetary risk inherent in an NBCM's activity in derivatives shall be the sum of the amounts of the monetary risk inherent in each of its positions in derivatives, which shall be calculated as provided below:

for the purposes of this sub-paragraph, "**positions in derivatives**" - each of the following:

- derivatives of the same underlying asset that are traded on a stock exchange in Israel;
 - derivatives of the same underlying asset that are traded on an overseas stock exchange;
 - derivatives of the same underlying asset that are not traded.
- (a) the amount of the monetary risk inherent in an NBCM's position in derivatives that includes only credit balances shall be 100% of the value of the derivatives included in the position in derivatives, less their maximum value for collateral purposes, in accordance with sub-paragraph 14.a. below, insofar as they are unencumbered assets, or 100% of the value of the derivatives included in the position in derivatives, insofar as they are not unencumbered assets;
- (b) the amount of the monetary risk inherent in an NBCM's position in derivatives that includes only debit balances shall be calculated in the same way as the amount of the other credit deriving from an identical position in derivatives of a client of the NBCM, in accordance with sub-paragraph 15A.a. below, as the case may be, less the Stock Exchange value of the derivatives included in the position in derivatives as aforesaid, or their market value, as the case may be;
- (c) the amount of the monetary risk inherent in an NBCM's position in derivatives that includes both credit balances and debit balances, the Stock Exchange value of which, or market value of which, as the case may be, is less than zero, shall be calculated in the same way as the amount of the other credit deriving from an identical position in derivatives of a client of the NBCM, in accordance with sub-paragraph 15A.a. below, as the case may be, less the Stock Exchange value of the position in derivatives as aforesaid, or its market value, as the case may be;

- (d) the amount of the monetary risk inherent in an NBCM's position in an derivatives that includes both credit balances and debit balances, the Stock Exchange value of which, or the market value of which, as the case may be, is greater than zero, shall be calculated in the same way as the amount of the other credit deriving from an identical position in derivatives of a client of the NBCM, in accordance with sub-paragraph 15A.a. below, as the case may be, plus the Stock Exchange value of the position in derivatives as aforesaid, or its market value, as the case may be.
- (2) Notwithstanding the provisions of sub-paragraph (1) above, an NBCM may, in calculating the amount of the monetary risk inherent in a position in derivatives, include other assets as set forth in sub-paragraphs (a) to (h) below, insofar as it holds them, provided that the other assets are unencumbered assets, such being on fulfillment of the following conditions:
- the NBCM has means, including professional personnel and computer systems for the management and control of risks, enabling it to routinely calculate the amount of the monetary risk inherent in the position in derivatives together with the other assets as aforesaid;
 - the NBCM has received, in advance and in writing, the approval of the Stock Exchange's CEO, or someone authorised by the CEO, regarding the manner of calculating the monetary risk inherent in a position in derivatives, together with the other assets as aforesaid.

In such case, the amount of the monetary risk inherent in a position in derivatives together with other assets, as set forth above and below, shall be calculated in accordance with the provisions of sub-paragraph (1) above, with the necessary adjustments.

If the NBCM has included other assets, as aforesaid, in calculating the amount of the monetary risk inherent in a position in derivatives, the other assets shall not be considered unencumbered liquid assets and no further monetary risk amount shall be attributed to them in excess of the amount of the monetary risk inherent in the position in derivatives, as aforesaid.

And these are the other assets, as the case may be:

- (a) the underlying asset of the derivatives included in the position in derivatives;

- (b) derivatives traded on an overseas stock exchange, the underlying asset of which is the same as the underlying asset of the derivatives traded in Israel that are included in the position in derivatives;
- (c) derivatives traded on a stock exchange in Israel, the underlying asset of which is the same as the underlying asset of the derivatives traded overseas that are included in the position in derivatives;
- (d) derivatives that are not traded, the underlying asset of which is the same as the underlying asset of the derivatives included in the position in derivatives traded in Israel and/or in the position in derivatives traded overseas, provided that the counterpart of the derivatives that are not traded as aforesaid is a member with equity of at least \$ 100 million or an international investment house or a first-rate international bank, within the meaning of such expressions in the Rules;
- (e) a foreign currency or index-linked bond that is the underlying asset of the derivatives included in the position in derivatives.

In such regard, the value of the bond that will be taken into account for the purpose of the calculation shall be its maximum value for collateral purposes, in accordance with sub-paragraph 14.a. below;

- (f) an ETF whose the tracking asset of which is the same as the underlying asset of the derivatives included in the position in derivatives.

In such regard, the value of the ETF that will be taken into account for the purpose of the calculation shall be 95% of its value;

- (g) an Exchange-Traded Fund (ETF) the underlying asset of which is the same as the underlying asset of the derivatives included in the position in derivatives.

In such regard, the value of the ETF that will be taken into account for the purpose of the calculation shall be 95% of its value;

- (h) a tracking fund, as defined in the Joint Investment Trust Law, 5754-1994, which tracks an underlying asset that is the same as the underlying asset of the derivatives included in the position in derivatives.

In such regard, the value of the tracking fund that will be taken into account for the purpose of the calculation shall be 95% of its value.

d) **The amount of the monetary risk inherent in Repo transactions**

The amount of the monetary risk inherent in an NBCM's Repo transactions shall be 100% of the collateral that the member clearing the transactions must give the Stock Exchange Clearing House by reason of such transactions, as provided in the by-laws of the Clearing House.

e) **The amount of the monetary risk inherent in an NBCM's short sales**

- (1) The amount of the monetary risk inherent in an NBCM's short sales to nostro shall be 200% of the value of the securities sold short, less the maximum value for collateral purposes of such securities, in accordance with sub-paragraph 14.a. below.
- (2) Notwithstanding the provisions of sub-paragraph (1) above, and subject to the following provisions, the amount of the monetary risk inherent in short sales to nostro, of a bond issued by the State of Israel or by the government of a country the credit rating of which is as set forth in sub-paragraph 14.a.1)a) below, and where the NBCM holds, in nostro, another bond that was issued by the same issuer (hereinafter referred to as "**the additional bond**"), shall be as provided in one of the following alternatives, as the case may be:
 - (a) 25% of the value of the bond sold short, less 25% of its maximum value for collateral purposes, in accordance with sub-paragraph 14.a. below, where the difference between the average duration of the bond sold short and the average duration of the additional bond as aforesaid is not more than one year;
 - (b) 50% of the value of the bond sold short, less 50% of its maximum value for collateral purposes, in accordance with sub-paragraph 14.a. below, where the difference between the average duration of the bond sold short and the average duration of the additional bond as aforesaid is more than one year and less than two years;
 - (c) 75% of the value of the bond sold short, less 75% of its maximum value for collateral purposes, in accordance with sub-paragraph 14.a. below, where the difference between the average duration of the bond sold short and the average duration of the additional bond as aforesaid is more than two years and less than three years.

The provisions of this sub-paragraph (2) shall apply on fulfillment of all the following:

- the NBCM has means, including professional personnel and computer systems for the management and control of risks, enabling it to routinely calculate the amount of the monetary risk inherent in the bond that the NBCM sold short from the nostro and that the NBCM holds, in nostro, the additional bond as aforesaid;
- the bond sold short and the additional bond, which were issued by the same issuer, are linked to the same underlying asset;
- the value of the bond sold short is not higher than the value of the additional bond held in nostro as aforesaid.

if the value of the bond sold short is higher than the value of the additional bond, the amount of the monetary risk inherent in the part of the bond that was sold short, which exceeds the value of the additional bond, shall be as provided in sub-paragraph (1) above;

- the NBCM has received, in advance and in writing, the approval of the Stock Exchange's CEO, or someone authorised by the CEO, regarding the manner of calculating the amount of the monetary risk inherent in a short sale to nostro, as aforesaid.

If all the above conditions of this sub-paragraph (2) are not fulfilled, the provisions of sub-paragraph (1) above shall apply.

- (3) Notwithstanding the provisions of sub-paragraph (1) above, where the NBCM has a short balance in a dual listed security, and a credit balance in the same dual listed security on a stock exchange other than that on which the short sale was effected - the amount of the monetary risk shall be calculated only in relation to the short balance in excess of the credit balance as aforesaid (hereinafter in this sub-paragraph: "**the offset balance in the dual listed security**") and shall be 200% of the value of the offset balance in the dual listed security, less the maximum value for collateral purposes of the offset balance in the dual listed security, in accordance with sub-paragraph 14.a. below.

However:

- (a) insofar as the offset balance in the dual listed security is equal to zero, the amount of the monetary risk shall be zero.
- (b) insofar as the short balance as aforesaid is less than the credit balance as aforesaid, the amount of the monetary risk shall be calculated in accordance with sub-paragraph a)(3) above.

f) **The amount of the monetary risk inherent in an NBCM's monetary obligations**

- (1) The amount of the monetary risk inherent in an NBCM's monetary obligation in NIS, including a guarantee, is zero.
- (2) The amount of the monetary risk inherent in an NBCM's monetary obligation in foreign currency or that is linked to foreign currency, including a guarantee in foreign currency, is 100% of such monetary obligation's value, less the maximum value for collateral purposes, in accordance with sub-paragraph 14.a. below, of a deposit linked to such foreign currency, which is in an amount identical to the amount of the obligation.

Notwithstanding the aforesaid, if the NBCM has a monetary obligation as aforesaid and a bank deposit in the same foreign currency, which is charged to secure such obligation, the amount of the monetary risk by reason of such monetary obligation, up to the amount of the deposit, shall be zero, provided that the date of the bank deposit's maturity is not later than the date of the monetary obligation's maturity.

If the amount of the monetary obligation as aforesaid is higher than the value of the bank deposit, the amount of the monetary risk inherent in the amount of the monetary obligation that exceeds the value of the bank deposit charged to secure such obligation shall be 100% of the value of the monetary obligation that exceeds the bank deposit, less the maximum value for collateral purposes, in accordance with sub-paragraph 14.a. below, of a deposit linked to such foreign currency, which is in an amount identical to the amount of the obligation that exceeds the bank deposit.

g) **The amount of the monetary risk inherent in an NBCM's underwriting obligations**

The amount of the monetary risk inherent in an NBCM's underwriting obligations, including a preliminary obligation of the NBCM as a classified investor, shall be 100% of such obligation's value, less the maximum value for collateral purposes of the securities that the NBCM will receive if it realizes its underwriting obligation, in accordance with sub-paragraph 14.a. below.

g1) **The amount of the monetary risk inherent in an NBCM's obligations to purchase securities on issue**

The amount of the monetary risk inherent in an NBCM's obligation to purchase securities on issue shall be 100% of the obligation's value, less the maximum value for collateral purposes of the securities the NBCM will receive in the framework of an issue as aforesaid, in accordance with sub-paragraph 14.a. below.

h) **The amount of the monetary risk inherent in assets that are recognised as unencumbered**

The assets detailed below are assets that are recognised as unencumbered. The amount of the monetary risk inherent therein is as provided below:

- (1) monetary assets that are not unencumbered assets, save for a short-term deposit in foreign currency that is charged to secure the NBCM's liability in such foreign currency in accordance with sub-paragraph b) above, which are charged to secure any short-term liability of the NBCM - the amount of the monetary risk inherent in such assets shall be equal to the amount of the monetary risk inherent in unencumbered liquid monetary assets, in accordance with sub-paragraph a)(1) above, up to the amount of the short-term liability as aforesaid.

If the value of the assets in accordance with this sub-paragraph is higher than the value of the short-term liability as aforesaid, the amount of the monetary risk inherent in the assets that exceeds the amount of the liability shall be 100% of the difference between the value of the assets and the value of the liability;

- (2) monetary assets of an NBCM that is a member of the Stock Exchange Clearing House, which are charged by it in favor of the Stock Exchange Clearing House - the amount of the monetary risk inherent in such assets shall be equal to the amount of the monetary risk inherent in encumbered liquid monetary assets, in accordance with sub-paragraph a)(1) above;

- (3) monetary assets of an NBCM which is not a member of the Stock Exchange Clearing House, that are charged by it in favor of a member of the Stock Exchange Clearing House, to secure the obligations of such Stock Exchange Clearing House member to the Stock Exchange Clearing House, which derive from the NBCM's activity on the Stock Exchange – the amount of the monetary risk inherent in such assets shall be equal to the amount of the monetary risk inherent in unencumbered liquid monetary assets, in accordance with sub-paragraph a)(1) above, up to the amount of the operating risk deriving from the NBCM's trading volumes in Israel, in accordance with sub-paragraphs 5.c.4) and 5.c.6) above, multiplied by the operating risk reduction coefficient, within the meaning thereof below.

"operating risk reduction coefficient" the amount of the operating risk, calculated in accordance with sub-paragraph 5.c. above, divided by the sum of all the amounts detailed in sub-paragraphs 5.c.1) to 5.c.8) above.

If the value of the assets charged in favor of a member of the Stock Exchange Clearing House, in accordance with this sub-paragraph, is higher than the amount of the operating risk deriving from the NBCM's trading volumes in Israel, as aforesaid, the amount of the monetary risk inherent in the assets that exceeds the amount of the operating risk as aforesaid shall be 100% of the difference between the value of the assets as aforesaid and the amount of the operating risk;

- (4) monetary assets of an NBCM that is a member of the Maof Clearing House, which are charged by it in favor of the Maof Clearing House - the amount of the monetary risk inherent in such assets shall be equal to the amount of the monetary risk inherent in encumbered liquid monetary assets, in accordance with sub-paragraph a)(1) above;

- (5) monetary assets of an NBCM that is not a member of the Maof Clearing House, which are charged by it in favor of a member of the Maof Clearing House, which clears the NBCM's activity in derivatives traded on a stock exchange in Israel, to secure the obligations of such Maof Clearing House member to the Maof Clearing House, which derive from the NBCM's activity - the amount of the monetary risk inherent in such assets shall be equal to the amount of the monetary risk inherent in unencumbered liquid monetary assets, in accordance with sub-paragraph a)(1) above, up to the amount of the operating risk deriving from the volumes of the NBCM's trading for its clients and from the NBCM's nostro activity, in derivatives traded on a stock exchange in Israel, in accordance with sub-paragraph 5.c.8) above, multiplied by the operating risk reduction co-efficient, within the meaning thereof above, plus the amount of the monetary risk inherent in the NBCM's nostro activity in derivatives traded on a stock exchange in Israel, which shall be calculated in accordance with sub-paragraph 5.d.2)c) above, plus the amount of the monetary risk inherent in the NBCM's activity for its clients in derivatives traded on a stock exchange in Israel, as detailed below.

For the purposes of this sub-paragraph, the amount of the monetary risk inherent in the NBCM's activity for its clients in derivatives traded on a stock exchange in Israel shall be the amount of the monetary risk inherent in other liquid credit that is the client's liability to the NBCM by reason of its activity in derivatives traded on a stock exchange in Israel, multiplied by the credit risk coefficient in accordance with sub-paragraph 5.d.1)b)(3) above, plus the amount of the monetary risk inherent in other illiquid credit and/or other unsecured credit, which is the client's liability to the NBCM by reason of its activity in derivatives traded on a stock exchange in Israel, multiplied by the credit risk coefficient in accordance with sub-paragraph 5.d.1)b)(8) above.

If the value of the assets charged in favor of a member of the Maof Clearing House, in accordance with this sub-paragraph, is higher than the aggregate amount, within the meaning thereof below, the amount of the monetary risk inherent in the assets that exceeds the aggregate amount shall be 100% of the difference between the value of such assets and the aggregate amount.

Aggregate Amount" - the amount of the operating risk and the amount of the monetary risk inherent in the NBCM's nostro activity in derivatives traded on a stock exchange in Israel, plus the amount of the operating risk and the amount of the monetary risk inherent in the NBCM's activity for its clients in derivatives traded on a stock exchange in Israel.

3) **The amount of the monetary risk inherent in the nostro activity in accordance with a private model**

a) Notwithstanding the provisions of sub-paragraph 2) above, the amount of the monetary risk inherent in the nostro activity may be another amount calculated in accordance with a private model of the NBCM, which shall be presented to the Stock Exchange and approved by the Stock Exchange's CEO, in advance and in writing, provided that all the following conditions are fulfilled (hereinafter referred to as "**the private model**"):

(1) the calculation in accordance with the private model shall be made through one or more of the current and accepted models for calculating monetary risks, as shall be from time to time.

the private model shall be routinely revised by the NBCM, in accordance with research and technological developments, as shall be from time to time;

(2) before the private model's implementation by the NBCM, the private model shall be validated by the NBCM, in accordance with accepted professional standards, in order to ascertain that the amount of the monetary risk calculated pursuant thereto reflects the amount of the monetary risk inherent in the NBCM's nostro activity.

the validation shall be documented, and the documentation shall be kept at the NBCM's offices, as provided in appendix "C";

(3) the private model shall be routinely validated by the NBCM, in accordance with data collected by the NBCM.

the private model shall be routinely revised and updated by the NBCM, in accordance with the results obtained from the validation process, as shall be from time to time.

the validation shall be documented, and the documentation shall be kept at the NBCM's offices, as provided in appendix "C";

- (4) the NBCM shall have means, including professional personnel and computer systems, enabling it to manage and control the nostro activity and routinely calculate the monetary risk inherent therein, in accordance with the private model;
- (5) the NBCM shall define supervision and control mechanisms for calculating the monetary risk inherent in the nostro activity, and shall appoint a professional team, which is independent of the entities managing the nostro activity, with suitable know-how and experience, the function of which shall be to constantly monitor the nostro activity and calculate the monetary risk inherent therein, in accordance with the private model;
- (6) the NBCM shall calculate, each trading day, the monetary risk inherent in the nostro activity, in accordance with the private model;
- (7) the NBCM shall document the calculation of the monetary risk inherent in the nostro activity on a daily basis. The documentation, together with all the authorities supporting the calculation, including details of the calculation, ancillary computations, working papers and confirmations of balances, shall be kept at the NBCM's offices;
- (8) the NBCM shall define mechanisms for routine and non-routine reporting to the NBCM's CEO and board of directors, regarding the nostro activity and the consequences thereof, the monetary risk that was inherent in the nostro activity, the supervision and control means adopted in respect of the nostro activity, the findings that emerged and the conclusions drawn and lessons learned in the course of the supervision and control.

such reports shall be sent to the NBCM's CEO and board of directors, in accordance with the aforesaid reporting mechanisms;

- (9) the NBCM's board of directors shall approve the private model, the supervision and control mechanisms and the routine and non-routine reporting mechanisms defined by the NBCM, as well as the manner of validating the model, as provided above;
- (10) the NBCM's board of directors shall approve the private model, including the routine validation process, at least once a year, and at any time the model is adjusted;

- (11) the NBCM's internal auditor shall include in an annual work plan a comprehensive audit of the nostro's management, including calculation of the monetary risk inherent in the nostro activity, the routine validation of the private model and the functioning of the nostro activity supervision and control mechanisms.
- b) The Stock Exchange's CEO may lay down other conditions in addition to those detailed in sub-paragraph a) above.
- c) An NBCM may file a written appeal with the Stock Exchange's Board of Directors against the decision of the Stock Exchange's CEO not to approve the calculation of the monetary risk inherent in the nostro activity in accordance with the private model and/or against the decision of the Stock Exchange's CEO to lay down further conditions for the private model's approval, as provided above, within 30 days of receiving the decision of the Stock Exchange's CEO.
- d) The Stock Exchange's CEO may cancel the approval given to an NBCM to calculate the monetary risk inherent in the nostro activity through a private model, if the CEO finds that the NBCM has not fulfilled any of the conditions laid down in sub-paragraph a) above and/or any of the other conditions that are laid down, in accordance with sub-paragraph b) above, and/or if, in the CEO's opinion, the monetary risk inherent in the NBCM's nostro activity, as calculated in accordance with the private model, does not reflect the monetary risk inherent in the NBCM's nostro activity.

An NBCM may file a written appeal with the Stock Exchange's Board of Directors against the CEO's decision to cancel the approval as aforesaid, within 30 days of receiving the decision of the Stock Exchange's CEO.

- e) If the NBCM seeks to revise the private model, in accordance with research and technological developments and/or in accordance with the results of the routine validation and/or for any other reason, the NBCM shall apply, in advance and in writing, for the approval of the Stock Exchange's CEO to revise the model as aforesaid.

The application for renewed approval as aforesaid shall be governed by all the provisions of this paragraph.

- f) If the Stock Exchange performs examinations to evaluate the private model, for the purpose of approving it, which involve payments to external experts, the NBCM shall bear the cost of paying the external experts.

- g) An NBCM which has chosen to calculate the monetary risk inherent in the nostro activity through a private model may calculate the monetary risk as aforesaid in accordance with sub-paragraph 2) above, provided that it gives notice thereof to the Stock Exchange, in advance and in writing.

An NBCM which has gone over to calculating the monetary risk in accordance with sub-paragraph 2) instead of in accordance with the private model, and which seeks to revert to calculating the monetary risk inherent in the nostro activity in accordance with a private model for which it has received approval in the past from the Stock Exchange's CEO or in accordance with another private model, may only do so after obtaining new approval from the Stock Exchange's CEO, in advance and in writing.

4) **The amount of the monetary risk inherent in an NBCM's holding other assets**

- a) The amount of the monetary risk inherent in an NBCM's holding other assets shall be the value of the other assets as aforesaid, as appearing in the NBCM's financial statements.

Notwithstanding the aforesaid:

- (1) The NBCM may deduct the value of a deferred tax liability from the value of another asset, for the purpose of calculating the amount of the monetary risk inherent in the other asset, such that the value of the deferred tax liability shall be deducted from the value of the other asset, on fulfillment of the following conditions:
- the deferred tax liability deriving from the value attributed to the other asset in the NBCM's books;
 - the NBCM has received, in advance and in writing, the approval of TASE's CEO, or anyone authorised by the CEO, as to the manner of calculation as aforesaid.

In the said case, the amount of the monetary risk inherent in the other asset as aforesaid shall be 100% of the value of the other asset less the value of the deferred tax liability.

- (2) If another asset of the NBCM is a monetary obligation of one of the entities detailed below to the NBCM, by reason of routine monetary accounting, deriving from the NBCM's routine activity for its clients and for itself through this entity, the monetary obligation as aforesaid shall be deemed an unencumbered liquid asset, and the amount of the monetary risk inherent in the said obligation shall be in accordance with the provisions of sub-paragraph 2)a)(1) above.

A monetary obligation as aforesaid shall be deemed an unencumbered liquid asset so long as there is no concern of such entity's non-performance of its obligations to the NBCM.

And these are the entities:

- banking corporations;
- clearing houses;
- international investment houses;
- first-rate international banks;
- foreign brokers.

- b) If an NBCM purchases other assets after the date of the financial statements, the amount of the monetary risk inherent therein shall be the amount at which the NBCM purchased the other assets.

e. The initial equity of an NBCM

An NBCM shall, at all times, have initial equity of not less than the aggregate of the following amounts, or NIS 16.9 million, whichever is higher:

- 1) the amount of the operating risk in accordance with paragraph 5.c. above;
- 2) the amount of the other guarantees, plus the amount of the illiquid credit and plus the amount of the unsecured credit;
- 3) the amount of the monetary risk inherent in the nostro activity, in accordance with paragraph 5.d.2) or 5.d.3) above;
- 4) 10% of the amount of the secured liquid credit of any type and/or of the amount of the secured liquid guarantees, multiplied by the guarantee and/or credit risk coefficient, in accordance with sub-paragraphs 5.d.1)b)(1) to 5.d.1)b)(5) above, as the case may be;
- 5) 10% of the value of the other assets held by the NBCM.

Notwithstanding the aforesaid, by the end of three years from the date of commencing its activity as a member, an NBCM shall have, at all times, initial equity of not less than the aggregate of the amounts detailed in sub-paragraph 1)-5) above, or NIS 5.6 million, whichever is higher.

f. **The secondary capital of an NBCM**

Long-term loans that are not repayable within the short term, which fulfill the conditions laid down in sub-paragraph 1) below, may be used as secondary capital, up to the limit of the amounts stipulated in sub-paragraph 2) below:

1) **Conditions of a long-term loan that is not repayable in the short term**

A long-term loan received by an NBCM, pursuant to a written agreement between it and the lender, the loan terms of which include a condition that the lender does not have any right to accelerate any of the payment dates prescribed in the loan terms. The loan agreement shall include a declaration of the lender to the effect that the loan fulfills the aforesaid condition;

2) **Amounts of the loans that will be recognised as secondary capital**

The amount that will be recognised as secondary capital, from the amounts of the loans that fulfill the conditions set forth in sub-paragraph 1) above, shall be an amount not exceeding the percentage specified below of the loan amount:

The time remaining until the loan's repayment date	The percentage of the loan amount that will be recognised as secondary capital
More than 5 years	100%
4-5 years	80%
3-4 years	60%
2-3 years	40%
1-2 years	20%
Up to one year	0%

- 3) If the NBCM receives a long-term loan that is not repayable in the short term, in accordance with sub-paragraph 1) above, and this loan is recognised as secondary capital, a declaration shall be added to the statement ancillary to the financial statements, in the form of wording set forth in appendix "D7", to the effect that the loan fulfills the condition laid down in sub-paragraph 1) above.

6. Net unencumbered liquid assets

a. An NBCM shall, at all times, have net unencumbered liquid assets, in an amount of not less than the sum of all the amounts detailed below:

- 1) the sum of the NBCM's short-term balance sheet and non-balance sheet liabilities, including long-term loans that are repayable in the short-term, and including guarantees.

However, the sum of the liabilities as aforesaid shall not include a deferred tax liability that is deducted from the value of another asset, insofar as the NBCM has received the approval of TASE's CEO to a deduction as aforesaid, and all in accordance with paragraph 5.d.4)a)(1) above;

- 2) the amount of the part of the long-term loans received by the NBCM, that in accordance with the Regulations may be recognised as secondary capital, in accordance with paragraph 5.f.2) above, and that is not recognised as secondary capital;
- 3) the amount of the operating risk, in accordance with sub-paragraph 5.c. above;
- 4) the amount of the monetary risk inherent in other credit and guarantees given by the NBCM to its clients, within the meaning thereof in paragraph 5.d.1)b) above;
- 5) the amount of the monetary risk inherent in the nostro activity in derivatives and Repo, plus the amount of the monetary risk inherent in the NBCM's short sales to nostro, plus the amount of the monetary risk inherent in the NBCM's monetary obligations, and plus the amount of the monetary risk inherent in the NBCM's underwriting obligations, and plus the amount of the monetary risk inherent in the NBCM's obligations to purchase securities on issue, in accordance with sub-paragraphs 5.d.2)c) to 5.d.2)g1) above.

b. **Examination of the NBCM's compliance with the net unencumbered liquid assets requirement**

For the purpose of examining the NBCM's compliance with the net unencumbered liquid assets requirement, in accordance with sub-paragraph a. above, regard shall only be had to net unencumbered liquid assets of the NBCM itself and not net unencumbered liquid assets owned by companies held by it.

6A. a. An NBCM may execute a transaction or operation that is such as to increase its requirement, pursuant to the Rules, for equity and/or initial equity, provided that after executing the transaction or operation as aforesaid, its equity and/or initial equity are not less than that required pursuant to paragraph 5. above.

- b. An NBCM may execute a transaction or operation that is such as to increase its requirement, pursuant to the Rules, for net unencumbered liquid assets, provided that after executing the transaction or operation as aforesaid, the amount of its net unencumbered liquid assets is not less than the amount required pursuant to paragraph 6. above.

- 6B. An NBCM shall have mechanisms for examining and ascertaining, each day, that it is complying with the requirements of the Rules regarding equity, initial equity and net unencumbered liquid assets.

The daily examinations as aforesaid, regarding the NBCM's compliance with the requirements, shall be documented by the NBCM, in the format detailed in appendices "D1", "D1A" and "D1B".

The documentation shall be kept at the NBCM's offices, together with all the authorities supporting the examinations, including details of the computations, ancillary computations, working papers and confirmations of balances, as provided in appendix "C".

- 6C. Cancelled.

- 6D. **Insurance**

- a. The NBCM's board of directors shall discuss, at least once a year, the suitability of the NBCM's insurance coverage.
- b. The NBCM's insurance shall cover all the spheres of the NBCM's activity in Israel and overseas, as a Stock Exchange member, as a Stock Exchange Clearing House member and as a Maof Clearing House member, and shall include at least the following coverage:
 - 1) professional liability insurance covering the NBCM's liability at law for losses that might be occasioned to any of its clients and/or any third party, in consequence of acts and/or omissions of the NBCM and/or anyone acting on its behalf.

The insurance shall be extended to also cover the NBCM's liability at law, for losses that might be occasioned to its clients and/or any third party, in consequence of the dishonesty of any of its directors and/or any of its employees and/or anyone acting on its behalf (dishonesty extension);

- 2) fidelity insurance covering the NBCM and its subsidiaries against any loss that might be occasioned to them, in consequence of a breach of trust by any of their directors and/or any of their employees, and including a loss that might be occasioned to them, in consequence of the unlawful grant of a monetary benefit to someone else;

- 3) computer crime insurance covering the NBCM against any loss that might be occasioned to it in consequence of penetration and/or break-in to its information systems;
 - 4) insurance against loss that might be occasioned to the NBCM by reason of reliance on forged documents furnished to it by any of its clients.
- c. The NBCM shall report to the Stock Exchange once a year, on the date on which it files its annual statements with the Stock Exchange, on its insurance, as provided above and as set forth in appendix "L".

The provisions of this paragraph will not apply to a nostro NBCM.

7. Application for admission as a Stock Exchange member

- a. The details of the application shall be as set out in appendix "A" to these Regulations.
- b. The applicant shall enclose the following documents with the application:
 - 1) its financial statements;
 - 2) its memorandum and articles of association;
 - 3) its last annual return as filed with the Registrar of Companies;
 - 4) the curriculum vitae of each of its controlling shareholders. An applicant that is not a listed company shall also enclose the curriculum vitae of its interested parties.

curriculum vitae as aforesaid shall be enclosed with the application by way of a duly certified and authenticated affidavit;

- 5) the curriculum vitae of each of its senior managers, including the curriculum vitae of each of the manager of its securities unit.

at the request of an applicant which is not a banking corporation, the curriculum vitae of the risk controller, credit controller, compliance officer and IT manager shall also be annexed.

however, any entity applying to act as a nostro NBCM shall annex to its application the curriculum vitae of its senior managers including the nostro activity manager, the risk controller, the compliance officer and the IT manager.

the curriculum vitae of each of the manager of the applicant's securities unit and the curriculum vitae of the CEO and directors of an applicant that is not a banking corporation and of the nostro activity manager of an entity applying to act as a nostro NBCM, shall include details of their training and know-how in the capital market.

curriculum vitae as aforesaid shall be enclosed with the application by way of a duly certified and authenticated affidavit.

c. Application for a foreign bank for admission as a Stock Exchange member

Notwithstanding the provisions of sub-paragraphs a. and b. above, an applicant that is a foreign bank shall file an application as set forth in appendix "A7" to these Regulations and shall annex the following documents to the application:

- 1) a copy of the license the foreign bank received from the Bank of Israel by virtue of the Banking (Licensing) Law, 5741-1981;
- 2) the applicant's undertaking that notice of the revocation of the foreign bank's license will be given to the Stock Exchange immediately after the revocation;
- 3) a copy of the documents pursuant whereto the foreign bank was incorporated and pursuant whereto it operates (as required according to the laws of the country in which it was incorporated), including its articles of association, if existing;
- 4) a copy of the last financial statements filed with the authorities in the country in which the foreign bank was incorporated;
- 5) a copy of the last annual statement of the bank, as filed with the Registrar of Companies.

The documents that must be annexed to the application, as aforesaid, shall be filed in Hebrew; however, documents as aforesaid that were originally issued in English may be filed in the source language.

d. Application for admission as a remote member of the Stock Exchange

Notwithstanding the provisions of sub-paragraphs a. and b. above, an entity applying for admission as a remote member of the Stock Exchange shall file an application as set forth in appendix "A8" with these Regulations, and shall annex the following documents to the application.

The documents filed with the Stock Exchange by the entity applying for remote membership shall be filed in Hebrew or in English.

If the original documents are written in a language other than Hebrew or English, and the documents filed with the Stock Exchange are a translation of the original documents that are written in the other language, the applicant shall furnish a notary's certificate confirming that the translation of the documents is true to the original:

- 1) the documents pursuant whereto the applicant was incorporated;
 - 2) the last monetary statement and the last full annual statement filed by the applicant with the competent authorities in the country in which it is incorporated and operates, and all the ancillary statements and appendices it is liable with file with such authorities;
 - 3) a copy of the legal opinion regarding the need for incorporation as a foreign company, as required in the Rules;
 - 4) duly certified and verified copies of the approvals it obtained from the competent authorities, as required in the Rules;
 - 5) the curriculum vitae of the senior manager who shall be responsible on the applicant's behalf for its activity on the Stock Exchange be enclosed with the application by way of a duly certified and authenticated affidavit;
 - 6) a summary of the curriculum vitae's of the controlling shareholders, interested parties, CEO and directors of the applicant.
8. a. The applicant shall pay the Stock Exchange, upon filing the application, handling fees in a sum of NIS 59,057 (NIS 69,097 includes VAT), however, where the applicant is a company fully owned by a Stock Exchange member, to which the Stock Exchange member transfers its securities business, in the framework of the reorganization of its business, with the aim of it being admitted as a member of the Stock Exchange in its stead, handling fees in a sum of NIS 29,528 (NIS 34,548 includes VAT) shall be paid.
- b. Where the applicant is a parent company of a Stock Exchange member, which holds full ownership of the Stock Exchange member, to which the Stock Exchange member transfers its securities business, in the framework of the reorganization of the parent company's business, with the aim of the parent company being admitted as a member of the Stock Exchange in its stead, handling fees in a sum of NIS 29,528 (NIS 34,548 includes VAT) shall be paid.
9. a. The membership fee is in a sum of NIS 332,200 (NIS 388,674 includes VAT).
- b. Notwithstanding the provisions of sub-paragraph a. above:
- 1) where the applicant is a company fully owned by a member of the Stock Exchange, to which the Stock Exchange member transfers its securities business, in the framework of the reorganization of its business, with the aim of

it being admitted as a member of the Stock Exchange in its stead, no membership fee shall be charged.

- 2) where the applicant is a parent company of a Stock Exchange member, which holds full ownership of the Stock Exchange member, to which the Stock Exchange member transfers its securities business, in the framework of the reorganization of the parent company's business, with the aim of the parent company being admitted as a member of the Stock Exchange in its stead, no membership fee shall be charged.
10. a. The handling fee on an application for approval of a change in the control of an NBCM, insofar as required by the Rules, is NIS 59,057 (NIS 69,097 includes VAT).
 - b. The handling fee on an application for approval of a change in an NBCM's ownership, which does not amount to a change in the control of the NBCM, insofar as required by the Rules, is NIS 29,528 (NIS 34,548 includes VAT).
 - c. A transfer between spouses and a transfer to children, which is not a material change in the ownership or management of an NBCM, shall be exempt from the payment of a handling fee.
 - d. Notwithstanding the provisions of sub-paragraphs a. and b. above, a change in an NBCM's controlling shareholder, that does not amount to an effective change in the NBCM's control, and a change in an NBCM's ownership, that does not amount to an effective change in the NBCM's ownership, shall be exempt from the payment of a handling fee.
- 10A. The term of office of an external director in a Stock Exchange member that is not a banking corporation and not a listed company shall be three years, and the member may appoint the external director for two additional periods, of three years each.
- 10B. a. Once every five years, or on the expiration of the auditor's term of office, whichever is earlier, the audit committee shall hold a discussion on the possibility of replacing the auditor.
- b. An accountant from the auditor's firm, who is in charge of the NBCM's audit (hereinafter referred to as "**the accountant in charge**"), shall hold this position at the NBCM for a term of not more than five consecutive years. At the end of the aforesaid consecutive five-year term, at most, the accountant in charge shall be replaced. The accountant in charge who was replaced as aforesaid may again become the accountant in charge of the audit at the NBCM only after at least five years have elapsed from the date of this person's replacement.
- c. The NBCM shall file with the Stock Exchange, on the date on which it files its annual financial statements with the Stock Exchange, a statement in the form of wording set forth in appendix "M".

Chapter III –

The Spheres of Activity Permitted a Stock Exchange Member

11. a. **Equity of a supervised company**
- 1) A supervised company shall, at all times, have equity of not less than the sum of all the amounts detailed below, or NIS 3.0 million, whichever is higher:
 - a) NIS 1.7 million;
 - b) an amount equal to 0.045% of the value of the securities portfolios of the company's clients, save for nostro;
 - c) the amount of the monetary risk inherent in the company's nostro activity, which shall be calculated in accordance with paragraph 5.d.2) above;
 - d) the amount of the monetary risk inherent in other assets held by the company, which shall be calculated in accordance with paragraph 5.d.4) above.
 - 2) A supervised company shall, at all times, have initial equity of not less than the amounts detailed in sub-paragraph 1)a) to 1)c) above, plus 10% of the amount of the monetary risk inherent in other assets, which shall be calculated in accordance with sub-paragraph 1)d) above.
 - 3) If the equity required of a supervised company, in accordance with sub-paragraph 1) above, is higher than the initial equity required of it in accordance with sub-paragraph 2) above, the supervised company may supplement the amount of the equity required of it, through secondary capital.
- b. A supervised company shall, at all times, have net unencumbered liquid assets in an amount of not less than the aggregate of all the amounts detailed in paragraph 6. above, *mutatis mutandis*.
12. a. Details of the application to hold shares in the capital of a Supervised Company shall be as specified in appendix "A5" or "A6" to these Regulations, as the case may be;
- b. The applicant shall annex the following documents to the application:
- 1) financial statements of the Supervised Company;
 - 2) the memorandum and articles of association of the Supervised Company;
 - 3) the last annual report of the Supervised Company that was filed with the Registrar of Companies;

- 4) the curricula vitae of the Supervised Company's controlling shareholders. An application to hold shares of a Supervised Company that is not a listed company shall also be accompanied by the curricula vitae of the company's interested parties.

Curricula vitae as aforesaid shall be annexed to the application by way of a duly certified and verified affidavit;

- 5) the curricula vitae of the Supervised Company's senior managers, including the curricula vitae of the manager of its securities division.

The curricula vitae of the manager of the company's securities division and the curricula vitae of the MD and directors of a company that is not a banking corporation shall include details of their capital market qualification and know-how.

Curricula vitae as aforesaid shall be annexed to the application by way of a duly certified and verified affidavit;

- 6) the written consent of all the other holders in the Supervised Company, that the company shall be a company supervised by the Stock Exchange and shall be governed by the provisions of chapter IX of the Rules.

13. a. **Restriction of credit for an individual client**

The total credit and guarantees that an NBCM may give one client shall not exceed 30% of the NBCM's initial equity.

In such regard, "**one client**" - all the following jointly:

- 1) the client, alone or together with others with whom the client has joint accounts;
- 2) relatives of the client who live with the client or who support each other, alone or together with others.

b. **Restriction of credit to a group of borrowers**

The total credit and guarantees that an NBCM may grant a group of borrowers shall not exceed 60% of the NBCM's initial equity.

In such regard, "**group of borrowers**" - one client, together with all the following:

- 1) the client's controlling shareholders, anyone controlled by the client and anyone controlled by the client's controlling shareholders;
- 2) another client of the NBCM, who has guaranteed credit granted by the NBCM to the client.

- c. When assessing the NBCM's compliance with the provisions of sub-paragraphs a. and b. above, the following amounts shall be deducted from the amount of the credit and guarantees:
- 1) 110% of the amount of a loan in foreign currency of the following type: US dollar, Euro, Canadian dollar, Swiss franc, pound sterling or Japanese yen, given by the NBCM, the collateral in respect of which is credit balances in NIS;
 - 2) a loan in NIS, in an amount of up to 90% of the balances of foreign currency of the following type: US dollar, Euro, Canadian dollar, Swiss franc, pound sterling or Japanese yen;
 - 3) 80% of the amount of the loan in NIS given by the NBCM, the collateral in respect of which is bonds issued by the State of Israel and/or bonds issued by the Government of the United States, which are traded on a stock exchange in Israel and/or on an overseas stock exchange;
 - 4) 75% of the amount of the monetary credit in respect of a loan in foreign currency of the following type: US dollar, Euro, Canadian dollar, Swiss franc, pound sterling or Japanese yen, given by the NBCM to a client, which shall be calculated in accordance with the provisions of paragraph 15B. below, the collateral in respect of which is bonds issued by the State of Israel and/or bonds issued by the Government of the United States, which are traded on a stock exchange in Israel and/or on an overseas stock exchange;
 - 5) 80% of the amount of the other credit, by reason of a supervised client's activity in derivatives, and the collateral in cash and/or bonds issued by the State of Israel and/or bonds issued by the Government of the United States, which are traded on a stock exchange in Israel and/or on an overseas stock exchange.
- d. Without derogating from any provision regarding restrictions on the grant of credit and guarantees pursuant to the Rules, if an NBCM deviates, in granting credit and guarantees to a client, from the credit restrictions laid down in the Rules, including the restriction of credit to one client and the restriction of credit to a group of borrowers, the amount of the credit in deviation of the aforesaid credit restrictions shall not be considered secured credit, even if full collateral was given against it.
14. a. An NBCM shall obtain from its client as collateral, in respect of the credit given to the client and/or in respect of a guarantee given in favor of the client, a charge over the said client's securities portfolio that is held by it or an unconditional autonomous bank guarantee that was given in the NBCM's favor at such client's request.

The monetary assets received by an NBCM from its client as collateral, and the value for collateral purposes of such monetary assets, shall be determined by the NBCM, in accordance with the policy and procedures approved by the NBCM's board of directors, having regard to the degree of liquidity and the risk involved therein, including the spread of the monetary assets given as collateral.

The maximum value for collateral purposes of the monetary assets given as collateral for credit given to a client and/or a guarantee given in favor of the client shall be calculated by the NBCM, at any time, as a percentage of their Stock Exchange value, which shall not exceed the percentage stipulated in the following table.

An NBCM may determine that the value for collateral purposes of monetary assets as aforesaid, shall be lower than that stipulated in the following table.

Notwithstanding the aforesaid, monetary assets traded on a regulated market may serve as collateral for credit and/or guarantees pursuant to this paragraph, provided that on every trading day, in the month preceding the date of calculating their value as collateral, trading took place in the monetary assets and/or at least two quotes were given for the monetary assets.

The maximum value for collateral purposes of monetary assets as aforesaid that are traded on a regulated market and that may serve as collateral as aforesaid shall be calculated by the NBCM as a percentage of their value on the regulated market, within the meaning of such expression below, which shall not exceed the percentage prescribed in the following table.

For such purpose

"value on a regulated market"-

in accordance with the price of the last transaction, from amongst the transactions executed on the trading day in the monetary asset, if such transactions were executed; or, in the alternative: in accordance with the average of the last two quotes given for the monetary asset, on the last trading day prior to the calculation, if on the last trading day no transaction was executed in the monetary asset.

For the purpose of this paragraph -

"structured bond"-

a bond the principal and/or interest payments payable in respect of which might change during the bond's duration, in accordance with the mechanisms detailed in the terms of the bond, which are dependent on external variables that have nothing to do with the issuing company's activity.

The monetary asset given as collateral**1) Bonds (provided that they are not structures)**

- a) (1) Bonds issued by the State of Israel and bonds of the short-term loan type ("Makam").

The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value

The maximum value for collateral purposes shall be determined in accordance with the methodology for calculating the maximum value for collateral purposes (hereinafter referred to as "**the methodology**") determined by TASE's Board of Directors.

Notwithstanding the aforesaid:

- a. in special cases in which in the opinion of the Stock Exchange's CEO it is appropriate to immediately determine maximum values for collateral purposes lower than those determined in accordance with the methodology, he may do so, after consultation with the chief risks officer.
- b. in special cases, the Board of Directors may, in accordance with a recommendation of the Stock Exchange's CEO received after consultation with the chief risks officer, determine maximum values for collateral purposes higher than those determined in accordance with the methodology.

The monetary asset given as collateral**The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value**

Notice of the maximum value for collateral purposes determined in accordance with the methodology and of any change therein shall be given to the NBCM in the manner determined by TASE from time to time.

The notice as aforesaid shall state the commencement date for calculating the maximum value for collateral purposes pursuant to the updated maximum value for collateral purposes.

In addition, the maximum value for collateral purposes shall be published on the website of TASE at the address: tase.co.il and on the "Maya" site at the address: maya.tase.co.il

- (2) Bonds issued by the Government of the United States or by governments of countries whose long-term credit rating according to S&P and according to Fitch is AAA, and whose credit rating according to Moody's is Aaa, that are traded in Israel or overseas.

97% less 1%, multiplied by the number of years until the bonds' redemption, the number of years until the bonds' redemption being rounded up to the nearest whole number

- b) Non-convertible corporate bonds, traded in Israel or overseas, rated AA- or above by "Maalot", or rated Aa3 and above by "Midroog".

75%

The monetary asset given as collateral	The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value
c) Non-convertible corporate bonds, traded in Israel or overseas, rated BBB- to A+ inclusive by "Maalot", or rated A1 to Baa3 inclusive by "Midroog"	60%
d) Non-convertible corporate bonds issued by members whose shares are included in the TA-125 index, or in the TA-SME60 index, or in the TA-Growth index, which were rated BB+ or less by "Maalot", or Ba1 or less by "Midroog", or that are not rated at all.	25%
e) Bonds traded in Israel or overseas, that are convertible into shares included in the TA-35 index.	75%
f) Bonds traded in Israel or overseas, that are convertible into shares included in the TA-90 index.	60%
g) Bonds traded in Israel or overseas, that are convertible into shares included in the TA-SME60 index.	25%
h) Bonds traded in Israel or overseas, that are convertible into shares included in the TA-Growth index.	25%
i) Non-convertible bonds traded overseas and rated by S&P or by Fitch AA- and above or rated by Moody's Aa3 and above, or rated aa- and above by Best.	70%

The monetary asset given as collateral	The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value
j) Non-convertible bonds traded overseas and rated by S&P or by Fitch BBB- to A+ inclusive or rated by Moody's Baa3 to A1 inclusive, or rated bbb- to a+ inclusive by Best.	55%
2) Commercial papers	
a) Commercial papers rated by "Maalot" A-2 and above, or rated P-2 and above by "Midroog".	90%
b) Commercial papers rated less than A-2 by "Maalot", or not rated at all, or rated less than P-2, or not rated at all, by "Midroog".	80%
3) Shares	
a) Shares included in the TA-35 index.	75%
b) Shares included in the TA-90 index.	60%
c) Shares included in the TA-SME60 index.	25%
d) Shares included in the TA-Growth index.	25%
e) Other shares traded on a recognised overseas stock exchange, which are included in recognised indices on overseas stock exchanges, as defined below, the price of which is at least \$1 (US) or a price denominated in another currency, which is the equivalent of at least \$1 (US), and save for shares as aforesaid trade in which has been suspended.	70%

The monetary asset given as collateral

The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value

In this sub-paragraph, "**recognised indices on overseas stock exchanges**":

ATX (Austria),
 S&P/ASX 200 (Australia)
 S&P/MIB (Italy),
 S&P 100 (United States),
 NASDAQ-100 (United States),
 DOW 30 (United States),
 BEL 20 (Belgium),
 FTSE 100 (Britain),
 DAX (Germany),
 OMXC 20 (Denmark),
 AEX (Holland),
 N225 (Japan),
 IBEX 35 (Spain),
 CAC 40 (France),
 S&P/TSX Composite (Canada),
 OMXS 30 (Sweden),
 SMI (Switzerland).

- | | | |
|----|---|-----|
| f) | Shares traded overseas, which are included in the S&P 500 index, the price of which is at least \$1 (US) or a price denominated in another currency, which is the equivalent of at least \$1 (US), and save for shares as aforesaid the trade in which has been suspended. | 55% |
| g) | Shares traded overseas, which are included in the Russell 1000 index, the price of which is at least \$1 (US) or a price denominated in another currency, which is the equivalent of at least \$1 (US), and save for shares as aforesaid the trade in which has been suspended. | 20% |

The monetary asset given as collateral**The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value****4) Derivatives traded on a stock exchange in Israel**

- a) **Call 1** (a call option whose exercise price is NIS 1), whose underlying asset is the TA-35 index, or an index made up of securities included in the TA-35 index, or a security included in the TA-35 index. 75%

Such a monetary asset may only be accepted as collateral from a client if it is not included in the calculation of the collateral requirement deriving from such client's position in derivatives.

- b) **Call 1** (a call option whose exercise price is NIS 1), whose underlying asset is the TA-125 index, or an index made up of securities included in the TA-125 index, or a security included in the TA-125 index. 60%

Such a monetary asset may only be accepted as collateral from a client if it is not included in the calculation of the collateral requirement deriving from such client's position in derivatives.

- c) **Call 1** (a call option whose exercise price is NIS 1), whose underlying asset is the US dollar rate or the Euro rate. 90%

Such a monetary asset may only be accepted as collateral from a client if it is not included in the calculation of the

The monetary asset given as collateral**The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value**

collateral requirement deriving from such client's position in derivatives.

5a) ETFs (traded in Israel)

- | | |
|--|--|
| a) ETFs that their tracking asset is the TA-35 index. | 70% |
| b) ETFs that their tracking asset is the TA-125 index. | 55% |
| c) ETFs that their tracking asset is the TA-90 index. | 55% |
| d) ETFs that their tracking asset is the TA-SME60 Index. | 20% |
| e) ETFs that their tracking asset is the TA-Growth index. | 20% |
| f) ETFs that their tracking asset is in a recognised index on an overseas stock exchange, within the meaning thereof above. | 60% |
| g) ETFs that their tracking asset is the S&P 500 index. | 60% |
| h) ETFs that their tracking asset is the Russell 1000 index. | 60% |
| i) ETFs that their tracking asset is bonds issued by the State of Israel, or by the Government of the United States, or by governments of countries whose long-term credit rating according to S&P and according to Fitch is AAA, and whose credit rating according to Moody's is Aaa. | 92% less 1%, multiplied by the number of years until redemption, rounded up to the nearest whole number. |

In such regard, "**the number of years until redemption**" - the period until redemption of a bond included in the bond basket (hereinafter in this sub-paragraph referred to as "**the basket**") that

The monetary asset given as collateral**The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value**

becomes redeemable within the furthest range of the bonds included in the basket;

or:

75% -

if the ETF conditions do not define the range for redemption of the bonds included in the basket.

- | | |
|--|-----|
| j) ETFs that their tracking asset is non-convertible corporate bonds, which are traded in Israel, and which are rated as set forth in sub-paragraph 1(b) above. | 70% |
| k) ETFs that their tracking asset is non-convertible corporate bonds, which are traded in Israel, and which are rated as set forth in sub-paragraph 1(c) above. | 55% |
| l) ETFs that their tracking asset is non-convertible corporate bonds, which were issued by companies whose shares are included in the TA-125 index, or in the TA-SME60 index, or in the TA-Growth index, rated as set forth in sub-paragraph 1(d) above. | 20% |

5b) Deposit certificate

- | | |
|---|-----|
| a) Deposit certificates into US dollar, Euro, Canadian dollar, Swiss franc, pound sterling or Japanese yen. | 85% |
| b) Deposit certificates into another foreign currency, that are not included in sub-paragraph a) above. | 55% |

The monetary asset given as collateral

The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value

6) ETF (traded overseas)

- | | |
|--|-----|
| a) ETF for non-convertible bonds, which are traded overseas, and which are rated AA- and above by S&P or Fitch, or Aa3 and above by Moody's, or aa- and above by Best. | 70% |
| b) ETF for non-convertible bonds, which are traded overseas, and which are rated BBB to A+ by S&P or Fitch, or Baa3 to A1 by Moody's, or bbb to a+ by Best. | 55% |
| c) ETF for shares traded overseas, which are included in the share indices mentioned in sub-paragraph 3(d) above. | 70% |
| d) ETF for shares traded overseas, which are included in the S&P 500 index. | 55% |
| e) ETF for shares traded overseas, which are included in the Russell 1000 index. | 20% |

7) Mutual funds

- | | |
|--|-----|
| a) Units of mutual funds all the assets of which are invested, pursuant to their investment policy, in deposits, T-bills and unlinked shekel bonds issued by the State of Israel, which are redeemable within a range of up to two years, and that do not invest in shares or derivatives. | 96% |
| b) Money market fund. | 90% |

The monetary asset given as collateral	The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value
c) Units of mutual funds all the assets of which are invested, pursuant to their investment policy, in deposits, T-bills and bonds, as set forth in paragraph 1(a) above, and that do not invest in shares or derivatives	85%
d) Units of mutual funds all the assets of which are invested, pursuant to their investment policy, in shares included in the TA-35 index, in bank deposits and in bonds as set forth in paragraph 1(a) above, and whose level of exposure to shares according to the Joint Investment Trust (Classification of Funds for Publication Purposes) Regulations, 5768-2007 (hereinafter in this paragraph referred to as " the Joint Investment Regulations "), is 1.	80%
e) Units of mutual funds all the assets of which are invested, pursuant to their investment policy, in shares included in the TA-35 index, in bank deposits and in bonds as set forth in paragraph 1(a) above, and whose level of exposure to shares according to the Joint Investment Regulations is 2 or 3.	75%
f) Units of mutual funds all the assets of which are invested, pursuant to their investment policy, in shares included in the TA-35 index, in bank deposits and in bonds as set forth in paragraph 1(a) above, and whose level of exposure to shares according to the Joint Investment Regulations is 4.	65%

The monetary asset given as collateral**The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value**

- | | | |
|----|--|-----|
| g) | Units of mutual funds all the assets of which are invested, pursuant to their investment policy, in shares included in the TA-125 index, in bank deposits and in bonds as set forth in paragraph 1(a) above, and whose level of exposure to shares according to the Joint Investment Regulations is 1. | 65% |
| h) | Units of mutual funds all the assets of which are invested, pursuant to their investment policy, in shares included in the TA-125 index, in bank deposits and in bonds as set forth in paragraph 1(a) above, and whose level of exposure to shares according to the Joint Investment Regulations is 2 or 3. | 60% |
| i) | Units of mutual funds all the assets of which are invested, pursuant to their investment policy, in shares included in the TA-125 index, in bank deposits and in bonds as set forth in paragraph 1(a) above, and whose level of exposure to shares according to the Joint Investment Regulations is 4. | 50% |
| j) | Units of mutual funds, whose level of exposure to shares according to the Joint Investment Regulations is 0, and for which the mutual fund has not duty of disclosure in its name, regarding possible exposure to bonds that do not have an investment rating, as required by the directive of the Israel Securities Authority in such regard, which was | 60% |

The monetary asset given as collateral**The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value**

published by virtue of section 97(b) of the Funds Law.

- | | | |
|----|---|-----|
| k) | Units of mutual funds, whose level of exposure to shares according to the Joint Investment Regulations is 1, and for which the mutual fund has no duty of disclosure in its name, regarding possible exposure to bonds that do not have an investment rating, as required by the directive of the Israel Securities Authority in such regard, which was published by virtue of section 97(b) of the Funds Law. | 50% |
| l) | Units of mutual funds, whose level of exposure to shares according to the Joint Investment Regulations is 2 or 3, and for which the mutual fund has no duty of disclosure in its name, regarding possible exposure to bonds that do not have an investment rating, as required by the directive of the Israel Securities Authority in such regard, which was published by virtue of section 97(b) of the Funds Law. | 25% |
| m) | Units of mutual funds, whose level of exposure to shares according to the Joint Investment Regulations is 4, and for which the mutual fund has no duty of disclosure in its name, regarding possible exposure to bonds that do not have an investment rating, as required by the directive of the Israel Securities Authority in such regard, which was | 15% |

The monetary asset given as collateral**The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value**

published by virtue of section 97(b) of the Funds Law.

8) Cash and cash equivalent

- | | |
|---|------|
| a) Short-term bank deposits in NIS, negotiable deposit certificates in NIS and a credit balance in current accounts in NIS. | 100% |
| b) Short-term deposits in foreign currency of the following type:
US dollar, Euro, Canadian dollar, Swiss franc, pound sterling or Japanese yen. | 90% |
| c) Short-term deposits in foreign currency of another type. | 60% |
| d) Short term deposits in foreign currency given to secure other credit that is denominated in the same foreign currency, provided that all the following conditions are fulfilled:

(1) the NBCM has means, including professional personnel and computer systems for the management and control of risks, enabling it to routinely attribute the foreign currency deposits as aforesaid to the other credit denominated in such foreign currency;

(2) the NBCM actually performs such attribution; | 100% |

The monetary asset given as collateral**The maximum value for collateral purposes is the following percentage of the monetary asset's Stock Exchange value or of its market value**

- (3) the NBCM has received written approval from the Stock Exchange's CEO, or someone authorized by the CEO, to attribute a maximum value to collateral as aforesaid for foreign currency deposits as aforesaid.

9) Other monetary assets

0%

If the monetary asset given as collateral, can be attributed to more than one of the groups of monetary assets detailed in sub-paragraphs 1) to 9) above, the monetary asset's collateral value shall be calculated as the higher between the possible collateral values pursuant to sub-paragraphs 1) to 9) above.

- b. If the value of the monetary assets in the client's securities portfolio that was charged in favor of the NBCM, in accordance with their maximum value pursuant to sub-paragraph a. above, is lower than the amount of the credit and guarantees given by the NBCM to the client, the credit and guarantees as aforesaid, up to the amount of the value of the monetary assets in the client's securities portfolio in accordance with sub-paragraph a. above, shall be deemed credit and guarantees against which full collateral was given.

The balance of the amount of the credit and guarantees shall be deemed credit and guarantees against which collateral was not given.

- c. If the NBCM orders securities for its client that are offered on issue, and there is no cash balance in the client's account, the full value of the NBCM's liability in respect of the ordered securities shall be deemed monetary credit for all intents and purposes.

However, insofar as there is a cash balance in the client's account in an amount lower than the value of the NBCM's liability in respect of the ordered securities as aforesaid, the cash balance shall not be deemed standing to the client's credit, and the difference between the value of the NBCM's liability in respect of the ordered securities as aforesaid, and the cash balance in the client's account, shall be deemed monetary credit for all intents and purposes;

Insofar as the client's account has a cash balance in an amount equal to the value of the NBCM's liability in respect of the ordered securities as aforesaid, or in an amount higher than the value of the NBCM's liability in respect of the ordered securities as aforesaid, the value of the liability as aforesaid shall be deducted from the cash balance standing to the client's credit.

- d. The total credit and/or guarantees that an NBCM may give, the collateral in respect of which is a guarantee and charge of the securities portfolio of another client, and not of the client receiving the credit, shall not exceed 20% of the NBCM's initial equity.
- e.
 - 1) Where an NBCM has given a client monetary credit to purchase monetary assets on a Stock Exchange in Israel, and the monetary assets are designated to be transferred by way of transfer to a custodial trustee for their custodian, the said monetary credit shall not be governed by the conditions laid down in sub-paragraph 13 above, and the NBCM will not be required to provide equity, initial equity and net unencumbered liquid assets, against the monetary risk inherent in such credit, in accordance with paragraphs 5.d.1), 5.e.4) and 6.a.4) above, as the case may be, during the trading day on which the purchase is effected. Where such client is not an Israeli resident, the conditions laid down in paragraph 13. above shall not apply, and the NBCM shall not be required to provide equity, initial equity and net unencumbered liquid assets, against the monetary risk inherent in such credit, in accordance with paragraphs 5.d.1), 5.e.4) and 6.a.4) above, as the case may be, on the date of the purchase and on the trading day thereafter. After the dates specified in this paragraph, all the conditions and restrictions on the grant of credit as aforesaid shall apply, as well as all the requirements regarding equity, initial equity and net unencumbered liquid assets, deriving from such credit, as provided above.
 - 2)
 - a) If the NBCM has created a position in derivatives on a Stock Exchange in Israel, which creates a collateral requirement for a client, which is other credit, for a client who is not a supervised client, and the position is designated to be transferred by way of transfer to a custodial trustee for their custodian, the provisions of sub-paragraph 1) above, shall not apply, and the other credit as aforesaid, shall be governed by all the conditions and restrictions applicable to the grant of credit, as well as all the requirements regarding equity, initial equity and net unencumbered liquid assets, deriving from such credit, as at the date of creating the position in derivatives.

- b) If the NBCM has created a position in derivatives on a Stock Exchange in Israel that creates a collateral requirement for a client, which is other credit, for a supervised client, and the position is designated to be transferred by way of transfer to a custodial trustee for their custodian, the conditions laid down in paragraph 13. above, shall not apply to the other credit as aforesaid, and the NBCM will not have to provide equity, initial equity and net unencumbered liquid assets, against the monetary risk inherent in the credit as aforesaid, in accordance with paragraphs 5.d.1), 5.e.4) and 6.a.4) above, as the case may be, for the trading day on which the position was created, subject to the following conditions:
- (1) other credit of an individual supervised client, to which the provisions of this sub-paragraph apply, shall not exceed 5% of the NBCM's initial equity;
 - (2) the sum of the other credit of the NBCM's supervised clients, to which the provisions of this sub-paragraph apply, shall not exceed 20% of the NBCM's initial equity.
 - (3) The NBCM's board of directors shall lay down restrictions regarding the grant of credit in transactions as aforesaid, including with regard to the types of clients which will receive credit as aforesaid and the maximum amount of the credit to an individual client and to a group of borrowers.

15. Cancelled.

15A. The amount of the other credit by reason of the activity of a client of an NBCM shall be calculated as follows:

a. **The amount of the other credit by reason of a position in derivatives**

1) **The amount of the other credit by reason of a position in derivatives traded on a stock exchange in Israel**

The amount of the other credit deriving from a client's position in derivatives traded on a stock exchange in Israel, shall be in the amount of the collateral that a member of the Maof Clearing House must give the Maof Clearing House by reason of such position;

2) **The amount of the other credit by reason of a position in derivatives traded on an overseas stock exchange**

The amount of the other credit by reason of a position in derivatives traded on an overseas stock exchange, shall be in the amount of the collateral requirement of the overseas broker or of the banking corporation with which the position in derivatives is held;

"Collateral requirement of the overseas broker or the banking corporation with which the position in derivatives is held" - the collateral requirement in respect of such client's position in derivatives, if held in a separate account for the client (without having regard to existing collateral in the client's account).

If the overseas broker or banking corporation with which the position in derivatives is held, does not have a collateral requirement in respect of such position in derivatives, the NBCM's board of directors shall determine the amount of the other credit by reason of the position in derivatives;

3) The amount of the other credit by reason of a position in derivatives that are not traded

The amount of the other credit by reason of a client's position in derivatives that are not traded, shall be determined by the NBCM's board of directors;

b. The amount of the other credit by reason of short sales

1) The amount of the other credit by reason of short sales of securities traded in Israel

- a) The amount of the other credit by reason of a security borrowed by the client from the NBCM or from a subsidiary of the NBCM, and which was sold short by the client, shall be an amount equal to 200% of the value of the security sold short, less the maximum value for collateral purposes of the said security, in accordance with the provisions of sub-paragraph 14.a. above;
- b) Notwithstanding the provisions of sub-paragraph a) above, where a client has sold short a dual listed security on a stock exchange in Israel, and the client has a credit balance with the NBCM in respect of the said security that is traded overseas (hereinafter referred to as "**the credit balance overseas**") and the client collateralized in favor of the NBCM its securities portfolio, including the credit balance overseas, the client's liability in respect of the security sold short as aforesaid, that exceeds the credit balance overseas, shall be deemed other credit, which shall be calculated in accordance with sub-paragraph a) above.

2) The amount of the other credit by reason of short sales of securities traded overseas

- a) The amount of the other credit by reason of short sales of securities traded on an overseas stock exchange shall be in the amount of the collateral requirement of the overseas broker, or of the banking corporation through which the short sale was effected.

"Collateral requirement of the overseas broker or the banking corporation with which the transaction was executed" - the collateral requirement in respect of the short sale of the aforesaid client, if executed in a separate account for the client (without having regard to existing collateral in the client's account).

If the overseas broker, or banking corporation through which the transaction was executed, does not have a collateral requirement in respect of such transactions, the NBCM's board of directors shall determine the amount of the other credit by reason of these transactions;

- b) Notwithstanding the provisions of sub-paragraph a) above, where a client has sold short a dual listed security overseas, and the client has a credit balance with the NBCM in respect of the said security that is traded in Israel (hereinafter referred to as "**the credit balance in Israel**") and the client has collateralized in favor of the NBCM its securities portfolio, including the credit balance in Israel, the client's liability in respect of the security sold short as aforesaid, that exceeds the credit balance in Israel, shall be deemed other credit, which shall be calculated in accordance with sub-paragraph a) above.

c. **The amount of the other credit by reason of Repo transactions**

The amount of the other credit by reason of a client's Repo transactions shall be in the amount of the collateral that a member of the Stock Exchange Clearing House must give the Stock Exchange Clearing House by reason of such transactions.

15B. The amount of the monetary credit by reason of a loan in foreign currency given by an NBCM to a client

The amount of the monetary credit by reason of a loan in foreign currency given by an NBCM to a client shall be 200% of the value of the loan in foreign currency, less the maximum value for collateral purposes of a bank deposit in the same foreign currency, in accordance with paragraph 14.a. above.

- 15C. A member that manages clients' securities portfolios with other members in accordance with paragraph 26A. of the Rules shall give notice to the Stock Exchange in the form set out in appendix "G".

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

16. Cancelled.

16A. a. The internal auditor of an NBCM shall perform the audit in accordance with the law and accepted professional standards, and shall base the internal auditing work plan on a preliminary and comprehensive examination that he or she shall perform from time to time in connection with the risks embodied in the NBCM's activity.

The allocation of the internal audit resources between the various spheres of activity shall be done having regard to the level of the risk embodied in each activity.

b. The internal auditor's work plan shall include, inter alia, the following subjects:

- 1) the examination and evaluation of the manner in which the NBCM complies with the provisions of the Stock Exchange Rules and the laws relating to its activity;
- 2) the examination of compliance with the NBCM's work procedures;
- 3) the implementation of the resolutions of the NBCM's Board of Directors and the NBCM's management;
- 4) the implementation of the internal audit in the NBCM and the evaluation of the audit's efficacy.

c. The NBCM's board of directors or the NBCM's audit committee shall approve the work plan of the internal auditor, having regard to the result of the evaluation carried out by the internal auditor and the results thereof.

17.* Fees that a Stock Exchange member collects from its clients

a. A member shall report to the Stock Exchange on all the fees that it collects from its clients. The report shall be in the reporting format provided in the First addendum to the Banking (Service to the Customer) (Fees) Rules, 5768-2008.

A member shall report to the Stock Exchange, in writing, after any change made in one or more of the fees as aforesaid, within seven trading days of the date of the change.

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

- b. A member shall report to the Stock Exchange on comparative information about the fees amounts actually collected from its clients who or which are individuals and small businesses (hereinafter referred to as "**comparative information**"), and it shall report on information about tariff commissions that the member collects from its clients, in accordance with the format determined, from time to time, by the Stock Exchange's CEO, which shall enable a comparison between the various fees.

Changes in the comparative information or in the tariff commissions as aforesaid shall be reported to the Stock Exchange in accordance with the times and in the format determined, from time to time, by the Stock Exchange's CEO.

For the purpose of this paragraph:

"small business" in relation to a banking corporation - as defined in the Banking (Service to Customer) (Fees) Rules, 5768-2008;

"small business" in relation to an NBCM - a client whose financial assets activity turnover is not more than NIS 10 million, during a calendar year. This amount will not be linked to the consumer price index.

The information included in the reports to the Stock Exchange as provided in sub-paragraphs a. and b. above shall be the same as the information published by the member, insofar as published.

- c. An NBCM shall report to the Stock Exchange, once a year, on the date on which it submits its financial statements with the Stock Exchange, a declaration in which it confirms that the fees on which it reported to the Stock Exchange during the year that has ended, including the fees actually collected from clients which are a "small business", are in accordance with the provisions of sub-paragraphs a. and b. above. The declaration shall be given in the wording detailed in appendix "Q".
- d. A member shall mention to a client seeking to open and manage a securities portfolio through it that the fees that the Stock Exchange members collect for the service as aforesaid are published on the Stock Exchange website, as required by section 45P. of the Securities Law.

18. Cancelled.

19. Cancelled.

20. Cancelled.

21. Cancelled.

22. Cancelled.

23.
 - a. An NBCM shall consider the maximum period for keeping documents and obtain a legal opinion with regard to destroying or photocopying them.
 - b. Appendix "C" details the minimum periods for keeping documents.
 - c. The original documents shall be kept at the NBCM's offices or be available for immediate withdrawal for a period of six months from the end of the accounting year.
 - d. At the end of the period under sub-paragraph c., an NBCM shall keep the original documents in such a way as to allow their production within two trading days of being so required by the Stock Exchange or a competent authority.
24. The Regulations under this chapter do not derogate from the duty to keep books in accordance with other law.

24A. Annual fee

- a. A member shall pay the Stock Exchange, each year, by January 15, an annual fee in a sum of NIS 60,000 (NIS 70,200 includes VAT) for the calendar year in which such payment is made.

Transitional provision with regard to this paragraph:

Notwithstanding the aforesaid, any entity that is a member on January 19, 2020, except for a remote member, shall be governed by the following provisions, such being in respect of 2019 and 2020:

the member shall pay the Stock Exchange, each year, by the end of January, an annual fee in a sum of NIS 100,000 (NIS 117,000 includes VAT) for the preceding year.

Where the amount of the clearance and trading commissions paid by the member to the Stock Exchange in the year preceding the payment date exceeded NIS 100,000, the member shall be exempt from paying a fee as aforesaid.

Where the member paid clearance and trading commissions as aforesaid in an amount of less than NIS 100,000, it shall be liable to pay only the difference between NIS 100,000 and the amount of the commissions paid by it.

- b. The amount of the annual fee as aforesaid in sub-paragraph a. above shall not be linked to the consumer price index.

The annual fee aforesaid, shall be collected by debiting the member's account at the Stock Exchange Clearing House, and if the member is not a member of the Stock Exchange Clearing House, the account of the member that clears for it shall be debited.

25. The filing of financial statements by the NBCM

The financial statements filed with the Stock Exchange by an NBCM shall be certified by its board of directors, filed in the format appearing in appendix "D" and incorporate the following statements and documents:

- a. annual reports:
 - 1) the NBCM's letter.
 - 2) a periodic report in the format prescribed in Chapter Two of the Securities (Periodic and Immediate Reports) Regulations, 5730-1970 (hereinafter referred to as "**the Periodic and Immediate Reports Regulations**") including the figures required in accordance with the directives issued by the Israel Securities Authority pursuant to section 36(a) of the Securities Law, subject to the following:
 - a) notwithstanding the provisions of section 8(b) of the Periodic and Immediate Reports Regulations, the periodic report shall not include a description of the corporation's business;
 - b) section 8(a) of the Periodic and Immediate Reports Regulations shall not apply;

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c) in addition to the provisions of the Periodic and Immediate Reports Regulations, the board of directors' report shall include explanations relating to each of the following subjects:

- (1) a summary description of the corporation and its business environment;
- (2) the influence of external factors.

In the framework of the matters included in the board of directors' report and mentioned above, the board of directors' shall refer to the matters detailed in the First Schedule to the Periodic and Immediate Reports Regulations, insofar as they are relevant to the corporation, and to other matters, if they are important, in the board of directors' opinion, for an understanding of the state of the corporation's affairs. There is no duty to refer to matters that are not relevant to the corporation or that in the board of directors' opinion are not material or the absence of which does not affect an understanding of the state of the corporation's affairs, and there is no need to repeat the information detailed in the financial statements;

- d) In addition to the provisions of the Periodic and Immediate Reports Regulations, the board of directors' report shall also give expression to sectors included in the financial statements, and shall include a discussion of the risk factors in the corporation's activity, in the format prescribed in section 39 of the Schedule pursuant to Regulation 44 of the Securities Regulations (Details, Structure and Form of the Prospectus), 5729-1969;
- e) The provisions of sub-sections 10(b)(1)(g) and 10(b)(1)(h) of Chapter Two of the Periodic and Immediate Reports Regulations shall not apply;
- f) In addition to the provisions of the Periodic and Immediate Reports Regulations, the board of directors' report shall detail the number of audit hours dedicated to the performance of examinations relating to the NBCM's compliance with the provisions of the Stock Exchange Rules.

The periodic report shall be filed no more than three months after the end of the reported accounting period.

The NBCM shall include with the periodic report financial statements of each of the NBCM's subsidiaries that engage in the securities business, drawn up in the same format as the NBCM's financial statements.

- 3) the special certificate of the auditor in relation to the financial statements, in the format appearing in appendix "E".

- 4) a statement ancillary to the financial statements together with the auditor's review of the ancillary statement and a letter on the NBCM's behalf.
 - 5) the auditor's certificate in respect of the NBCM's investments in companies that are not traded on a stock exchange in Israel or overseas, detailing the amount of the investment, as appearing in the NBCM's financial statements, in each company, in the format appearing in appendix "F".
- b. interim statements for three, six and nine months:
- 1) the NBCM's letter.
 - 2) interim financial statements and the Board of Directors' report for the interim period in the format prescribed in Chapters Four and Five of the Periodic and Immediate Reports Regulations. Such statements and reports shall be filed at the times prescribed in the Periodic and Immediate Reports Regulations, including the figures required in accordance with the directives issued by the Israel Securities Authority pursuant to section 36(a) of the Securities Law.

Notwithstanding the aforesaid:

- a) a nostro NBCM and an NBCM which is not custodian shall file with the Stock Exchange interim statements as aforesaid for six months only (six-monthly statements);
- b) during the first year of its activity as a member, an NBCM shall file with the Stock Exchange the interim statements as aforesaid for only six months (half-yearly statements).

Should the NBCM file consolidated financial statements, it shall also include with the consolidated statements financial statements of the NBCM itself and monetary statements of each of the subsidiaries of the NBCM that engage in securities business, drawn in the same format as the NBCM's financial statements.

The interim statements shall be filed no more than two months after the end of the reported accounting period;

- 3) an ancillary statement to the interim statements, together with the auditor's review of the ancillary statement, and a letter by the NBCM.
- 4) the auditor's certificate in respect of the NBCM's investments in companies that are not traded on a stock exchange in Israel or overseas, detailing the amount of the investment, as appearing in the NBCM's financial statements, in each company, in the format appearing in appendix "F".

25A1. Filing of financial statements by a remote member

Each year, a remote member shall file a full annual financial statement with the Stock Exchange, including ancillary statements and appendices (hereinafter referred to as "**the annual report**"), in a format identical to the statement it is liable to file with the competent authorities in the country in which it is incorporated and operates as a stock exchange member, in addition, it shall file with the Stock Exchange all the ancillary reports and appendices it is liable to file with such authorities.

If the remote member has filed with the competent authorities in the country in which it is incorporated and operates as a stock exchange member, in addition to the annual report, also quarterly reports or half-yearly reports, it shall also file them with the Stock Exchange, together with all the ancillary reports and appendices it is liable to file with such authorities.

The said reports shall be sent to the Stock Exchange within seven trading days of the date on which they are filed with the competent authorities.

25A2. Filing of a half-yearly report by a remote member

A remote member shall file with the Stock Exchange, once every half year, within 30 days of the end of the calendar half-year that has ended, a report in the format appearing in appendix "N2", in relation to the aforesaid half year.

The report shall include, inter alia, the following subjects:

- a. a description of the remote member's compliance with the equity requirement;
- b. a statement on behalf of the remote member that throughout the reported period, it complied with the equity requirement pursuant to the Rules;

If during the reported period the remote member did not comply with the aforesaid requirement, the remote member shall include in its statement a description of the date and circumstances of its non-compliance with the requirement, a description of the manner of handling the non-compliance with the requirement, and the date on which the remote member resumed complying with the requirement;

- c. a summary report of material events that occurred in the remote member during the reported period, as provided in the report format, that the remote member is not liable to report on immediately, as provided in section 25A3. below.

25A3. Filing an immediate report by a remote member

Without prejudice to the reporting duty pursuant to paragraph 16.d of the Rules, a remote member shall report to the Stock Exchange, in writing, immediately, in the format appearing in appendix "N3", on the occurrence of any one of the following events:

- a. changes in control, directly or indirectly, of the remote member, insofar as there are any;

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- b. on the occurrence of an event from the events mentioned in paragraph 78A. of the Rules, and also events leading to genuine concern for the remote member's stability or for the remote member's insolvency;
- c. material defects discovered in the remote member that might damage the Stock Exchange's activity, including its information systems, or another Stock Exchange member.

25A4. Filing of a monthly report by the NBCM

On the 15th of each calendar month, the NBCM shall file a monthly report with the Stock Exchange in the format appearing in appendix "N", in relation to the previous calendar month, which shall include the following subjects:

- a. a description of the NBCM's compliance, at the end of the reported month, with the equity, initial equity and net unencumbered liquid assets requirements;
- b. a statement by the NBCM that on each day of the reported month, the NBCM complied with the provisions pursuant to the Rules on the following subjects:
 - 1) equity;
 - 2) initial equity;
 - 3) net unencumbered liquid assets;
 - 4) credit and guarantees provided by the NBCM in favor of its clients.

If, during the reported month, the NBCM did not comply with one or more of the above provisions, its statement shall include, in relation to each provision not complied with by it, a description of the provision not complied with, a description of the reasons for the non-compliance, a description of the manner of handling the non-compliance and the date on which the NBCM resumed complying with the provision;

- c. a summary report regarding material events that occurred in the NBCM during the reported month.

25A5. A list of the clients in respect of whom the NBCM's Board of Directors has approved that they may act without blocking mechanisms being operated in their accounts, shall be approved by the NBCM's board of directors at least once a year.

25B. The NBCM's board of directors shall approve, at least once a year, the warning mechanisms and blocking mechanisms operated in the NBCM's central system.

- 25C. 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, the NBCM's CEO, or another senior employee of the NBCM, who has the relevant qualifications, know-how and experience, and who has been authorised to do so by the NBCM's board of directors, may approve the release of the block on transactions in the client's account, such that the client will be able to execute the transaction in the account.

The approval of the NBCM's CEO or senior employee as aforesaid shall be in writing. In the absence of the NBCM's CEO, the approval as aforesaid may be given by a deputy. The approval as aforesaid shall be kept at the NBCM's offices.

If the block is released as aforesaid by the CEO's deputy or by a senior employee as aforesaid, the CEO's deputy or the senior employee, as the case may be, shall report to the NBCM's CEO, in writing, of the release from the block, immediately after the release. The CEO shall confirm receipt of the report as aforesaid in writing, noting the date on which the report's receipt was confirmed.

- 25D. The NBCM's central system shall be routinely updated in real time also in respect of overseas transactions, including the amount of the other credit that is the client's liability to the NBCM by reason of the client's activity in derivatives and/or by reason of short sales carried out by the client.

However, it is possible that overseas transactions executed through the NBCM will not be updated in real time and in such case the following provisions shall apply:

- a. Overseas transactions executed through the NBCM, including the collateral requirement deriving there from, shall be updated in the central system by no later than the opening of trade, on the following trading day, on the Tel Aviv Stock Exchange or overseas stock exchange on which the NBCM acts, whichever is the earlier;
- b. The NBCM shall determine a daily monetary ceiling for each client for whom overseas transactions are executed, and update the daily monetary ceiling whenever there is a change in the client's account, that does not enable transactions in the framework of the daily monetary ceiling that has been determined.

An NBCM shall not allow a client to execute overseas transactions the charges in respect of which deviate from the daily monetary ceiling that has been determined.

For the purposes of this paragraph "**the daily monetary ceiling**" - the total net charges that the client may be charged in respect of its transactions on such day in monetary assets traded on overseas stock exchanges, including in respect of the client's liability to the NBCM by reason of activity in derivatives and by reason of short sales.

- 25E. 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, the following provisions shall apply:
- a. The NBCM shall determine, in respect of each client acting as aforesaid, a daily monetary ceiling within the meaning thereof above. Notice of the daily monetary ceiling as aforesaid, in relation to each client as aforesaid, shall be given by the NBCM to the other broker through whom the client is acting. The NBCM shall notify the other broker that charges deviating from the daily monetary ceiling determined by it for the client shall not be honored by it, and shall obtain the other broker's written consent not to deviate from the daily monetary ceiling as aforesaid;
 - b. Overseas transactions as aforesaid shall be updated in the NBCM's central system by no later than the opening of trade, on the following trading day, on the Tel Aviv Stock Exchange or overseas stock exchange on which the NBCM acts, whichever is the earlier;
 - c. The NBCM's Board of Directors shall approve, at least once a year, the list of clients who may execute overseas transactions directly through another broker. The 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.

The provisions of this paragraph shall apply whether or not the NBCM's central system is also updated in real time in respect of overseas transactions.

- 25F. An NBCM may permit the execution of transactions through an allocation account only for those entities mentioned below: a portfolio manager working in a company that has a license to manage investment portfolios, a manager of investment portfolios of a corporation who manages the corporation's investments in the course of performing the manager's position in such corporation, an insurer, a provident fund management company, a mutual fund management company, an international investments house and a first-rate international bank.

Notwithstanding the aforesaid, an NBCM permit the execution of transactions through an allocation account to other entities which are not listed amongst the entities detailed above, subject to the following conditions:

- a. the NBCM shall obtain, in advance and in writing, the client's consent to the execution of transactions for him through an allocation account;
- b. the NBCM shall determine a policy and work procedures for the purpose of permitting the execution of transactions through an allocation account to an entity which is not listed amongst the entities detailed above.

25G. The credit controller shall give the NBCM's risk controller, the NBCM's CEO and the chair of its board of directors, at least once a month, a written review of the credit, collateral and short sales control activity including, inter alia, details of the scope of the credit control, details and an analysis of the credit control findings and the handling thereof, including details of the number of deviations from the credit ceiling that were discovered, and of short sales, the amount thereof, the reason they arose and the manner of handling them, including the names of those clients in whose accounts the deviations were discovered as aforesaid. The review as aforesaid shall also include a report on all those cases in which a client's transactions were released from the blocking mechanisms, as provided in sub-paragraph 25c. above.

The above review shall be furnished to the NBCM's board of directors at least once a quarter.

25H. The working procedure that shall be approved by the NBCM's board of directors for the credit controller shall include at least the matters detailed below:

- a. the way in which the credit controller shall control the NBCM's compliance with the provisions concerning the credit ceiling which the NBCM may give its clients, the collateral it must obtain from its clients, and short sales, including the types of examinations that shall be carried out and the frequency thereof;
- b. the way in which the credit controller shall supervise and control accounts which, with the approval of the NBCM's board of directors, are operated without blocking mechanisms;
- c. the way of handling accounts without blocking mechanisms as aforesaid, the activity in which might cause the NBCM to deviate from the provisions concerning the credit ceiling, the credit given to a client, and short sales;
- d. the way of handling the credit controller's reports and details of the entities to which the reports will be furnished;
- e. updating the blocking mechanisms and warning mechanisms in accounts managed by the NBCM;
- f. details of the way of implementing collateral and credit control, in accordance with sub-paragraphs a. and b. above, where the credit control is not performed directly by the credit controller, but through subordinate employees, and in the absence of the credit controller.

25I. An NBCM shall report to the Stock Exchange, once a year, at the same time it files its annual financial statements with the Stock Exchange, on compliance with the provisions of the Rules concerning collateral and credit control, as detailed in appendix "I".

The aforesaid reporting duty does not apply to a nostro NBCM.

25J. A supervised company shall report to the Stock Exchange, once a year, at the same time it files its annual financial statements with the Stock Exchange, on compliance with the provisions of the Rules concerning collateral and credit control, as detailed in appendix "J".

25K. **Risk management and control - work procedures**

a. The means adopted by the NBCM for the purpose of managing and controlling the risks to which it is exposed shall be anchored by the NBCM in work procedures, each of which shall relate to a particular risk (hereinafter referred to as "**work procedures**") and shall include, inter alia, a detailed description of:

- 1) risk to which the subject of the work procedure is related;
- 2) means of managing and controlling the said risk;
- 3) officials bound by the work procedure;
- 4) official in the organization who is responsible for the work procedure's implementation;
- 5) detailed operating rules obliged by the work procedure, including documentation and reporting;
- 6) intervals at which the work procedure shall be assessed and revised.

b. The NBCM shall determine a procedure for the implementation of the work procedures (hereinafter referred to as "**the implementation procedure**").

The implementation procedure shall detail the means that the NBCM must adopt for the implementation of its work procedures, as follows:

- 1) rules for the initial lateral implementation of each work procedure amongst all the employees affected by the procedure;
- 2) rules for the implementation of each work procedure, in circumstances of a change in the procedure, including following periodic update of the work procedure;
- 3) ways of implementation the work procedures amongst new employees;
- 4) rules regarding routine periodic refreshment of the work procedures;
- 5) ways of documenting the work procedures' implementation.

c. The NBCM shall be responsible for compliance with the work procedures' by its employees and managers.

25L. Risk management and control - new activity

Any new activity of the NBCM shall be approved by its board of directors, after examining the risks involved in the new activity, evaluating the exposure deriving therefrom and evaluating the mechanisms prescribed for the management and control of the risks, including separation of positions, warning means, prevention means and means of hedging risks and exposure.

25M. a. Reevaluation of risk management and control mechanisms

The mechanisms for managing risks embodied in the NBCM's activity and the mechanisms for supervision and control of risk management (hereinafter in this paragraph referred to as "**the mechanisms**") shall be reevaluated at such intervals as determined by the NBCM's competent entities.

In addition, the mechanisms shall be reevaluated whenever such is called for, including by reason of changes in the NBCM's activity, and by reason of other changes that are such as to influence the risks and the mechanisms' efficacy.

b. Control of risks from computerised processes

The means used by the NBCM for controlling the risks deriving from computerised processes shall be computer-based.

25N. Risk controller

a. The risk controller shall be responsible, inter alia, for:

- 1) routinely controlling the management of the risks embodied in the NBCM's activity and the exposure deriving from such risks;
- 2) managing and revising the exposure paper, based on the risk survey;
- 3) making recommendations relating to the management and control of the risks and the exposure, which shall be presented to the NBCM's management and to the NBCM's board of directors;
- 4) routinely reporting to the NBCM's CEO on unusual incidents in the risk management and control sphere.

The report shall include details of the incident, the damages actually occasioned by the incident, the potential damages, and the lessons it recommends be learnt from the incident, including recommendations for improvement of control;

- 5) writing work procedures relating to risk management and control.

- b. The risk controller shall report in writing to the NBCM's CEO and the NBCM's board of directors at least once a month on risk control activity. The report shall include, inter alia, a description of the action taken by the risk controller during the reporting period, details of unusual incidents in the risk management and control sphere, details of changes in procedures and details of breaches of procedures during the reporting period and the way in which such breaches were dealt with.

The risk controller shall give a report as aforesaid to the NBCM's board of directors at least once a quarter.

- c. The NBCM shall provide the risk controller with all the means required by the risk controller to perform the controller's position, including personnel on a suitable scale and with suitable qualifications, and computer and communications systems.

250. Risk survey

- a. The NBCM shall carry out a risk survey through a professional entity with suitable qualifications, at least once every three years.
- b. The risk survey shall summarise information on all the risks embodied in the NBCM's activity, including: market risks, credit risks, operating risks, liquidity risks and legal risks, inter alia risks deriving from non-compliance with the provisions of the law and other provisions applicable to the NBCM's employees and managers, and shall summarise information on the exposure deriving from these risks, and shall include, inter alia:
- 1) a description of the risks embodied in the NBCM's activity and the exposure deriving therefrom;
 - 2) details of the entities in charge of the management of each risk and each exposure as aforesaid, their responsibilities and their powers;
 - 3) details of the operating frameworks and permitted exposure restrictions, in relation to each risk;
 - 4) a description of the mechanisms operated by the NBCM for the purpose of managing and controlling the risks, including:
 - a) separation of positions;
 - b) means for preventing a deviation from the prescribed restrictions;
 - c) means for warning of a deviation from the prescribed restrictions;
 - d) means for hedging the risks and the exposure;
 - e) restriction of access to the risk control mechanisms only to the entities responsible for their operation.

- 5) a description of the mechanisms for evaluating the NBCM's total exposure to risks in real time;
- 6) details of the reports for surveillance and control purposes that are required from the NBCM's officials;
- 7) evaluation of the way in which the NBCM manages and controls the risks, and to the extent necessary, the making of recommendations for changes.

The NBCM's risk controller shall not carry out the risks survey.

- c. The NBCM's management shall bring the risk survey, together with its response thereto, for discussion by the NBCM's board of directors, within 45 days of the risk survey's completion.

The NBCM's board of directors shall discuss the findings of the risk survey and management's response thereto and shall give its opinion with regard to the risks embodied in the NBCM's activity and the exposure deriving therefrom, including market risks, credit risks, operating risks, liquidity risks and legal risks, and shall make a decision as to the means that the NBCM must adopt for the purpose of managing and controlling the risks.

25P. **The exposure paper**

- a. The NBCM shall draw up an exposure paper. The exposure paper shall be based on the risk survey and shall summarise information on the various risks embodied in the NBCM's activity.
- b. The exposure paper shall be revised whenever there is a change in the risks or in the evaluation thereof, or in the mechanisms required for the management or control of the risks.
- c. The exposure paper shall be brought before the NBCM's board of directors, relevant employees and managers, in the course of any discussion in which decisions are made that influence the NBCM's exposure, or the manner of managing and controlling the risks.
- d. The NBCM's board of directors shall discuss the exposure document at least once a quarter, highlighting the changes made therein since the previous discussion, if any.
- e. The risk controller shall be responsible for the drawing up and revision of the exposure paper.

25Q. **Compliance control - compliance plan**

- a. The NBCM's compliance plan shall be discussed and approved by the NBCM's audit committee and board of directors at least once a year.

The plan shall include, inter alia, the following matters:

- 1) a definition of the compliance officer's responsibilities and powers;
 - 2) details of the provisions and laws that the compliance officer must consider in the course of the work, including the provisions of the laws detailed in appendix "K", the provisions of other laws determined by the NBCM's board of directors and the provisions of the Stock Exchange Rules (all hereinafter referred to as "**the provisions**");
 - 3) the tools and means to be made available to the NBCM's employees and managers, which will support compliance with the provisions by the NBCM and its employees, including clear work procedures, computer reports, routine training of managers and employees in the spheres relevant to their positions;
 - 4) the reports and the reporting mechanisms to be made available to the compliance officer, in order to enable the officer to ascertain the NBCM's readiness to comply with the provisions, before the commencement of new activity, and with a view to the determination of new provisions;
 - 5) the steps to be taken against managers and employees who breach the provisions;
 - 6) the format and frequency of the reports that the compliance officer must send to the NBCM's CEO, audit committee and board of directors.
- b. The NBCM's board of directors shall delineate the ways in which the employees should be informed of the main points of the compliance plan and of the importance that it attributes to the code of conduct obliged by this plan.

25R. Compliance control - the compliance officer

- a.
 - 1) The compliance officer shall be responsible for compliance with the provisions of the NBCM, its employees, its managers and its various divisions.
 - 2) The compliance officer shall report to the NBCM's CEO before the commencement of new activity by the NBCM and with a view to the determination of a new provision on the acts that the NBCM must take in order to comply with the relevant provisions.
 - 3) The compliance officer shall act in accordance with the work plan that is approved by the NBCM's board of directors, as set forth below.
 - 4) The compliance officer shall be responsible for the work procedures' implementation amongst the NBCM's employees, and shall be responsible for the implementation procedure's implementation.

- b. 1) The compliance officer shall report to the CEO, chair of the board of directors and audit committee of the NBCM, once a quarter, and to the NBCM's board of directors once a year. The report shall include, inter alia: a summary of the compliance officer's acts during the reporting period and the officer's recommendations, details of a breach of the provisions during the reporting period and the compliance officer's recommendations for the handling of these breaches.
 - 2) The compliance officer shall immediately report to the NBCM's CEO on any material breach of the provisions. Other breaches shall be reported in the routine reports, as set forth in sub-paragraph 1) above.
 - 3) The compliance officer shall routinely monitor the rectification of any defects found, such as defects included in the various audit reports, inter alia the reports of the internal auditor, the external auditor, the credit controller, the risk controller, the Israel Securities Authority and the Stock Exchange's Membership and Surveillance Department.
- c. The compliance officer and those acting on the officer's behalf shall at all times have access to all the NBCM's divisions and to all its officers wherever they are, and to all the NBCM's records and information, if in the officer's opinion the information is required for the purposes of the officer's activity.
 - d. The compliance officer shall not be removed from this position without the officer's consent, unless such is decided upon by the NBCM's board of directors, after it has obtained the position of the audit committee, and after the compliance officer has been given a reasonable opportunity to make his or her case to the NBCM's board of directors and audit committee.

25S. Compliance control - the compliance officer's work plan

The compliance officer's annual work plan shall be discussed and approved by the NBCM's audit committee and board of directors, at least once a year.

The work plan shall be based, inter alia, on:

- a. the compliance plan approved by the board of directors;
- b. the compliance survey;
- c. the results of a compliance audit of the internal auditor, the external auditor, the credit controller, the risk controller, the Securities Authority and the Stock Exchange's Membership and Surveillance Department;
- d. client complaints;
- e. new provisions and routine changes in existing provisions;
- f. changes in the NBCM's activity.

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25T. Compliance survey

- a. The NBCM shall carry out, once every four years, a compliance survey, with the aim of ascertaining that the NBCM is ready to implement and perform its duties deriving from the provisions. The results of the survey shall constitute, inter alia, a basis for determining the compliance plan.
- b. The survey shall be carried out through a professional entity with suitable qualifications and shall include, inter alia:
 - 1) a detailed description of the provisions;
 - 2) a detailed review of the NBCM's work procedures relating to compliance with the provisions and the manner in which the NBCM is performing the provisions and its work procedures;
 - 3) a detailed identification of deviations in the manner in which the NBCM is performing the provisions and its work procedures;
 - 4) recommendations for the rectification of deviations.
- c. The NBCM's management shall bring the results of the survey, including its response thereto, for discussion by the board of directors, within 45 days of the survey's conclusion.

Chapter IV-1-

The Stock Exchange Members' Duties to the Stock Exchange and its Members - Information Technology Management in an NBCM

25U. In this Chapter -

terms	definitions
"movement report"	- a breakdown of the daily movement (input report) produced after inputting the daily movements in the client account system and in the general account system;
"balance report per client"	- a report detailing the holdings of each of the clients in its account;
"balance report per security"	- a report detailing the clients holding of each type of asset in a securities portfolio;
"yield report"	- a report containing the client's securities portfolio yield;
"short sales report"	- a report detailing the debit balances in securities in each of the clients' accounts;
"client credit report"	- a report detailing, in relation to each of the NBCM's clients, the monetary credit, the amounts of the guarantees given by the NBCM in favor of the client, and the other credit given to the client, as well as the value of the collateral given to secure them, in accordance with sub-paragraph 14.a. above, and the amounts of the credit, the guarantees and the other credit against which collateral was not given;
"client order"	- a written or telephone order from the client for the execution of operations by an NBCM, including an order given by e-mail or by computer;
"own accounts"	- accounts relating to the nostro activity, which constitute part of the account system;
"attorney in fact"	- a person empowered to operate a client account who is not a portfolio manager or portfolio manager member;

terms	definitions
"critical system"	- a system that supports a vital business process, the non-functioning of which for 12 hours or more will result in the NBCM not being able to continue maintaining the vital business process, and any other system defined in the NBCM's It policy as a critical system;
"on-line activity"	- the execution of operations by the NBCM and/or its employees and/or its clients, in the information system, and the retrieval of information from the information system, by the NBCM and/or its employees and/or its clients, using an external communication network, including the Internet;
"sensitive information"	- details of the NBCM's clients, assets of the NBCM's clients, operations executed by or for the NBCM's clients, names of authorised users of the information systems, passwords of authorised users, information about the information systems the exposure of which might be harmful to the routine and proper functioning of the information systems, and any other information defined in the NBCM's IT policy as sensitive information;
"high-risk system"	- an information system that stores sensitive information or allows access to sensitive information, including a system that is accessible from a public network, and any other information system classified by the NBCM in its IT policy as a high-risk system;
"authorised user"	- a user authorised to access the information systems, including authorisation to execute operations in the information systems, and authorisation to retrieve information from the information systems, whether or not he is an employee of the NBCM;
"mobile device" or "magnetic media"	- a laptop computer, disk on key, CD, hard disk, memory card, removable disk, and any other hardware component enabling the storage and transfer of software and/or information files;
"related parties"	- as defined in the opinions of the Israeli Institute of Certified Public Accountants;

terms	definitions
"production environment"	- hardware and/or software used by the NBCM to manage its business activity;
"development and trial environment"	- hardware and/or software used by the NBCM for software development purposes and/or for hardware or software trial purposes, which are not part of the production environment;
"transfer to production"	- transfer to the production environment of the development of a new information system and/or a change in an existing information system;
"IP address"	- a number used for the identification of computers and other peripheral equipment in communication networks, including the Internet;
"retroactive activity"	- the recording of an operation in the information systems, including cancellation of an operation, or a change in the operation's details, after the original date on which the operation the subject of the record was executed;
"ISIN"	- International Securities Identification Number.

25V. **The IT manager**

The IT manager shall be responsible for the NBCM's IT activity, and inter alia the following activities:

- a. operation, control and monitoring of the information systems;
- b. formulation and implementation of the IT policy;
- c. preparation and implementation of the work plan;
- d. management of the technological aspects of the NBCM's databases;
- e. implementation and implementation of changes in the information systems;
- f. purchase of IT assets;
- g. information security;
- h. documentation of the IT;
- i. implementation of control mechanisms to ensure proper operation of the IT management processes;

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- j. anchoring the IT management work processes, control processes and supervision processes in work procedures;
- k. support of users, and inter alia formulation and implementation of user training programs;
- l. contracting with external suppliers for IT management outsourcing services, and managing the contract with them;
- m. the NBCM's readiness to maintain business continuity in cases of malfunction.

25W. **The IT policy**

- a. The NBCM shall have an IT policy covering all the IT aspects, the NBCM's duties pursuant to the Rules and any law and the NBCM's goals.

The IT policy shall cover, inter alia, the following matters:

- 1) a detailed description of the IT assets and the interfaces between them;
- 2) classification of business processes as vital business processes;
- 3) classification of systems as critical systems;
- 4) classification of systems as high-risk systems;
- 5) classification of information as sensitive information;
- 6) the manner of performing the NBCM's obligation to act through advanced IT that is consistent with the NBCM's business goals and its obligations to its clients, the Stock Exchange, the Stock Exchange Clearing House, the Maof Clearing House and pursuant to any law;
- 7) information security policy;
- 8) receipt of outsourcing services;
- 9) the NBCM's readiness to maintain business continuity in cases of malfunction;
- 10) control to ensure proper operation of the IT management processes;
- 11) information system development plans, including plans for making material changes in the IT assets;
- 12) maintenance of the IT assets;
- 13) principles and rules for the management of IT projects;
- 14) rules for the implementation of IT procurement processes;

- 15) on-line activity.

An NBCM shall update the IT policy insofar as necessary, in light of changes in the above matters.

b. The board of directors' discussion and approval

- 1) An NBCM's board of directors shall discuss and approve the NBCM's IT policy, whenever a material change is made thereto and at least once a year.

The board of directors' discussion shall take place on the basis of a written document that shall be presented to it, regarding the NBCM's IT policy.

- 2) In the discussion, the board of directors shall consider the IT policy's implementation in the period preceding the discussion, and the current IT management policy for the future period, in light of the NBCM's goals, and in light of the NBCM's obligations pursuant to the Rules and any law.

25X. Work plan

- a. An NBCM shall have a work plan, that shall detail all the IT management acts it intends performing in the period to which the work plan relates, and inter alia the following matters:

- 1) acts in connection with the information systems' routine maintenance;
- 2) acts in connection with the information systems' development, including with a view to adapting them, when necessary, to changes in the business environment and technological changes, and inter alia changes in the Stock Exchange's trading and clearing systems, and changes in the provisions of the Rules and any law applicable to the NBCM;
- 3) acts in connection with the making of changes in the information systems;
- 4) an information security work plan;
- 5) IT asset procurement;
- 6) control acts and supervision acts to ensure the proper operation of the IT management processes;
- 7) resources that will be provided for the benefit of the IT management, pursuant to the work plan and for unforeseen requirements.

- b. The work plan shall be formulated and drafted having regard to the following:

- 1) the IT policy;

- 2) the NBCM's requirements, including the requirements of the internal and external users;
 - 3) the NBCM's goals;
 - 4) the NBCM's obligations pursuant to the Rules and any law.
- c. The work plan shall include timetables for implementing the tasks detailed therein, and must be consistent with the NBCM's priorities, in light of the duties imposed on it, and in light of the goals of the NBCM and its various units.
 - d. An NBCM shall allocate suitable resources to the work plan's implementation.
 - e. An NBCM shall operate mechanisms for the routine supervision of the work plan's implementation.
 - f. **The board of directors' discussion and approval**

At least once a year, the NBCM's board of directors shall discuss and approve the NBCM's work plan.

The board of directors' discussion shall take place in light of a written document that shall be presented to it, which shall detail the manner of implementing the work plan in the period preceding the date of the discussion, and the work plan for the future period.

25Y. **Account system**

The NBCM's account system shall manage all the NBCM's monetary and accounting activity and all its activity for its clients. The system shall comply, inter alia, with all the provisions and conditions pursuant to the Rules and any law, and without derogating from the aforesaid, shall also comply with the following conditions:

- a. **Interfaces between sub-systems and interface between the client account system and the general account system**
 - 1) a) Insofar as the general account system and/or the client account system are made up of there shall be interfaces between the various sub-systems that enable and ensure updating the information between the various sub-systems, insofar as necessary.
 - b) An NBCM shall check that the interfaces are intact and complete, at such intervals as defined in the IT policy.

An NBCM shall document such checks and their findings.

The documentation shall be kept at the NBCM's offices.

- 2) a) Where the client account system is separate from the general account system, there shall be an interface between the two said account systems that enables and ensures updating the information between the two systems, insofar as necessary.
- b) At least once a year, an NBCM shall check that the interface is intact and complete.

The NBCM shall document such check and its findings.

The documentation shall be kept at the NBCM's offices.

b. Information retrieval

The account system shall have effective and convenient mechanisms enabling authorised users thereof to retrieve all the details of the operations executed therein, and all the details of the information stored therein, in accordance with their responsibilities and powers, and inter alia:

- 1) mechanisms enabling effective and convenient monitoring of every record and its sources;
- 2) mechanisms enabling the receipt of information and issuance of reports, including reports that the NBCM is required to send to its clients, and the reports detailed in appendix "B" to the Regulations.

c. Client account system

1) Setting up a client account in the information system

- a) Any activity of an NBCM's client shall be carried out in an account in the client's name, which shall be set up in the account system, before any activity is carried out for the client.
- b) At the time of setting up a client account in the account system, details of the account shall be fed into the account system, including all data that the NBCM should obtain from the client pursuant to the Prohibition of Money Laundering Order (Identification, Reporting and Record-Keeping Duties of a Stock Exchange Member for the Prevention of Money Laundering and Financing of Terror), 5770-2010 (hereinafter referred to as "**Prohibition of Money Laundering Order**"), pursuant to paragraph 29 of the Rules and pursuant to any law. In addition, data shall also be fed into the account system in respect of which the NBCM should obtain the client's consent as a condition for executing operations in the account, as well as the data detailed in the agreement with the client, and inter alia the following details:

- (1) the client's identification details;

- (2) the account opening date;
- (3) the client's address;
- (4) the ways of contacting the client;
- (5) the manner of sending notices to the client;
- (6) details of the services that the NBCM provides to the client;
- (7) details of the attorney in fact in the client account, insofar as the client has appointed an attorney in fact as aforesaid;
- (8) authorisations given to the attorney in fact as aforesaid in sub-clause (7) above;
- (9) the name of a portfolio manager who is authorised to act in the client account, together with his or her identifying number, insofar as the client has appointed a portfolio manager who is authorised to act in his or her account;
- (10) authorisations given to the portfolio manager as aforesaid in sub-clause (9) above;
- (11) commissions that the NBCM may collect from the client;
- (12) restrictions on activity in the client account, and inter alia the following restrictions, insofar as existing:
 - (a) restrictions on credit activity;
 - (b) restrictions on activity in derivatives;
 - (c) restrictions on activity in monetary assets that are characterised by a special risk;
 - (d) restrictions on activity in monetary assets traded overseas;
 - (e) restrictions on activity in monetary assets in which the NBCM or interested parties therein have an interest;
- (13) other accounts with the NBCM held by the client, alone or together with others;
- (14) other accounts with the NBCM held by members of the client's family, who live with the client or are monetarily dependent on the client, alone or together with others;

- (15) other accounts with the NBCM of other clients, who together with the client constitute a group of borrowers pursuant to the Rules;
- (16) identification details of the entity setting up the account.
- c) Insofar as possible, an NBCM shall verify the data pertaining to its client, through existing databases and other means. Insofar as possible, the verification shall be computerized.
- d) At least once a year, an NBCM shall perform a sample examination of the data pertaining to the clients' accounts, and update all the erroneous data located as a result of such sample examination.

If the sample examination gives rise to a concern regarding the existence of erroneous data in other accounts that were not included in the sample examination, the NBCM shall also check the data pertaining to the other accounts, and update all the erroneous data located in such examination.

- e) At least once during a period defined by it, an NBCM shall check the data pertaining to a client account and update all the erroneous data located in the course of the examination;
- f) An NBCM shall document all the processes involved in setting up and updating a client account.

The documentation shall be kept at the NBCM's offices.

2) **Updating the data pertaining to a client**

- a) Data pertaining to a client shall be updated in the information system immediately after the updated data is received from the client.
- b) At the time of updating data in a client account, all the conditions detailed in sub-paragraph 1) above shall be fulfilled, and the NBCM shall act as follows:
 - 1) keep the details of the client account prior to the update;
 - 2) keep the date of the update;
 - 3) keep the details of the updating entity;
 - 4) document all the processes involved in updating the data in the client account.

The documentation shall be kept at the NBCM's offices.

3) Closing a client account

- a) Immediately after the termination of the contract with a client, the NBCM shall act as follows:
 - 1) close the client account;
 - 2) block the possibility of carrying on activity in the client account;
 - 3) update the date of closing the account in the client account details;
 - 4) document all the processes involved in closing the client account, and inter alia the details of the entities who handled the account's closure.

The documentation shall be kept at the NBCM's offices.

- b) An NBCM shall not re-use the number of a client account that has been closed.

4) Nostro accounts and accounts of related parties

Nostro accounts and accounts of related parties shall be set up and managed in the information system in a separate group, which may be easily located and identified.

5) Recording of operations for a client

- a) Any operation executed for a client shall be recorded in the client account system each day after the end of trading on the Stock Exchange, unless otherwise stipulated in the Rules.

Where an operation must be executed on a particular day and it is not recorded as aforesaid, it shall be recorded in the client account system before the opening of trading on the Stock Exchange on the next trading day, the operation shall be given the value day of the operation's execution, and the record as aforesaid shall be approved in accordance with paragraph 32. below.

- b) The record of any operation executed for a client shall include all the details of the operation, and inter alia details enabling the issue of reports, as provided in appendix "B" to the Regulations.
- c) Orders in respect of monetary assets offered in an issue shall be recorded in the full order amount.

6) Client index system

- a) A client account system shall be updated and full, and shall include material details of each of the NBCM's clients, and inter alia the following details:
- (1) the client's identification details;
 - (2) the account opening date;
 - (3) the client's address;
 - (4) details of the attorney in fact in the client account, insofar as the client has appointed an attorney in fact as aforesaid;
 - (5) details of the portfolio manager authorised to act in the client account, including his or her identifying number, insofar as the client has appointed a portfolio manager who is authorised to act in his or her account;
 - (6) the date on which the client account was closed.
- b) The client index system shall be updated each day, with any change in the clients' details, in client accounts that have been opened and in client accounts that have been closed.

7) Portfolio managers index system

The client account system shall include an updated and full portfolio managers index system, which shall include all the material details of each portfolio manager, who is not an employee of the NBCM, and who is authorised to act in accounts of the NBCM's clients, and inter alia the following details:

- a) the portfolio manager's identification details;
- b) the portfolio manager's address;
- c) the ways of contacting the portfolio manager;
- d) the numbers of client accounts in which the portfolio manager is authorised to act.

8) Monitoring clients who have asked to keep notices at the NBCM's offices

An NBCM shall keep updated records of its clients who have asked that notices for them be kept at the NBCM's offices.

9) **Monitoring of clients to whom the NBCM sends notices through its website or by e-mail**

An NBCM shall keep an up-to-date list of all its clients who have agreed to the NBCM sending them notices through the NBCM's website or by e-mail.

d. **General account system**

The general account system shall be updated in accordance with the provisions of any law, and at least once a month, together with the issue of the monthly trial balance by the NBCM.

25Z. **Information system management processes**

a. **Information consistency**

An NBCM shall take all the steps required in order to ensure that insofar as any particular information item appears a number of times in the information systems, the information included in such information item is identical in all cases, and inter alia shall act as follows:

- 1) insofar as possible, the information included in the information item shall be updated in only one place in the information system, and for the purpose of presenting or using the information item, the information included therein shall be imported from the location where it is updated;
- 2) the critical systems shall have mechanisms for locating dissimilarities in information attributed to the information item appearing in various locations in the information systems.

The NBCM shall implement the mechanisms routinely.

b. **Setting up a monetary asset in the information system, identifying a monetary asset and updating the data pertaining to it**

At the time of setting up a monetary asset in the information system, details of the monetary asset shall be fed into the information system, including the monetary asset's identification details, the monetary asset's interest rates and the redemption dates, realisation dates and expiry dates of the monetary asset, if any, and all in the manner provided below.

1) **Automatic set-up of a monetary asset**

- a) The setting up in the information system of a monetary asset, the data pertaining to which are stored in an external database, which is routinely updated by a competent entity, including a stock exchange, clearing house, banking corporation and foreign broker (hereinafter referred to as "**competent entity**"), or by a recognised entity of repute, and the updating of the data pertaining to the monetary asset, shall take place automatically, through absorption of the data pertaining to the monetary asset from the external database.
- b) When updating the data pertaining to a monetary asset, all the details of the update shall be documented, including the details of the updating entity, the date of the update, and the IP address of the terminal from which the update was made.

The data pertaining to the monetary asset that preceded the current data shall be kept in a manner enabling them to be used, if and insofar as necessary.

- c) An NBCM may add data pertaining to a monetary asset that are automatically updated as aforesaid, and that are not included in the data pertaining to the monetary asset in the external database, and inter alia data pertaining to the monetary asset's assets classification and the monetary asset's maximum value for collateral purposes.

2) **Manual set-up of a monetary asset**

If it is not possible to set up a monetary asset in the information system automatically as provided in sub-paragraph 1) above, the NBCM may set up the monetary asset manually, provided that it adopts adequate means to prevent the possibility of setting up monetary assets that do not exist, and to ensure the correctness of the details of the monetary asset that are manually fed into the information system.

3) **Identification of a monetary asset**

Any monetary assets shall be identified in the information system on an injective basis, through the number of the monetary asset and/or through ISIN and/or in any other standard way, as decided by the NBCM.

4) **Controls**

- a) At least once a year, an NBCM shall perform a sample examination of the data pertaining to the monetary assets, and update all the erroneous data located in the course of the examination.

If the sample examination gives rise to a concern regarding the existence of erroneous data pertaining to monetary assets that were not included in the sample examination, the NBCM shall act as follows:

- (1) check all the data suspected of being erroneous, and update all the erroneous data located in such check;
 - (2) adopt means to trace the reason for the erroneous data;
 - (3) act to prevent erroneous data in future, for the reason that was traced as aforesaid.
- b) At least once during such period as defined by it, an NBCM shall perform a comprehensive check of all the data pertaining to the monetary assets, and update all the erroneous data located in the course of the check.
- 5) An NBCM shall document the process of setting up a monetary asset and updating the details of a monetary asset, including the details of the updating entity, the date of the update, and the IP address of the terminal from which the update was made.

In addition, the NBCM shall document the control processes detailed in subparagraph 4) above.

The documentation shall be kept at the NBCM's offices.

c. Feeding transaction data and prices into the information system

- 1) Insofar as it is not possible to feed transaction data and prices into the information system automatically, from an external information source that is managed by a competent entity, or from an information system that is managed by a recognised entity of repute, an NBCM may manually feed the transaction data and/or prices into the information system.
- 2) The NBCM shall define and implement effective supervision mechanisms and control mechanisms, for the prevention of mistakes and other improper activity that might occur in the course of manually feeding in data and/or prices as aforesaid.
- 3) The NBCM shall document all the processes of feeding in, updating and correcting a transaction data and prices, including details of the updating entity, the date of the update, and the IP address of the terminal from which the update was made, and shall keep the documentation at its offices.

d. Retroactive activity

- 1) An NBCM shall not allow records in the information system to be deleted, and shall adopt all the means necessary to prevent the possibility of records being deleted as aforesaid.
- 2) An NBCM shall adopt all the means necessary to prevent retroactive activity.
- 3) Notwithstanding the aforesaid, in exceptional cases requiring retroactive activity, the NBCM shall adopt all the means necessary to ensure the propriety of the process, and to ensure that the process is not used for an improper purpose, and inter alia shall act as follows:
 - a) the NBCM shall authorise a limited number of employees, and they - and them alone - may carry on retroactive activity in the information system;
 - b) the NBCM shall define the operations that may be executed retroactively;
 - c) the NBCM shall ascertain that the information systems do not enable the retroactive execution of operations in the information system that the NBCM has not defined as operations that may be executed retroactively;
 - d) the NBCM shall define the maximum period of time between the date of the retroactive activity and the date in the past to which the retroactive activity relates;
 - e) the NBCM shall ascertain that the information systems do not enable the retroactive execution of operations in the information system relating to a date prior to the earliest date permitted by the NBCM in accordance with sub-paragraph d) above;
 - f) prior written approval for the retroactive activity shall be given by a senior entity, who has been authorised by the NBCM, and who is not the entity actually carrying on the retroactive activity.

The NBCM shall keep the said approval together with the documentation of all the operations executed in connection with the retroactive activity, as provided above and below;
 - g) the retroactive activity shall only be carried on through a special process that shall be defined in the information systems;
 - h) where retroactive activity is required to cancel a transaction or change a transaction's details, the information system's records shall also include all the acts done to cancel the transaction, or change the transaction's details, including the details of the original transaction;

- i) the information system shall enable the summary display of all the records documenting the original transaction, and all the acts done for the purpose of cancelling the transaction, or changing the transaction's details;
- j) the NBCM shall issue a daily report detailing all the retroactive activity carried on by it. The report shall be audited by a senior entity in the NBCM who shall be authorised for such purpose by the NBCM;
- k) an NBCM shall report to its client on any retroactive activity carried on in his or her account.

A report to a client concerning a transaction that has been cancelled or the details of which have been changed shall include details of the original transaction that was cancelled or the details of which were changed, and details of the acts done for the purpose of cancelling the original transaction or changing its details;

- l) routine reports to a client, which include a report on retroactive activity, shall clarify that the activity was carried on retroactively;
- m) where retroactive activity has been carried on in a client's account and the date attributed to it is not included in the routine report that the client should receive from the NBCM on the activity carried on for him, the NBCM shall send the client an amended report, replacing the earlier report sent to the client.

The amended report shall include details of the said retroactive activity, emphasizing the fact that the report is an amended report replacing a previous report furnished to the client, which includes retroactive activity.

e. **Blocks and warnings in the information systems**

- 1) The information systems, including the trading systems and the back-office systems, shall include mechanisms warning the authorised user, in any event of an intention to perform non-routine operations, including operations in respect of which there is a real concern that they are erroneous operations (hereinafter referred to as "**warning mechanisms**"), and/or blocking the authorised user from executing operations as aforesaid, and/or requiring the intervention of another authorised user, for the purpose of approving such operation (hereinafter referred to as "**blocking mechanisms**"). In addition, the information systems shall include warnings regarding operations that the NBCM should execute, as defined by the NBCM.
- 2) The information systems shall include, inter alia, warning mechanisms and/or blocking mechanisms, as the case may be, in respect of the following operations:

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- a) blocking mechanisms preventing the execution of any operation prohibited by the Rules and any law;
 - b) the withdrawal / transfer of a monetary asset;
 - c) the withdrawal / transfer of monies deposited in an account;
 - d) the withdrawal of monies from accounts without an adequate balance;
 - e) the relay of an order to execute a transaction in a high amount, as determined by the NBCM;
 - f) the relay of an order to execute a transaction at a price materially different to the market price, as determined by the NBCM;
 - g) retroactive activity;
 - h) an operation that might result in a deviation from the client's approved credit ceiling, in accordance with the provisions of the Rules and/or the limits determined by the NBCM;
 - i) mechanisms warning of payments and other rights deriving from a monetary asset, including payments of interest, redemption, expiry, deadline for exercise or conversion, payments of dividend and other company events;
 - j) the manual set-up of a security;
 - k) the manual update of data pertaining to a security;
 - l) the manual update of prices;
 - m) other manual operations.
- 3) An NBCM shall check and re-evaluate the warning mechanisms and/or blocking mechanisms at such intervals as determined by it, and update them insofar as necessary.

25AA. Information security

a. Information security policy

- 1) The information security policy shall cover all the information security aspects, including those detailed below in this paragraph.
- 2) The information security policy shall be updated in accordance with changes in the risks inherent in the IT and/or the evaluation of such risks.

In addition, the information security policy shall be updated in accordance with technological developments and changes in the threats and/or characteristics of the threats to the IT assets and the strength thereof, deriving from technological developments as aforesaid and/or from other factors.

b. Information security work plan

The NBCM's information security work plan shall include all the information security acts that the NBCM intends performing in the period to which the work plan relates, and the timetable for performing them, and inter alia the following matters:

- 1) implementation and implementation of the information security means that will serve the NBCM;
- 2) monitoring implementation of the information security means at the NBCM;
- 3) examining the efficacy of the information security means adopted by the NBCM;
- 4) implementation of the recommendations included in the information security surveys the adoption of which was decided upon, as provided in sub-paragraph d.14) below;
- 5) implementation of the means decided on, in consequence of information security checks of high-risk systems, as provided in sub-paragraph d.15) below.

c. Information systems protection

- 1) Insofar as necessary, an NBCM shall adopt means to protect the information systems, including physical and computerized means, in accordance with the information security policy, and inter alia the following means:
 - a) means to protect the durability of the information kept in the information systems, the durability of the software included in the information systems, and the durability of the hardware serving the information systems;
 - b) means to maintain the confidentiality of the information kept in the information systems vis-à-vis entities who are not authorised users;
 - c) means to prevent unauthorised access to the information systems and the information kept therein;
 - d) means to prevent unauthorised changes being made to the information kept in the information systems;
 - e) means to prevent unauthorised changes being made to the software included in the information systems;

- f) means to prevent unauthorised changes being made to the hardware serving the information systems;
 - g) means to prevent operations being executed by persons who are not authorised to execute them;
 - h) means to document the information systems.
- 2) An NBCM shall routinely update the said means, in accordance with technological developments and changes in the characteristics of the threats to the IT assets and the strength thereof, deriving from technological developments and/or other factors.

d. Information security means

Without prejudice to the generality of sub-paragraphs a. to c. above, an NBCM shall act as follows:

1) Information security manager

- a) The information security manager shall be a partner in delineating the NBCM's information security policy, and formulating the information security work plan.
- b) The information security manager shall be responsible for implementation of the NBCM's information security policy.
- c) The information security manager shall be responsible for implementation of the information security work plan.
- d) The information security manager shall be responsible for training the NBCM's employees and the employees of external suppliers from which the NBCM receives outsourcing services in the information security aspects of IT management.
- e) The information security manager shall be responsible for handling irregular incidents in the information security sphere, and for drawing lessons from such incidents, including attempts at unauthorised access to the information systems, by authorised users and by unauthorised users.
- f) The information security manager shall report to the IT manager immediately and in writing on any deviation from the information security policy that has come to light, and of the action taken in response to such deviation.

- g) At least once a quarter, the information security manager shall report in writing to the IT manager and to the NBCM's CEO on the manner of implementing the information security policy at the NBCM, detailing the steps taken to implement the information security policy, the deviations from the information security policy that came to light during the reporting period, the action taken in response to such deviations and implementation of the information security plan.

2) **Physical protection of the information systems**

- a) An NBCM shall adopt all the means necessary in order to ensure that the information systems are properly maintained.
- b) An NBCM shall adopt all the means necessary in order to ensure that the physical environment in which the IT assets are located is suitable and enables the proper and continuous functioning thereof.
- c) An NBCM shall adopt all the means necessary in order to protect the information systems against physical damage, and inter alia intentional damage, damage occasioned as a result of negligence and damage occasioned inadvertently.
- d) An NBCM shall adopt all the means necessary in order to protect the information systems against damage occasioned by the use of mobile devices.
- e) IT assets that need not be accessible to employees and/or the public shall be located in separate and secured areas that may only be accessed by those with authorisation from the NBCM.

3) **Control of access to the information systems**

a) **Access control policy**

- (1) The access control policy shall be detailed in the scope of the information security policy and shall cover all the aspects of access to the information systems, including for the purpose of retrieving information, executing operations, changing the details of operations, and cancelling operations by authorised users.
- (2) Only authorised users will be able to access the information systems, after they have been identified as provided below.

b) Identification of authorised users and definition of authorisation**(1) Identification**

- (a) The information systems shall include mechanisms enabling absolutely certain identification (hereinafter referred to as "**injective identification**") of each authorised user accessing them, for the purpose of retrieving information or for the purpose of executing operations.
- (b) The information systems shall identify authorised user by means of injective identification, at the time he accesses the system, as provided in sub-paragraph (a) above.
- (c) Each authorised user shall be identified by the information system, at the least, through a user name and password, and may also be identified through other mechanisms, insofar as determined by the NBCM.

(2) Prevention of denial

The information systems shall include mechanisms for preventing denial of the execution of operations by an authorised user. Such mechanisms shall make it possible to unequivocally prove the execution of operations and making of changes in the information systems by the authorised user.

(3) Management and control of authorisation

- (a) An NBCM shall determine, in relation to each type of information stored in the information systems, which users may be exposed to such type of information. The NBCM shall base its finding on the sensitivity of the information and on the user's authority and responsibilities.
- (b) An NBCM shall determine, in relation to any change that may be made in the information systems, which users may make such change. The NBCM shall base its finding on the nature of the change and on the user's authority and responsibilities.
- (c) An NBCM shall determine, in relation to the execution of operations in the information systems, which users may execute such operation. The NBCM shall base its finding on the nature of the operation and on the user's authority and responsibilities.

- (d) An NBCM shall define an authorisation profile for each officer or type of user. The authorisation profile shall include all the types of information, changes and operations to which the officer or user of a particular type may have authorised access.
- (e) An NBCM shall check from time to time, at such intervals as it determines, the authorisation profiles set by it and its findings in relation to the authorised users who may access the information, execute operations and make changes.
- (f) The manager in charge of the authorised user and the information security manager shall approve the suitable authorisation profile for the authorised user.
- (g) **Authorisation manager**

The NBCM shall appoint an authorisation manager, who shall be responsible for setting up and managing the authorisation in the information system, and inter alia shall be responsible for the following matters:

- (1)) giving authorisation to authorised users, on the instruction of the managers in charge;
- (2)) classifying information, in accordance with the authorised users who may access it;
- (3)) classifying changes, in accordance with the authorised users who may make them;
- (4)) classifying operations, in accordance with the authorised users who may execute them;
- (5)) defining and updating the authorisation profiles;
- (6)) allocating new passwords;
- (7)) blocking access by an authorised user who has not accessed the information system for such period as defined by the NBCM;
- (8)) performing all the acts required in order to cancel access authorisation and in order to block access to anyone who was an authorised user and ceases to be an authorised user, immediately after he ceases being an authorised user.

(h) **Authorisation controller**

- (1)) An NBCM shall appoint an authorisation controller, who shall be responsible for the routine control and functioning of the NBCM's authorisation set-up.
- (2)) The authorisation controller shall, on a daily basis, monitor the changes made in the authorisation set-up and consider them, in comparison to the authorisation profiles approved for the authorised users.
- (3)) The authorisation manager shall not be appointed as the authorisation controller.

(4) **Password management**

- (a) The authorised users' passwords shall be replaced at intervals determined by the NBCM, and at least once every six months.

Insofar as the initiative to replace the password of a client of the NBCM, who is an authorised user, comes from the client, and insofar as the password is replaced through the information systems, the NBCM shall adopt adequate means in order to ascertain that the password is in fact replaced by the client.

- (b) An NBCM shall adopt means and determine rules to ensure that the confidentiality of the information systems' access passwords is maintained, and to prevent unauthorised use of these passwords, and inter alia adopt means and set guidelines as follows:
- (1)) means and rules to ensure that a password is only known to the authorised user to whom it belongs;
 - (2)) an initial password given to an authorised user by the NBCM must be replaced by the user with another password to be defined by the user, at the time of initial access to the system;
 - (3)) disconnecting an authorised user from the system, after a period of time has elapsed without activity since the system was last accessed, as defined by the NBCM;

- (4)) requiring an authorised user to replace his or her password, after a period of time has elapsed since its issue, which shall not exceed six months, as defined by the NBCM;
- (5)) cancelling the possibility of accessing the system through a password that has not been replaced, after a maximum period of time has elapsed, as defined by the NBCM;
- (6)) making access to the system by an authorised user, who has not accessed the system for a lengthy period of time, as defined by the NBCM, conditional upon the performance of certain acts for identification purposes, as defined by the NBCM;
- (7)) implementing mechanisms ensuring that a password will be sufficiently complicated so as to make it difficult to guess;
- (8)) implementing mechanisms preventing the use of previous passwords used by the authorised user;
- (9)) implementing mechanisms blocking access to the system after a number of failed access attempts, as defined by the NBCM;
- (10)) implementing mechanisms ensuring that the NBCM's employees will not be able to view and/or edit passwords of other authorised users, including mechanisms to maintain the confidentiality of the access passwords in each of the information systems' components.

(c) **Control of access by the NBCM's clients**

An NBCM which complies with all the conditions set forth in sub-paragraphs a) and b) above may allow its client to access the information systems, provided that it adopts all the means necessary to prevent the possibility of the information systems being hacked by entities who are not authorised users, and to prevent sensitive information being exposed to entities who are not authorised users, and inter alia shall act as follows:

- (1) The NBCM shall allow its client to access the information system, through work stations of the NBCM that have been placed at the client's disposal, which are linked to the information systems through external communication networks of any type, including the Internet, or in any other way, such being solely for the purpose of obtaining one or more of the following services:
 - (a) obtaining information about the state of the client's account;
 - (b) obtaining information about operations executed in the client's account, and other information, insofar as agreed between the NBCM and the client;
 - (c) executing purchase operations and/or sale operations of monetary assets in the client's account.

- (2) The NBCM's agreement with the client shall include the following provisions:
 - (a) details of one or more of the services mentioned in sub-paragraph (1) above that the client may obtain from the NBCM via access to the information systems;
 - (b) the conditions, provisos and risks relating to the client's access to the information systems;
 - (c) it is noted that the NBCM is implementing various security means in order to minimize the risks, in accordance with sub-paragraph (b) above;
 - (d) the NBCM's recommendations regarding the means of protecting against risks in accordance with sub-paragraph (b) above, that the client must adopt;
 - (e) it is expressed in the agreement that it does not derogate from the liability of the NBCM and from the liability of the client for damages that might be occasioned to the client and/or the NBCM, by reason of the client's access to the information systems.

- (3) At least once a year, the NBCM shall give the client an update regarding the recommended means of protection against the risks involved in the client having access to the information systems.
 - (4) Each time a client accesses the information systems, he shall see a clear display detailing the previous date on which he accessed the information systems.
 - (5) Insofar as the NBCM places a work station of the NBCM at the client's disposal, for the purpose of executing operations through the NBCM, the work station shall be installed by the NBCM on a computer intended for such purpose, on which it is not possible to install other systems, save for the NBCM's system, except with the NBCM's approval and by it.
 - (6) The information systems shall prevent identifying details of the client being saved on the client's computer and on the other means used by him to access the information systems, and shall prevent the saving as aforesaid of means given to the client in order to enable him to access the information systems.
- 4) **Computerised log (hereinafter referred to as "log entry") of critical acts and/or irregular acts**
- a) The information systems shall contain automatic mechanisms for creating a log entry of any critical act and/or irregular act performed therein, as provided in sub-paragraph c) below, by authorised users or by entities who are not authorised users.
 - b) The log entry shall document details enabling identification of the critical act and/or irregular act and the circumstances of its performance, and inter alia the following matters:
 - (1) the nature of the act;
 - (2) the identity of the party performing the act;
 - (3) the date of the act's performance;
 - (4) the source of the access to the information systems, including the IP address;
 - (5) a link to the original entry, in the event of a change of data and cancellation of data.

- c) The list of critical acts and irregular acts shall be detailed in the information security policy and shall include, inter alia, the following acts:

(1) **Critical acts:**

- (a) changes in authorisations and/or passwords.
- (b) an authorised user's access to the information system.
- (c) the grant of an instruction to execute an operation in the account.
- (d) the grant of an instruction to retrieve data pertaining to clients.
- (e) the operation of automatic processes.
- (f) each of the stages of transfer to production of development;

(2) **Irregular acts:**

- (a) an attempt at unauthorised access to the information systems by an authorised user, or by someone who is not an authorised user.
- (b) an attempt by an authorised user to perform a prohibited act and/or act that he is not authorised to perform, including the retrieval of information.
- (c) a change of data or cancellation of data, including a manual price update and change of a transaction's details.
- (d) warnings displayed to an authorised user.
- (e) any change made directly in the NBCM's database by developers and programmers, other than through a controlled system that automatically produces a log.
- (f) an urgent change in the production environment, as provided in sub-paragraph 25BB.f..
- (g) retroactive activity.
- (h) a malfunction in the information system, insofar as it is automatically identified by the information system.
- (i) an uncompleted process;

- d) At least once a year, an NBCM shall check the list of critical and irregular acts detailed in its information security policy, and update it insofar as necessary.
- e) The information systems shall contain automatic mechanisms for reporting irregular acts and critical acts entered in the log.

An NBCM shall appoint control entities and supervision entities, who shall be responsible for checking the reports on irregular acts and critical acts entered in the log, as aforesaid.

The said reports shall be checked by the control entities and supervision entities at such intervals as determined by the NBCM, in relation to each type of irregular act or critical act. The intervals shall be determined having regard to the level of the risk inherent in the irregular act or critical act.

- f) The information systems shall contain mechanisms enabling a sorted display of the acts entered in the log, including according to user, date, act type and operation amount.
- g) An NBCM shall define the minimum period of time for keeping log entries. The period of time shall be determined having regard to the level of the risk inherent in the type of act entered in the log, and shall not be less than 18 months, or another minimum period of time prescribed in the provisions of any other law applicable to the NBCM, whichever is longer.
- h) The log entries shall be backed up in the same way that the NBCM backs up the data stored in its databases.
- i) The log entries shall be protected against deletion or change prior to the end of the period stipulated for keeping them.
- j) The log entries shall be protected against unauthorised reading.
- k) An NBCM shall update all authorised users, including its employees and clients, regarding the existence of log entries in respect of acts in the information systems performed by them;

5) **Mechanisms for preventing unauthorised use of the information systems**

An NBCM shall adopt the means necessary, in its discretion, to protect the information systems against unauthorised use, including hacking into the information system from a terminal, hacking into the information system from the outside, an attempt to disrupt the information system, and an attempt at unauthorised use of the information system through impersonation (hereinafter referred to as "**hacking**"), and inter alia shall act as follows:

- a) Perform checks on the efficacy of the information systems' anti-hacking mechanisms (hereinafter referred to as "**hacking checks**"), at intervals befitting the risks inherent in the various information systems, in accordance with the conclusions of the risk survey, pursuant to paragraph 25FF below, and at least at the times and intervals detailed below:
- (1) a hacking check on each new information system, shortly after its implementation;
 - (2) a hacking check on each existing system, shortly after implementation of a change in the system, insofar as the information security manager believes that the said change warrants a hacking check;
 - (3) a hacking check on each information system serving entities which are not employees of the NBCM, at the latest after 18 months from the date of the last hacking check on the said information system, including by reason of the provisions of sub-paragraphs (1) or (2) above;
 - (4) a hacking check on each information system that is linked to an external communication network of any type, including the Internet, at the latest after 18 months from the date of the last hacking check on the said information system, including by reason of the provisions of sub-paragraphs (1) or (2) above;
 - (5) a hacking check on any other system, at the latest after three years from the date of the last hacking check on the said system, including by reason of the provisions of sub-paragraphs (1) or (2) above;
- b) In the scope of the hacking checks as aforesaid, it shall make controlled hacking attempts.

A hacking check as aforesaid shall be made by an independent external entity with proven qualifications and experience who has been authorised for such purpose, whilst adopting the required cautionary means;

- c) Shortly after the conclusion, the external entity shall prepare a summarizing report detailing the results of the hacking check and its recommendations to rectify any shortcomings that have come to light;
- d) The summarizing report shall be discussed by the NBCM's management;
- e) The summarizing reports of all the hacking checks performed in the course of a calendar year shall be brought for the board of directors' discussion by the date of approving the financial statements for such calendar year.

The NBCM's management shall bring the recommendations of the external entities that were included in the summarizing reports for discussion by the board of directors, noting which recommendations it is adopting.

A decision of the NBCM's management not to adopt certain recommendations of the external entities requires the approval of the NBCM's board of directors;

6) **The information systems' protection against the risks inherent in on-line activity**

An NBCM shall adopt means to protect the information systems against the risks inherent in on-line activity, and inter alia shall act as follows:

- a) Where the NBCM's employees use work stations connected only to the Internet and do not contain sensitive information, the NBCM shall define the work station's permitted uses and adopt means to ensure that the work stations are not used for other purposes;
- b) Where the NBCM's employees and/or its clients carry on on-line activity through work stations connected to the information systems through an external communication network, including the Internet, the NBCM shall define the work stations' permitted uses and adopt stringent means to ensure that the work stations are not used for purposes other than those approved by the NBCM, and to prevent hacking into the information systems through such work stations, and inter alia shall act as follows:
 - (1) create a logical separation between the information systems and the external communication network, through accepted and current technological tools that include adequate information security means;
 - (2) routinely check and update the technological tools as aforesaid, in accordance with a routine evaluation of the risks inherent in work stations connected to the external communication network as aforesaid, and in accordance with the technological developments;
 - (3) perform, at least once every 18 months, a check on the said technological tools' efficacy in protecting the information systems, in the format detailed in sub-paragraph 5) above.

7) **Encoding**

An NBCM shall check the possibility of implementing encoding mechanisms, in relation to each of the types of sensitive information stored in the information systems, or relayed through the information systems, and implement such encoding mechanisms, in relation to types of sensitive information the confidentiality of which it believes should also be protected through encoding mechanisms.

Without derogating from the aforesaid, an NBCM shall implement the encoding mechanisms as provided below:

- a) to protect the confidentiality of all the authorised users' passwords;
- b) to protect any sensitive information relayed through the external communication networks, including through the Internet;

8) **Backups**

- a) An NBCM shall back up all the information concerning its business activity (hereinafter in this sub-paragraph referred to as "**information**"), including the following information:
 - (1) all the NBCM's information that is kept on magnetic media, including historical information, insofar as required of it pursuant to the Rules and any law, and including current information relating, inter alia, to clients' activity, clients' assets, recordings of conversations, e-mail and book-keeping;
 - (2) any other critical information of the NBCM, even if it is not stored on magnetic media, and inter alia shall backup the following documents:
 - (a) the NBCM's agreements with various entities, and inter alia clients, suppliers, authorities, banks, foreign brokers and employees;
 - (b) work procedures;
 - (c) documentation of the information systems, as provided in sub-paragraph 9) below;
 - (3) any system or software required to maintain business continuity, in accordance with the NBCM's IT policy, as provided in paragraph 25DD below.
- b) Information kept on magnetic media shall be backed up daily, whilst information that is not kept on magnetic media shall be backed up as provided in the information security policy.

- c) The backups shall be kept outside the NBCM's offices, at a remote location protected against damage, which is expected to be accessible in cases of malfunction.
 - d) At least once a year, the NBCM shall perform a trial retrieval of backed up information that is kept on magnetic media.
 - e) An NBCM shall adopt all the means required to ensure the durability and confidentiality of the backed up information;
- 9) **Documentation pertaining to the information systems**
- a) An NBCM shall document all the information systems.
 - b) The documentation shall include a detailed description of all the information systems, and inter alia a description of the following:
 - (1) all the processes taking place through the information systems, detailing the way in which the information systems support the NBCM's activity;
 - (2) the interfaces and reciprocal relationship between the various information systems;
 - (3) the interfaces between the information systems and external systems;
 - (4) the internal structure of the data contained in the information systems.
 - c) The documentation shall be updated shortly before the transfer to production of any new information system, and shortly before the transfer to production of any change in an existing information system.
 - d) The documentation shall be kept at the NBCM's offices;
- 10) **Preventing an unauthorised transfer and/or copying of sensitive information**
- a) An NBCM shall define rules for the copying and/or transferring of sensitive information. The said rules shall include a definition of sensitive information that may be copied and/or transferred, a definition, in relation to each item of sensitive information, of the entities who may copy and/or transfer the sensitive information, and a definition of the way in which such entities may copy and/or transfer the sensitive information.

- b) An NBCM shall adopt all the means at its disposal to prevent the following acts:
- (1) an unauthorised copying of sensitive information to mobile devices;
 - (2) an unauthorised printing out - making of hard copies - of sensitive information;
 - (3) an unauthorised removal of printed sensitive information from the NBCM's offices;

11) **Destruction of sensitive information that is not needed**

An NBCM shall define rules for the destruction of sensitive information that does not have to be kept;

12) **Information security training**

- a) An NBCM shall from time to time, at intervals determined in advance, and in special cases, insofar as required, provide training to its managers and employees, with the aim of raising their awareness of the importance of information security, and with the aim of improving their conduct in such regard.

The training shall include an update of threats to the information systems and details of the means that each authorised user must adopt to prevent the realisation of such threats.

- b) Each new employee shall undergo initial comprehensive training, as provided in sub-paragraph a) above, before becoming an authorised user.
- c) An NBCM shall adopt additional means to increase the authorised users awareness of information security, and to improve their operation of the information systems, insofar as relating to information security, and inter alia shall take the following action:
- (1) update users with regard to new threats to the information systems, and the means that must be adopted to prevent the realisation of such threats;
 - (2) refresh work procedures;
 - (3) perform checks on the authorised users' familiarity with the information security subject;

13) Separation of environments (development, trial and production)

- a) An NBCM shall have a development and trial environment, which shall be used by it for the development of changes in the information systems and for the performance of software checks and trials, as provided in paragraphs 25BB.c. and 25BB.d. below.
- b) The development and trial environment shall be separate from the production environment.
- c) An NBCM shall not use the production environment for the purposes of any development, checks and trials.
- d) An NBCM shall define an officer who shall be in charge of the transfer to production of developments.
- e) Insofar as real data pertaining to clients is used for development and trial purposes, the data pertaining to the clients shall be encoded.
- f) An NBCM shall define the conditions for the transfer to production of developments, including the use of control means and documentation of the approvals given, by the developing entity and by the users, for the change's transfer to production, as provided in paragraph 25BB.e.1) below.
- g) An NBCM shall adopt adequate means to prevent the improper transfer to production of developments, as provided in paragraph 25BB.e. below.

14) Information security surveys

- a) (1) The NBCM shall carry out an information security surveys in accordance with its information security policy, through an independent external entity with proven qualifications and experience who has been authorised for such purpose.

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

- (2) The information security surveys shall cover all the information systems and all the NBCM's activities and processes, and shall be carried out with respect to the various information systems, in accordance with the risks inherent in each one of the systems.

The intervals for carrying out the surveys as aforesaid shall be determined in the NBCM's information technology policy, provided that they are not less frequent than the intervals provided below:

- (a) high risk systems - not less than once every 18 months;

- (b) systems that are not high risk systems - not less than every 36 months;
 - (c) systems that are not high risk systems and in respect of which a low risk is determined in the evaluation of the risks - not less than once every 48 months.
- (3) The information security surveys shall include an evaluation of the efficacy of the NBCM's information security means, the physical and logical means, as well as recommendations for rectifying the shortcomings that come to light, in accordance with the NBCM's information security policy.
- b) The entity carrying out the information security surveys, in accordance with sub-paragraph a) above, shall prepare a summarizing report in the end of each survey, detailing the results of the survey and the recommendations for rectifying the shortcomings that came to light in the survey.
- c) **Discussion by the board of directors**
- (1) Within 90 days of receiving the summarizing report, in accordance with sub-paragraph (b) above, the NBCM's management shall bring it for discussion by the NBCM's board of directors, noting which of the recommendations included in the summarizing report it is adopting.
 - (2) The NBCM's board of directors shall discuss the summarizing report and management's response thereto, and shall pass the resolutions obliged by the surveys' findings.
 - (3) Management's decision not to adopt certain recommendations included in the summarizing report shall require the approval of the NBCM's board of directors.

15) **Information security checks on high-risk systems**

- a) (1) In its IT policy, an NBCM shall classify the information systems as high-risk systems and non-high risk systems.
- (2) In the event that a material change is made to any system, the NBCM shall examine the need to classify it as a high-risk system or non-high risk system.

- b) In addition to the provisions of sub-paragraph 14) above, the NBCM must perform information security checks on each high-risk system. The information security checks shall include an evaluation of the efficacy of the information security means that the NBCM implements in respect of the high-risk system, including physical and logical means, and proposals for rectifying the shortcomings that are found.
- c) An information security check as aforesaid shall be performed on each high-risk system on the occurrence of any one of the following events:
- (1) before any new system is accessed for use;
 - (2) before a significant change in hardware or software is assimilated in a system, and insofar as the information security manager believes that such change warrants an information security check;
 - (3) in the event of significant changes in the technological environment in which the system operates, and insofar as the information security manager believes that such change warrants an information security check.
- d) The IT manager and the information security manager shall consider the results of the check, and decide what means to adopt in consequence of its findings.
- e) The information security check and its results, as well as the decisions of the IT manager and the information security manager as aforesaid, shall be documented.
- The documentation shall be kept at the NBCM's offices.
- f) Insofar as the information security manager decides that there is no need to perform an information security check, in accordance with sub-paragraphs c)(2) or c)(3) above, his or her decision shall be documented.

The documentation shall be kept at the NBCM's offices.

25BB. **Changes in the information systems**

Changes in the information systems (hereinafter in this paragraph referred to as "**changes**") shall be made as follows:

a. **Initiative or request to make changes**

- 1) Any request or initiative to make changes shall be put in writing and approved by all the NBCM's entities responsible for the business activity support system in which the change is designated to be made (hereinafter referred to as "**the related entities**"), and by the NBCM's IT manager, information security manager, and compliance officer.

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- 2) The request shall include details of all the required changes, the reasons for the changes, the related entities, the way in which the change is supposed to affect other business activity and other systems, and any other information that may be necessary to the changes' characterisation, development and implementation processes.
- 3) The changes shall be approved after consideration of all the aspects relevant to the change in the information systems, and inter alia after consideration of the following matters:
 - a) the need for changes, in light of the NBCM's requirements, as detailed in the work plan, and as they have developed since the work plan's approval;
 - b) the changes' conformity with the directives applicable to the NBCM;
 - c) the changes' conformity with the NBCM's IT policy;
 - d) the changes' possible effects on the NBCM's information systems, vital business processes and other processes.
- 4) The request to make changes shall be kept at the NBCM's offices.

b. The changes' characterisation

- 1) Changes shall be characterised in detail by the related entities, in conjunction with the developing entity, the information security manager and the compliance officer.
- 2) The characterisation shall cover all the aspects of the planned change, and inter alia all the possible effects of the planned change on the relevant processes and on the information systems, as well as other changes that must be made as a result of the requested change.
- 3) The characterisation shall be detailed in writing in a characterisation document, which shall be approved by the NBCM's senior entity from amongst the related entities, by the IT manager, by the information security manager and by the compliance officer.
- 4) Any update of the original characterisation until its transfer to production, as provided below, shall be made by the related entities, in conjunction with the developing entity, the information security manager and the compliance officer, shall be approved by the NBCM's senior entity from amongst the related entities, by the IT manager, by the information security manager and by the compliance officer and shall be documented in detail and in writing.
- 5) The original characterisation and the updates thereof shall be kept at the NBCM's offices, together with the request to make changes.

c. **Development**

- 1) The development of any change shall be done in accordance with the change's characterisation.
- 2) Any deviation of the development from the original characterisation shall be backed up by an update of the characterisation.

d. **Software tests**

- 1) Before any transfer to production, orderly processes shall take place of delivery tests and acceptance tests (hereinafter in this paragraph referred to as "**tests**").
- 2) The tests shall be performed in the development and trial environment, and not in the production environment.
- 3) The development and trial environment in which the tests are performed shall be as similar as possible to the production environment, and shall include sufficient data to resemble a true business environment, including data pertaining to clients, data pertaining to securities and data pertaining to trade.
- 4) The tests shall be performed in accordance with a test plan (hereinafter referred to as "**scripts**") prepared in advance by the developing entity, in conjunction with the related entities.

The scripts shall be as detailed and comprehensive as possible, with the object of examining the change's conformity with the characterisation and its integration in the information systems.

- 5) All the tests and the results thereof shall be documented in writing. The documentation shall include the scripts, input files and output files, and any other document used in the course of the tests.

The documentation shall be kept at the NBCM's offices, together with the request and the characterisation.

- 6) Any deviations from the original characterisation that were not approved during development, which come to light in the course of the tests, shall be considered.

Insofar as it is decided to approve the deviations from the original characterisation, the original characterisation shall be updated, and the updated characterisation shall be approved and documented as provided in sub-paragraph b.4) above.

Insofar as it is decided not to approve the deviations, the change shall be made in accordance with the original characterisation.

e. **The transfer to production of a change and its implementation in the information system**

1) **Conditions for transfer to production**

A change shall only be transferred to production on fulfillment of the following conditions:

- a) the tests show that the change is consistent with the characterisation and does not affect the intactness of the information systems;
- b) the change has been documented and the documentation has been integrated in the general documentation pertaining to the information systems;
- c) all the related entities have received training with regard to the change and the significance thereof;
- d) the work procedures and processes have been updated, insofar as necessary, in view of the change;
- e) the transfer to production has been approved as follows:

the developing entity, the entity in charge on behalf of the related entities, the IT manager, the information security manager and the compliance officer have approved the transfer to production in writing.

The approval of the transfer to production shall include a note to the effect that the change is consistent with the characterisation and does not affect the intactness of the information systems, that the change has been documented, and that the related entities have received training with regard to the change and the significance thereof;

- f) the approval of the transfer to production shall be kept at the NBCM's offices, together with the request, characterisation and test documentation;
- g) the NBCM has a plan for the transfer to production's cancellation, which it shall use if it transpires, in the course of the transfer to production, that there are shortcomings in the development that preclude the development's transfer to production.

2) **The changes' implementation in the information system - "version distribution"**

- a) An NBCM shall appoint an entity responsible for the changes' implementation in the information system (hereinafter referred to as **"the implementation officer"**).

- b) An NBCM shall define fixed dates for the regular distribution of changes in the information systems, and insofar as possible shall refrain from distributing such changes other than on the fixed dates.
- c) In any regular distribution, changes shall be assimilated the development of which has been completed and transfer to production approved, as provided in sub-paragraph 1) above.
- d) Any distribution of changes shall be defined as a version, and identified with injective marking.
- e) Prior to the distribution of any version, the implementation officer shall ascertain that after the version's implementation, the information system will include all the components necessary for its proper operation.
- f) A document shall be drawn up covering each version, which shall detail the changes included therein and their effect on the information system. The said document shall be circulated amongst each of the related entities, simultaneously with the version's distribution.

In the aforesaid document, the related entities will be asked to report in writing to the implementation officer on shortcomings coming to light, if at all, in the information system, in consequence of the new version's implementation.

- g) The implementation officer shall keep a record containing details of all the changes included in each version.
- h) The implementation officer shall keep a record containing details of all the versions that have been updated, with each information system's users.
- i) If comments on the new version are received from the related entities, the implementation officer shall summarise and forward them, without delay, for the attention of the related entities, the information systems manager and the compliance officer, who shall decide what action to take, if at all, in view of the comments, including whether to cancel the implementation and restore the information system to its condition prior to the implementation, in accordance with transfer to production cancellation plan, as provided in sub-paragraph 1)f) above.
- j) An NBCM shall consider blocking users after a certain period of time has passed, as defined by the NBCM, without the new version being installed by them.

- k) Insofar as possible, the versions shall be distributed through an automated system, which shall be operated under the auspices of the implementation officer.
- l) All the records in connection with the new versions' distribution and shortcomings coming to light in the new versions shall be kept at the NBCM's offices.

f. **Urgent changes in the production environment**

As a rule, no changes shall be made in the production environment other than as described in sub-paragraphs a. to e. above.

However, in exceptional cases, where an urgent change in the production environment is necessary, in order to ensure continuation of the NBCM's proper activity (hereinafter referred to as "**urgent change**"), an urgent change may be made other than as described in sub-paragraphs a. to e. above, provided that the following conditions are fulfilled:

- 1) The NBCM has given advance authorisation to a very limited number of programmers and/or developers to make urgent changes (hereinafter in this paragraph referred to as "**persons with authorised access to the production environment**"), including software changes, hardware changes and changes to the NBCM's databases.
- 2) Any urgent change shall be approved in advance and in writing by the NBCM's CEO, or by the NBCM's information systems' manager, and in the absence of the NBCM's CEO, approval as aforesaid may be given by his or her deputy. The approval shall include the reasons requiring the urgent change.

The approval shall be kept at the NBCM's offices, together with the documentation pertaining to all the acts performed to implement the urgent change.

- 3) The NBCM shall adopt means to prevent an urgent change being made other than in accordance with sub-paragraphs 1) and 2) above, and to locate and identify urgent changes made other than as aforesaid, notwithstanding such means.
- 4) Immediately after an urgent change has been made, the NBCM shall perform checks to ascertain the propriety of the said change.

- 5) Urgent changes shall be documented in detail and in writing. The document shall include details of the person with authorised access to the production environment who made the change, the reason requiring the urgent change, all the acts performed to make the urgent change and the checks performed on the propriety of the change. The documentation shall include outputs documenting all the acts that have been performed.
- 6) Documentation of any urgent change shall be kept at the NBCM's offices.

25CC. **Obtaining outsourcing services in IT management**

- a. An NBCM may obtain outsourcing services from one or more external suppliers in the scope of the IT management, including outsourcing services in the development and operation of systems, purchase of hardware, data processing, information storage, information retrieval, ancillary services, and any other act in the scope of its IT management (hereinafter referred to as "**external supplier**"), provided that the following conditions are fulfilled:
 - 1) **The outsourcing services enable the NBCM to perform its obligations**

The outsourcing services received by the NBCM shall enable it to perform its obligations, including to its clients, the Stock Exchange, the Stock Exchange Clearing House, the Maof Clearing House and other Stock Exchange members, as well as its obligations pursuant to the Rules and/or any law.
 - 2) **Receipt of the NBCM's board of directors' approval to contract with an external supplier for outsourcing services that support a vital business process**
 - a) A contract with an external supplier for the provision of outsourcing services that support a vital business process shall be approved by the NBCM's board of directors, after it is persuaded, in light of comprehensive written information presented to it by the NBCM's management, as follows:
 - (1) the outsourcing services enable the NBCM to perform its obligations, as provided in sub-paragraph a.1) above;
 - (2) the external supplier has the qualifications, professional ability, experience and reputation enabling it to provide the NBCM with the outsourcing services it is undertaking to provide;
 - (3) the external supplier is able to perform its obligations to the NBCM, in the scope of the outsourcing services' provision, in all respects, including organizational, monetary and legal;

- (4) the NBCM's contract with the external supplier complies with the requirements in relation to contracts with an entity supplying the NBCM with outsourcing services, as provided in the IT management policy, and as provided in sub-paragraph 3) below;
 - (5) the NBCM has effective internal mechanisms for managing the contract with the external supplier, and for managing and controlling the risks inherent in the outsourcing services' receipt from the external supplier;
 - (6) the NBCM has internal mechanisms enabling it to supply its management with effective tools for identifying, measuring, routing and controlling the outsourcing activity carried on for the NBCM, and the risks inherent therein, as follows:
 - (a) mechanisms for supervising performance of the external supplier's obligations, as defined in the agreement with it;
 - (b) mechanisms for supervising compliance with the IT management policy, in the scope of the outsourcing services' receipt from the external supplier.
- b) At least once a year, the NBCM's board of directors shall reconsider the contract with the external supplier, in light of a written report presented to it, in accordance with sub-paragraph 4)c) below, and approve it, after it is persuaded that the conditions laid down in sub-paragraph 2)a) above have been fulfilled, or decide to terminate it, if it finds that the said conditions have not been fulfilled.

3) **The contract with the external supplier**

A contract with an external supplier, for the purpose of obtaining outsourcing services, shall be in the form of a written agreement for the provision of outsourcing services (hereinafter referred to as "**the outsourcing agreement**") between the NBCM and the external supplier, which shall cover all the material aspects of the outsourcing services that the NBCM is receiving from the external supplier. The outsourcing agreement shall include, inter alia, the following provisions:

- a) clarification that the outsourcing services should enable the NBCM to perform its obligations, in accordance with sub-paragraph 1) above, as shall be from time to time, and the external supplier's undertaking to adapt the outsourcing services provided by it to changes in the NBCM's obligations as aforesaid, if any.

Without derogating from the generality of the aforesaid, the outsourcing agreement shall include the external supplier's express undertaking to comply, in the scope of the outsourcing services' provision, with all the information security provisions applicable to the NBCM, in accordance with paragraph 25AA. above, as well as the NBCM's information security policy, as shall be from time to time;

- b) an express definition of the responsibilities of the NBCM and the external supplier in the scope of the outsourcing activity carried on for the NBCM;
- c) details of the level of service that the external supplier is obliged to provide, including reference to the following matters:
 - (1) binding timetables for the outsourcing services' provision, including the external supplier's undertaking to comply with the timetables for making changes that the NBCM is required to make by authorised external entities;
 - (2) the external supplier's undertaking to routinely forward to the NBCM, in real time, insofar as required by the NBCM, all the information concerning the management of the outsourcing activity carried on for it by the external supplier, and inter alia the following:
 - (a) documentation of all the systems used by the NBCM in the scope of the outsourcing services, including details of the processes and acts that may be executed through these systems;
 - (b) a detailed description of all the changes made in the systems mentioned in sub-paragraph (a) above;
 - (c) documentation of all the delivery tests performed by the external supplier;
 - (d) details of the all the malfunctions that have occurred in the operation of the systems mentioned in sub-paragraph (a) above, the steps taken and lessons learned in relation to such malfunctions;
 - (e) information files in a format known to the NBCM, containing all the information about the NBCM and its clients kept in the systems mentioned in sub-paragraph (a) above;

- (f) documentation of all the possibilities for retrieving information stored in the systems mentioned in sub-paragraph (a) above, in the scope of the outsourcing services, including all the standard reports that may be produced from the said systems, and all the query set-ups in these systems;
- (3) the external supplier's undertaking to provide the NBCM, its employees and its managers with a minimum level of continuous support services, as determined in the outsourcing agreement, whenever outsourcing services are provided;
- d) an undertaking by the external supplier and its employees regarding the duty of confidentiality and prevention of information leakage, and processes to ensure compliance with these duties, in relation to information of whatsoever type about the NBCM, its clients and its employees, insofar as reaching the external supplier and its employees in the course of the outsourcing services' provision;
- e) details of the information security means adopted by the external supplier and the NBCM in the scope of the outsourcing services, and the manner of updating them from time to time;
- f) clarification that all the information about the NBCM and its clients in the external supplier's possession belongs to the NBCM, and not to the external supplier, and that the NBCM has the right to demand, at any time, that the external supplier transfer the said information to it, in accordance with sub-paragraphs c)(2)(3) above and sub-paragraphs j) and k) below, and that the external supplier is obliged to transfer the said information to the NBCM unconditionally, immediately after the NBCM's demand for the information's transfer, together with the data format, in a manner enabling the NBCM to retrieve the information;
- g) the way in which the external supplier will continue providing outsourcing services in emergencies, including in cases of malfunction at the NBCM and/or the external supplier, in order to enable the NBCM's business continuity in accordance with its IT policy, with reference, inter alia, to the following matters:
 - (1) the maximum period of time until the outsourcing services' restoration in various cases of malfunction detailed in the agreement;
 - (2) the manner of providing the outsourcing services in cases of malfunction as aforesaid;
 - (3) the work routine in a case of malfunction;
 - (4) the backup of information during the case if malfunction;

- (5) the manner of restoring an ordinary work routine after the case of malfunction has reached a conclusion;
- h) mechanisms for settling disputes between the NBCM and the external supplier, insofar as arising, during the outsourcing services' cessation;
- i) conditions on the fulfillment of which the NBCM may terminate the outsourcing agreement;
- j) conditions on the fulfillment of which the external supplier may terminate the outsourcing agreement;
- k) mechanisms ensuring the continued supply of the outsourcing services provided to the NBCM, in the event of the outsourcing agreement's termination, and inter alia the following arrangements:
 - (1) due arrangements ensuring the NBCM's ability to continue its business activity, whilst receiving the outsourcing services from the external supplier, for a minimum period of time to be determined, after notice of the outsourcing agreement's termination, whether the notice was given by the NBCM or by the external supplier;
 - (2) due arrangements ensuring the NBCM's ability to retrieve all the information in the external supplier's possession belonging to it and its clients, and to use it, through the systems provided in favor of the NBCM in the scope of outsourcing services or through other systems, including the external supplier's undertaking to transfer the data format to the NBCM;
 - (3) due arrangements ensuring the NBCM's ability to convert the outsourcing services it receives from the external supplier to other outsourcing services and/or any other solution chosen by the NBCM;
- l) mechanisms ensuring the continued supply of the outsourcing services provided to the NBCM, In the event that the external supplier ceases to provide the outsourcing services, for any reason other than the outsourcing agreement's termination, and inter alia arrangements enabling the NBCM to operate and maintain, by itself and/or through other entities, the systems operated in the scope of the outsourcing services;

- m) the external supplier's consent to audits being carried out at it on behalf of the NBCM, including - risk surveys, information security surveys, hacking checks, and audits of the external supplier's compliance with its obligations pursuant to the outsourcing agreement, such being carried out directly by the NBCM or through third parties appointed by the NBCM for such purpose, and the external supplier's undertaking that it, its managers and its employees shall cooperate with those carrying out the audits as aforesaid, and assist them in carrying out the audits, insofar as necessary.

the supplier's consent as aforesaid will not be required where the external supplier is a banking corporation, and where the technological infrastructure and/or outsourcing service provided by the banking corporation to the NBCM is being used by the banking corporation in the framework of its activity as a supervised corporation, and as such they are governed by the directives of the Supervisor of Banks. In this case, the agreement shall include an undertaking of the banking corporation to give the NBCM, at the end of each calendar year, a declaration of the surveys and reviews carried out in the course of the reported year,

- n) the external supplier's consent that the Stock Exchange and/or any other competent authority may supervise compliance with the provisions of the Rules and/or the law applicable to the NBCM, including those implemented by the NBCM through the outsourcing services;
- o) the external supplier's undertaking to furnish the NBCM, at least once a year, with an opinion pursuant to International Standard ISAE 3402 or pursuant to American Standard SSAE 16 Type II, regarding the efficacy of the supervision and control mechanisms implemented by it.

4) **The NBCM's supervision of the external supplier's activity**

- a) The NBCM shall appoint managers and/or employees, each of whom, or all of them together, shall be fundamentally involved with the outsourcing services provided by the external supplier, and shall have an in-depth knowledge of all the possibilities inherent in the outsourcing services, as well as all the processes taking place in the scope thereof.

b) The NBCM shall routinely monitor and supervise the external supplier's performances and ascertain that all the conditions laid down in the outsourcing agreement are being fulfilled.

c) **Annual consideration of the contract with the external supplier**

(1) Shortly after the end of each calendar year, the information systems manager shall report in writing to the NBCM's CEO and the chair of the NBCM's board of directors on all the outsourcing services received by the NBCM that support a vital business process.

The report shall cover the following aspects in relation to all the outsourcing services:

- (a) a review of the external supplier's performance of its obligations pursuant to the outsourcing agreement;
- (b) detailed and current reference to each of the matters mentioned in sub-paragraph 2(a) above;
- (c) the NBCM's evaluation of the opinion pursuant to sub-paragraph 3(o) above.

Insofar as the opinion includes qualifications regarding the efficacy of the control mechanisms and supervision mechanisms implemented by the external supplier, the report shall include a description of the action that has been and/or will be taken in view of such qualifications;

- (d) a reasoned recommendation regarding continuation of the contract with the external supplier for the outsourcing services' receipt as aforesaid, or termination of the contract with it.

(2) The aforesaid report shall be discussed by the NBCM's board of directors by no later than the date of approving the financial statements for the previous calendar year.

In the discussion, the NBCM's board of directors shall approve a resolution to continue the contract with each external supplier providing the NBCM with outsourcing services supporting a vital business process, or to terminate it.

d) **Breach of a material obligation of the external supplier**

- (1) The IT manager shall report in writing to the NBCM's CEO and to the chair of the NBCM's board of directors on any case in which an external supplier breaches a material obligation pursuant to the outsourcing agreement that supports a vital business process (hereinafter in this paragraph referred to as "**the breach**"), within 10 days of the date of the breach.

The report shall give a detailed description of all the aspects relevant to the breach, and inter alia the following matters:

- (a) a description of the breach;
 - (b) the factors that led to the breach;
 - (c) the immediate and future implications of the breach on the NBCM;
 - (d) the means adopted to stop the breach;
 - (e) a report as to whether the breach has been stopped or not;
 - (f) the chances of the breach's recurrence in future;
 - (g) a reasoned recommendation regarding the steps that the NBCM should take in view of the breach.
- (2) A breach of a material obligation as aforesaid by an external supplier providing outsourcing services that support a vital business process shall be discussed at the board of directors' meeting subsequent to the date of the report, in light of the report of the IT manager to the CEO and the chair, in accordance with sub-paragraph (1) above, which shall be presented to it.

The NBCM's board of directors shall pass a resolution regarding the steps that the NBCM should take in light of the breach, in connection with the continuation of the contract with the external supplier, or the termination thereof.

- b. The provisions of paragraph 25CC. do not derogate from the NBCM's liability for any act done for and/or on its behalf by an external supplier in the scope of the outsourcing services.

25DD. **Readiness to maintain business continuity in a case of malfunction**

As part of the NBCM's readiness to maintain business continuity in a case of malfunction, the NBCM shall, inter alia, comply with the following provisions:

This English version is an unofficial translation of the official Hebrew version and has no binding force. The only binding version is the official Hebrew version. (Please see Notes on the Translation and Disclaimer).

a. **Business continuity manager**

An NBCM shall appoint a senior manager who shall be in charge of its readiness to maintain business continuity (hereinafter referred to as "**the business continuity manager**").

The business continuity manager shall be responsible for preparing the business continuity plan, and for the updating thereof.

b. **Business continuity plan**

An NBCM shall have a business continuity plan.

The business continuity plan shall be routinely updated, insofar as necessary, and *inter alia* in accordance with the results of exercises performed by the NBCM to check its readiness to maintain business continuity, as provided in sub-paragraph c. below.

The business continuity plan shall detail all the acts that the NBCM should perform as a matter of routine and in a case of malfunction, in order to ensure business continuity, and *inter alia* the following acts:

1) **Details of the business processes**

Details of all the NBCM's business processes, and *inter alia* the following processes:

- a) the provision of services, including trading services in Israel and overseas, investment consulting services, investment management services and investment marketing services to various types of clients, including the following clients:
 - (1) private and other independent clients;
 - (2) institutional clients which are included in the NBCM's group;
 - (3) institutional clients which are not included in the NBCM's group;
 - (4) private and other clients, whose securities portfolios are managed by the NBCM;
 - (5) private and other clients, whose securities portfolios are managed by other members;
 - (6) clients in accordance with sub-paragraphs (1) to (5) above, whose place of domicile is not in Israel;
- b) credit and collateral control;
- c) risk control;

- d) clearing of transactions with monetary assets traded in Israel and overseas, including the clearing of transactions off the Stock Exchange and the clearing of custodian operations;
- e) management of the NBCM's cash flow;
- f) management of the nostro;
- g) management of the NBCM's back-office set-up;
- h) reporting to clients, as required pursuant to the Rules and/or any law;
- i) the provision of operating services to institutional clients, and inter alia:
 - (1) calculation of prices for mutual funds;
 - (2) revaluation of provident funds;
 - (3) reporting to authorities.
- j) making payments to employees and suppliers;
- k) operation of the client service set-up, other than for the purpose of receiving instructions for the execution of operations with monetary assets, and other than for the purpose of giving reports, as required pursuant to the Rules and/or any law;
- l) operation, maintenance and management of the NBCM's website.

2) **Characterisation of the business processes**

The NBCM shall determine as follows in relation to each of the business processes detailed in sub-paragraph 1) above:

- a) that the process is a vital business process;
- or:
- b) that the process is a business process other than a vital business process, which the NBCM believes may be discontinued in a case of malfunction.

3) **Details of faults and cases of malfunction**

Details of the possible faults and/or possible malfunction incidents (hereinafter referred to as "**cases of malfunction**") and inter alia the following faults and/or cases of malfunction:

- a) a protracted power failure at the offices of the NBCM only;

- b) a protracted power failure at the offices of the NBCM and at some of the Stock Exchange members, or at all the Stock Exchange members;
- c) a protracted power failure at the offices of the NBCM and at some of the Stock Exchange members, where the Stock Exchange is not equipped to enable its members to use the Stock Exchange's work stations from its offices;
- d) a failure in the external telephone lines and/or intra-organisational telephone infrastructure at the offices of the NBCM only;
- e) a failure in the external telephone lines and/or intra-organisational telephone infrastructure at the offices of the NBCM and at some of the Stock Exchange members, or at all the Stock Exchange members;
- f) unavailability of critical systems, whether operated by the NBCM or for the NBCM by other entities, including in the scope of outsourcing, and inter alia unavailability of the following systems:
 - (1) the trading systems of the NBCM only;
 - (2) the trading systems of the NBCM and of some of the Stock Exchange members, where the Stock Exchange is not equipped to enable its members to use the Stock Exchange's work stations from its offices;
 - (3) the trading systems of the NBCM and of all the Stock Exchange members, where the Stock Exchange is operating from its backup site and its work stations cannot be used;
 - (4) the back-office systems of the NBCM only;
 - (5) the back-office systems of the NBCM and of some of the Stock Exchange members;
 - (6) the back-office systems of the NBCM and of all the Stock Exchange members, and the Stock Exchange is operated from its backup site;
- g) the NBCM's protracted inability to operate from its regular offices, for any reason;
- h) the inability of essential employees of the NBCM to show up for work;
- i) the inability of an external supplier which is providing the NBCM with outsourcing services supporting a vital business process to continue providing the outsourcing services, by reason of a malfunction at the external supplier.

4) **Possible effects of various cases of malfunction**

The identification and analysis of the possible effects of the occurrence of each of the cases of malfunction separately, the occurrence of some of the cases of malfunction, and the occurrence of all the cases of malfunction together, on the ability of the NBCM and its various units to continue operating each of the vital business processes.

5) **Maximum recovery time**

The definition of the maximum period of time between the occurrence of a case of malfunction and the continuation of each vital business process, insofar as the case of malfunction prevents the NBCM from continuing to operate the vital business process.

6) **The NBCM's conduct in a case of malfunction**

The NBCM's conduct in a case of malfunction, and inter alia reference to the following matters:

- a) the appointment of an entity authorised to declare the existence of a case of malfunction, and the conclusion thereof;
- b) the appointment of an entity who is responsible for managing the NBCM's activity for the sake of maintaining business continuity;
- c) the acts that the NBCM and its units must perform on the occurrence of various cases of malfunction, and so long as the case of malfunction exists, for the sake of maintaining business continuity in respect of each of the vital business processes, pursuant to the timetable determined by the NBCM;
- d) the special control means and supervision means that the NBCM will adopt in a case of malfunction;
- e) reporting to the various entities to which the NBCM must report in various cases of malfunction;
- f) updating the NBCM's clients regarding the existence of a case of malfunction, and regarding the manner of providing the services in a case of malfunction;
- g) the circumstances in which a decision will be made to resume routine operations;
- h) the acts that must be done on the resumption of routine operations, including updating the information systems routinely used by the NBCM.

7) **Alternative means at the NBCM's disposal in a case of malfunction**

Details of the alternative means that will be at the NBCM's disposal in a case of malfunction, and that will allow it to maintain business continuity, on the occurrence of one or more of the foreseen cases of malfunction, and/or on the occurrence of unforeseen cases of malfunction, and inter alia the following alternative means:

- a) power failure backup;
 - b) telephone communication backup;
 - c) backup for the trading systems, back-office systems and other systems serving the NBCM in its business activity;
 - d) backup for the NBCM's offices;
 - e) a plan for the NBCM's operation, in a situation of extended absence of employees in general, and of essential employees in particular.
- 8) The training that the NBCM will provide to its employees, in order to qualify them to function in a case of malfunction.

9) **Information about the exercises that the NBCM must carry out, in accordance with sub-paragraph c. below, in order to examine its readiness to maintain business continuity, and inter alia the following information:**

- a) the dates of the planned exercises;
- b) the vital business processes, that the NBCM's ability to maintain in a case of malfunction that are going to be examined during each exercise;
- c) the entities that will participate in each of the exercises;
- d) the anticipated results of each of the exercises.

c. **Exercises to examine the NBCM's readiness to maintain business continuity**

- 1) An NBCM shall from time to time examine its readiness to maintain business continuity in cases of malfunction, in accordance with its business continuity plan, through exercises carried out by it.
- 2) In the scope of the exercises, the NBCM shall carry out partial exercises and comprehensive exercises, as set forth below.

In the partial exercises, the NBCM's readiness to maintain business continuity in respect of certain vital business processes will be examined (hereinafter referred to as "**partial exercise**").

In the comprehensive exercises, the NBCM's readiness to maintain business continuity in respect of all the vital business processes will be examined (hereinafter referred to as "**comprehensive exercise**").

- 3) At least once a year and a half, the NBCM will carry out a comprehensive exercise, with the participation of all the NBCM's employees and other entities, who are supposed to operate all the vital business processes.
- 4) Any exercise, whether partial or comprehensive, shall be carried out in accordance with the a written exercise plan, the preparation of which is entrusted to the business continuity manager, and which shall cover all the aspects of the exercise, inter alia the following matters:
 - a) cases of malfunction, by reason of which the business continuity plan should be implemented;
 - b) the vital business processes, that the NBCM's ability to maintain in cases of malfunction that are going to be examined;
 - c) the acts that shall be performed in the scope of the exercise, in accordance with the business continuity plan;
 - d) the employees of the NBCM and other entities who shall participate in the exercise and their roles;
 - e) the training with a view to the exercise that will be provided to those entities participating therein;
 - f) the acts that should be performed upon the exercise's conclusion, in order to ascertain that no damage has been occasioned to the information systems and other means serving the NBCM in its activity;
 - g) the recording of a work log in real time to monitor the acts performed in the course of the exercise;
 - h) the anticipated results of the exercise.
- 5) **The exercise summary**
 - a) Shortly after the conclusion of each exercise, whether partial or comprehensive, the business continuity manager shall prepare a written summary of the exercise, which shall cover all the aspects of the exercise, and inter alia the following matters:
 - (1) a detailed description of the exercise;
 - (2) the differences between the exercise's anticipated results and its actual results;

- (3) the lessons that should be learned from the exercise, including necessary changes to the business continuity plan;
 - (4) consideration of the need to carry out a special exercise, in addition to those included in the ordinary exercise plan pursuant to sub-paragraphs 1) to 4) above, to examine rectification of the shortcomings in the NBCM's readiness to maintain business continuity that come to light in the course of the exercise.
- b) For the purpose of preparing the exercise summary, the business continuity manager shall obtain written feedback on the exercise from each of the participants covering, inter alia, the preparations for the exercise, the conduct in the course thereof, the conclusions that should be drawn from the exercise and the changes that should be made to the business readiness plan in light of the exercise's results.
- c) No later than 45 days after the date of the exercise, a discussion shall take place on the exercise summary, in which, inter alia, the following entities shall participate:
- (1) the NBCM's CEO;
 - (2) the IT manager;
 - (3) the information security manager;
 - (4) the business continuity manager;
 - (5) those responsible for the vital business processes, the NBCM's readiness to maintain business continuity in respect of which was examined in the course of the exercise.

The discussion and its conclusions shall be documented in writing, and the exercise summary shall be updated insofar as necessary, in light of the said discussion.

d) **Discussion by the board of directors**

- (1) No later than 90 days after the date of a comprehensive exercise, the NBCM's board of directors shall meet to discuss the summary of the comprehensive exercise and the summaries of the partial exercises carried out between the date of the previous comprehensive exercise and the date of the last comprehensive exercise.

- (2) Insofar as the NBCM's board of directors finds that the NBCM's readiness to maintain business continuity is inadequate, it shall give directions for suitable action to be taken to improve such readiness.

d. **The NBCM's board of directors' approval of the business continuity plan**

The business continuity plan shall be presented to the NBCM's board of directors at the beginning of each calendar year.

The NBCM's board of directors shall discuss the business continuity plan and approve it, by the date of approving the financial statements for the previous calendar year.

25EE. **Work, control and supervision procedures in IT management**

- a. Without derogating from any other provision, an NBCM shall operate effective control mechanisms and supervision mechanisms, in order to ensure proper operation of the IT processes serving it in its activity, and inter alia in order to ensure that:
 - 1) the information systems support, as necessary, the vital business processes;
 - 2) the information systems allow the NBCM to comply with the provisions applicable to it pursuant to the Rules and any law;
 - 3) the information systems include reporting mechanisms for the transfer of information required by the NBCM's board of directors, the NBCM's managers and other officers, in a manner enabling these entities to perform the duties applicable to them by virtue of their position;
 - 4) the process of setting up a new client account and updating the data pertaining to an existing client in a client account is carried out properly;
 - 5) a routine check is performed of the validity of the data in the client accounts, erroneous data pertaining to clients is amended, insofar as discovered in the course of the routine check, and an examination is performed of the circumstances in which erroneous data pertaining to clients was fed in;
 - 6) the process of setting up monetary assets is properly complied with, inter alia as follows:
 - a) the possibility of setting up monetary assets that do not exist is prevented;
 - b) the validity of current data is routinely examined;

- c) erroneous data discovered in the course of the routine check are amended;
 - d) the circumstances in which erroneous data was fed in are examined;
- 7) the process of feeding in transaction data and prices is properly complied with, inter alia as follows:
- a) the possibility of feeding in transactions that were not executed is prevented;
 - b) the validity of the transaction data and prices are routinely checked;
 - c) erroneous prices and/or erroneous transaction data discovered in the course of the routine check are amended;
 - d) the circumstances in which erroneous prices and/or erroneous transaction data were fed in are examined;
- 8) insofar as retroactive activity is carried on in the information systems, it is carried on in accordance with the provisions of the Rules;
- 9) effective information security processes exist, as provided in the Rules;
- 10) the NBCM's contract with external suppliers for outsourcing services complies with all the provisions of the Rules, and the external suppliers perform their obligations pursuant to the agreements with them and pursuant to the Rules.
- b. An NBCM shall anchor the IT management processes, including work processes, control processes and supervision processes, in work procedures.

The work procedures as aforesaid shall comply with the provisions of paragraph 25K.a. of the Regulations.

25FF. IT management risk survey

- a. In addition to the risk survey mentioned in paragraph 24K. of the Rules and the information security surveys mentioned in paragraph 25AA.d.14) above, and without derogating from any other provision, at such interval as determined in the NBCM's IT policy, which shall not exceed three years, the NBCM shall carry out an IT management risk survey, through an independent, unconnected, external entity with proven qualifications and experience, who has been authorised for such purpose.

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

- b. In the IT management risk survey, the following acts, inter alia, shall be performed:
- 1) the IT assets shall be identified and described in detail, including - databases, applications, operating systems, hardware, communication networks, equipment and infrastructure, multimedia systems, and interfaces between various components of the IT assets;
 - 2) details shall be given of the processes supported by each of the IT assets mentioned in sub-paragraph 1) above;
 - 3) the risks inherent in protecting the functionality and durability of the IT assets shall be identified, as well as other risks, and inter alia the following risks:
 - a) risks inherent in the differences existing between the requirements of the information systems and the characteristics of such systems;
 - b) risks inherent in making changes in the information systems;
 - c) risks deriving from the NBCM's IT management;
 - d) risks deriving from the conduct of the NBCM's board of directors in connection with the IT management;
 - e) risks deriving from the processes aimed at ensuring the IT assets' durability;
 - f) risks inherent in IT management outsourcing services received by the NBCM;
 - g) risks inherent in the NBCM's readiness to maintain business continuity in a case of malfunction;
 - h) risks deriving from possible loss of know-how and abilities of the NBCM's employees and/or managers in relation to IT management;
 - i) risks inherent in the information systems' use by users;
 - j) risks deriving from the inefficacy of the IT management control mechanisms and supervision mechanisms;
 - k) risks deriving from the sensitivity of the information stored in the information systems, including the risk of information loss and the risk of information leakage;
 - l) risks deriving from the environment of the various information systems and from their characteristics, including the systems' structure, availability and response time;

- m) risks deriving from the effects of the information systems' use on the business activity;
 - n) risks identified in consequence of malfunctions in systems that support vital business processes;
- 4) the risks mentioned in sub-paragraph 3) above shall be evaluated and quantified;
 - 5) the probability of the risks' realisation shall be evaluated, including by monitoring past realisation of the risks, at the NBCM and in the business environment in which the NBCM operates;
 - 6) the NBCM's readiness to deal with the risks shall be evaluated;
 - 7) recommendations shall be made as to ways of improving the NBCM's readiness as aforesaid.
- c. **Discussion by the board of directors**
- 1) Within 90 days of receiving the IT management risk survey, as aforesaid, the survey shall be brought for discussion by the NBCM's board of directors, with a note of which recommendations from amongst all the recommendations included in the survey the adoption and implementation of which is proposed, and which recommendations as aforesaid the adoption and implementation of which is not proposed.
 - 2) The NBCM's board of directors shall discuss the said survey and the NBCM's response thereto, and shall pass the resolutions obliged by the findings contained therein.

A recommendation not to implement certain recommendations included in the said survey shall require the approval of the NBCM's board of directors.

25GG. IT management exposure document

- a. The NBCM shall routinely prepare an IT management exposure document.
- b. The IT management exposure document shall be based on the last risk survey carried out for the NBCM, and shall summarise all the information about the risks inherent in the IT management, in the format detailed in paragraph 25FF. above.
- c. The IT management exposure document shall be updated whenever there is a change in the risks inherent in the IT management or in their evaluation, or any time there is a change in the means adopted by the NBCM to contend with the said risks.

d. Whenever the NBCM updates the IT management exposure document, a document shall simultaneously be prepared that summarises the changes in the exposure document, in consequence of the revisions made therein since the exposure document was last discussed by the NBCM's board of directors (hereinafter referred to as "**the change summary document**").

e. **Discussion by the board of directors**

The NBCM's board of directors shall discuss the IT management exposure document at least once a quarter, in light of the updated exposure document, and in light of the change summary document, and shall pass the resolutions obliged by the information presented to it.

25HH. Reports to the Stock Exchange

Without derogating from any other provision concerning reports that the NBCM is liable to give to the Stock Exchange, an NBCM shall report to the Stock Exchange on any material development relating to IT management, which might affect the interfaces between the information systems and the information systems of the Stock Exchange (hereinafter referred to as "**the interfaces**"), as well as on material irregular events in the IT management sphere, and inter alia the following events:

- a. Anticipated material changes in the information systems, insofar as they might affect the interfaces, including the following changes;
- 1) material changes in an existing information system;
 - 2) the replacement of an information system;
 - 3) the integration of a new component in an information system;
 - 4) the commencement of use of a new information system;
 - 5) the commencement or cessation of IT outsourcing services;
 - 6) the use of new communication channels, for the purpose of managing vital business processes.

Changes as aforesaid shall be reported to the Stock Exchange in detail, in advance and in writing.

The report shall detail the possible effects of the changes on the interfaces.

The Stock Exchange may instruct the NBCM not to implement the reported change, or to implement it subject to certain conditions.

Insofar as the Stock Exchange does not instruct the NBCM to act otherwise, the NBCM may implement the said change on the passage of 30 days from the date on which the report was sent to the Stock Exchange.

- b. Material irregular events relating to the IT management, and inter alia the following events:
- 1) material hacking attempts;
 - 2) actual hacking;
 - 3) a material malfunction in a system that supports a vital business process;
 - 4) a case of malfunction obliging operation of a business continuity plan;
 - 5) the cessation of a vital business process, as a result of an unexpected immobilization of information systems' activity for a period of time of more than one trading day;
 - 6) material malfunctions located by the NBCM, where the NBCM was unable to locate the source thereof for three days from the day of locating the malfunction;
 - 7) erroneous data located in the information systems, where the NBCM does not locate the source thereof and/or the circumstances in which they were fed into the information systems.

Such incidents shall be reported by the NBCM to the Stock Exchange, in detail, immediately after their occurrence.

25II. **Inapplicability of the provisions of this chapter in respect of a foreign NBCM**

- a. A foreign NBCM may submit an application for an exemption from compliance with the provisions of the "information technology management in an NBCM" subject. The application shall be in the form of wording detailed in appendix "O" (hereinafter referred to as "the application").
- b. TASE's CEO, or someone authorised by him, may exempt a foreign NBCM from compliance with the aforesaid provisions, provided that the foreign NBCM fulfills the conditions detailed below:
- 1) the foreign NBCM is not a member of the Stock Exchange Clearing House.
 - 2) the foreign NBCM is not a member of the Maof Clearing House.
 - 3) the international investment house is a stock exchange member in one or more of the following countries: United States, England, Germany, Switzerland, Japan, Canada, Austria, France, Norway, Holland, Sweden, Denmark, Finland, Belgium and Australia.

- 4) the foreign NBCM's activity is carried on through the information systems of the international investment house, and through various officials in the information technology management set-up of the international investment house (including hardware, software, communication means, personnel, risk management in information technology management and their control, information security and work procedures).
- 5) the international investment house is supervised by the authority competent to supervise the activity in securities in one or more of the countries in which it operates as a stock exchange member, as detailed in sub-paragraph 3) above (each of the aforesaid authorities is hereinafter in this chapter referred to as "**the competent authority**").
- 6) the competent authority has a cooperation agreement with ISA.

In such regard, if the competent authority as foresaid is a signatory to IOSCO MMOU (International Organization of Securities Commission Multilateral Memorandum of Understanding), the competent authority shall be deemed to have a cooperation agreement with ISA.

- 7) the foreign NBCM has declared, in the framework of the application, that the information technology management subject in the international investment house is regulated by the competent authority (hereinafter referred to as "**the regulation**"), noting the name of the competent authority, and that it engages in regulation in the scope of its activity.

The aforesaid declaration shall include all the subjects detailed in this chapter, including:

- a) information technology policy;
- b) information security;
- c) making of changes to the information systems;
- d) integrity of information in the information systems;
- e) documentation of activity carried on through the information systems;
- f) keeping of documentation as aforesaid;
- g) supervision and control mechanisms in the information technology management sphere;
- h) business continuity in the event of failure;
- i) work procedures in the information technology management sphere;

- j) obtaining outsourcing services in information technology management;
 - k) reports to the competent authority;
- 8) The following documents shall be annexed to the application of the foreign NBCM and to the declaration as aforesaid:
- a) a detailed description of the regulation, and a description of the way in which the regulation is applied by the foreign NBCM;
 - b) the following undertakings of the foreign NBCM:
 - (1) to continue implementing the regulation, so long as it is a stock exchange member;
 - (2) to include in the annual internal audit plan, each year, controls relating to information technology management in the foreign NBCM;
 - (3) to transfer to TASE, by the end of March of each calendar year, the internal audit reports for the previous calendar year, on the subject of information technology management in the foreign NBCM;
 - (4) to continue reporting to TASE on any material development relating to its information technology management, as provided in paragraph 25HH above;
 - c) a declaration of the international investment house to the effect that:
 - (1) the information technology management in the international investment house is regulated as provided in sub-paragraph b.7) above, noting the competent authority's identity;
 - (2) the regulation relates to all the subjects included in this Chapter, and inter alia the subjects detailed in sub-paragraph b.7) above.

Chapter V –

The Stock Exchange Members' Conduct with their Clients

26. Custody of monetary assets of an NBCM client

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

In the framework of the provision of custody services for monetary assets of an NBCM's clients, as their custodian and/or custodian broker, the NBCM shall adopt the following measures:

a. **Holding policy for monetary assets of clients**

The NBCM's board of directors shall determine a policy with regard to the manner of holding monetary assets of clients (hereinafter referred to as "**clients' assets holding policy**"), which shall refer, *inter alia*, to the following matters:

1) **conditions for contracting with a third party custodian**

The conditions for an NBCM's contracting with a third party custodian, for the purpose of holding monetary assets of clients through it, shall include the following conditions:

- a) its financial strength, including its equity, credit ratings, its insurance arrangements and guarantees and other means of ensuring its financial strength as a provider of custody services;
 - b) the standard of service provided by it, which shall ensure that the NBCM complies with the demands imposed on it regarding custody of monetary assets of a client, as provided in this paragraph 26. above and below. In such context, the custodian's rating shall be considered by a rating entity or rating entities with recognized expertise in rating custody services. Insofar as a third party custodian which is not rated is chosen, this fact shall be noted and reasoned;
 - c) the selection rules of a third party custodian regarding the sub-custodians with which it contracts, including with regard to separation between the monetary assets of the sub-custodian's clients and the monetary assets of their sub-custodian, and with regard to the binding legal liability of the sub-custodian;
- 2) additional means of ensuring maintenance of the rights of ownership and exercise of the monetary assets of the clients in the event of failure of the third party custodian;

- 3) routine supervision and control mechanisms with respect to the conduct of the third party custodians with which the NBCM contracts, for the purpose of holding through them the monetary assets of its clients.

The supervision and control mechanisms as aforesaid shall also include reference to the way in which the third party custodians monitor the conduct of the sub-custodians, through which the monetary assets of the NBCM's clients are held;

- 4) regulation of the legal liability vis-à-vis the third party custodians.

An NBCM shall periodically evaluate, at such intervals as defined by it and at least once a year, its clients' assets holding policy, and shall be approved by the NBCM's board of directors.

b. Means of ensuring realization of the clients' rights in monetary assets held by them, which are held by the NBCM

- 1) An NBCM shall adopt reasonable measures to ensure that the rights of its clients in the monetary assets owned by them, which are held by it, are asked for and received, including the receipt of dividend payments, interest payments and any other right due to the clients by virtue of their ownership of the monetary assets.
- 2) An NBCM shall adopt reasonable measures to obtain relevant notices and reports pertaining to the monetary assets of its clients, which are held by it.

c. Separation between monetary assets of the NBCM's clients and monetary assets of the NBCM and/or of third party custodians

- 1) An NBCM shall hold the monetary assets of its clients separately from its monetary assets.
- 2) An NBCM shall ascertain that the monetary assets of its clients are held separately from the monetary assets of the NBCM and of the third party custodians through which the monetary assets of the NBCM's clients are held.
- 3) An NBCM shall adopt reasonable measures to ensure that the third party custodians and sub-custodians through which the NBCM holds monetary assets of its clients do not treat the monetary assets of the NBCM's clients as monetary assets of the NBCM, or of the third party custodians, as the case may be.

- 4) a) An NBCM shall not create a right of lien, set-off, charge or any other right over monetary assets of its clients, including monies of its clients, in its favor or in favor of a third party, except with the written consent of the client or in accordance with the law, save in connection with maintenance fees due to the NBCM by reason of the monetary assets of the clients that are deposited with it, and save in connection with amounts due to the NBCM constituting consideration for the transaction with the client's monetary assets.

Notwithstanding the aforesaid, an NBCM may charge in its favor the securities portfolio of a client, where the NBCM has given a guarantee for the client and/or provided credit in favor of the client, as provided in the Rules.

- b) An NBCM shall not permit a third party custodian or sub-custodian acting on its behalf to create a right of lien, set-off, charge or any other right over monetary assets of its clients, including monies of its client, save in connection with maintenance fees due to the third party custodian by reason of the monetary assets of the client that are deposited with it, and save in connection with amounts due to the third party custodian constituting consideration for the transaction with the client's monetary assets.

The NBCM shall notify the client of any charge, set-off or other right over monetary assets that a third party custodian might hold over the monetary assets of such client.

5) **Reporting to a client**

- a) An NBCM shall notify its client, the first time it learns thereof, that the third party custodian is not capable, from an operational point of view, of separating the monetary assets of the client and the monetary assets of the NBCM or of the third party custodian, before executing the client's order.

The NBCM's duty to give notice as aforesaid shall only apply in relation to the first time the NBCM learns that the third party custodian is not capable, from an operational point of view, of separating the monetary assets as aforesaid.

- b) (1) In its report to the client, the NBCM shall make it clear that the third party custodian is not capable of separating between the monetary assets as aforesaid, and shall detail the risks involved in non-separation of the monetary assets of the client from the monetary assets of the NBCM or of the third party custodian.

- (2) The NBCM shall obtain written confirmation from the client that the client has received the report as aforesaid, understood its contents, and that it wishes the NBCM to execute the order for it.

Notwithstanding the aforesaid, the provisions of sub-paragraphs (1) and (2) above shall not apply to a qualified client, as defined in the Rules.

d. **The manner of holding monetary assets of an NBCM's clients**

1) **Holding monetary assets traded in Israel**

An NBCM shall hold monetary assets of its clients that are traded on a Stock Exchange in Israel in an account at the Stock Exchange Clearing House, in the name of the NBCM, on trust for its clients.

2) **Holding monetary assets traded overseas**

Monetary assets of the NBCM clients that are held by it directly at overseas clearing houses shall be deposited in accounts in the name of the NBCM for its clients, in a manner clearly documenting the clients' rights in their monetary assets.

Monetary assets of the NBCM's clients that are held by it through third party custodians shall be deposited in accounts with the third party custodians in the name of the NBCM on trust for its clients, insofar as deposited in banking corporations, or in the name of the NBCM for its clients, insofar as deposited overseas at clearing houses, with other brokers or with any other entity (hereinafter referred to as "**overseas entities**"), in a manner clearly documenting the clients' rights in their monetary assets.

An NBCM shall adopt reasonable measures to hold monetary assets of its clients that are traded on an overseas stock exchange, at clearing houses and/or with third party custodians, which operate in a country that maintains proper regulation of the provision of custody services, and that complies with the rules determined by the NBCM in its clients' assets holding policy.

For the purposes of this paragraph, "**proper regulation**" means regulation equivalent to the provisions governing the NBCM with regard to the provision of custody services for monetary assets of a client of the NBCM, as provided in this paragraph 26. above and below.

Notwithstanding the aforesaid, an NBCM may hold monetary assets of its clients at clearing houses and/or with third party custodians operating in a country that does not maintain proper regulation of the provision of custody services, provided that the following conditions are fulfilled:

Reporting to the client

- a) The first time an NBCM learns that a client has given an order that is supposed to be executed in a country that does not maintain proper regulation of custody services, the NBCM shall report thereon to its client, before executing the order.

The NBCM's duty to give notice as aforesaid shall only apply the first time it learns that the order is supposed to be executed in a country that does not maintain proper regulation as aforesaid;

- b) (1) In its report to the client the NBCM shall make it clear that the order given is supposed to be executed in a country in which the custody services are not subject to proper regulation, and the NBCM shall detail the risks involved in keeping the monetary assets the subject of the client's order in such country.

In addition, the NBCM shall warn the client that the governing law in the foreign jurisdiction might be different to the regulation in Israel and might not provide the same standard of protection of its ownership rights in the monetary assets as aforesaid;

- (2) The NBCM shall obtain written approval from the client that the client has received the report as aforesaid, understood its contents and that it wishes the NBCM to execute the order for it.

Notwithstanding the aforesaid, the provisions of sub-paragraphs (1) and (2) above shall not apply to a qualified client, as defined in the Rules.

e. **Holding of a client's monies**

- 1) An NBCM shall act as follows with a client's monies:
- a) the NBCM may hold monies of a client with the following entities:
- (1) a banking corporation;
- (2) an overseas financial institution which carries on business in receiving deposits and is subject to the supervision of the authorized entity in such regard in that country (hereinafter referred to as "**foreign financial institution**");
- (3) a third party custodian through which the NBCM holds monetary assets of its clients as provided in sub-paragraphs d.1) and d.2) above, for the purpose of activity in monetary assets of a client.

- b) monies of a client shall be held in accounts in the name of the NBCM on trust for its clients, insofar as deposited with a banking corporation, or in accounts in the name of the NBCM for its clients, insofar as deposited with overseas entities, as provided in sub-paragraph a) above.
- c) the NBCM shall hold its clients' monies separately from its own monies.
- d) the NBCM shall adopt reasonable measures to ensure that the entities detailed in sub-paragraph a) above with which a clients' monies are held, and any third party, including creditors of the NBCM and of such entities, do not treat the client's monies as monies of the NBCM.
- e) monies of a client that are held by the NBCM collectively with the entities detailed in sub-paragraph a) above shall be unencumbered by any charge, attachment, lien, or any other third party right.
- f) the NBCM shall report to its client on the interest with which the client's monies have been credited in the client's account with the NBCM.
- g) the NBCM shall not lend the client's monies to a third party.

Notwithstanding the aforesaid, and without derogating from any provision regarding credit and guarantees provided by the NBCM in favor of its client pursuant to the Rules, the NBCM may lend to other NBCM clients monies of a client who manages his securities portfolio himself, for the sake of purchasing monetary assets, provided that the client has given express, prior and written approval, and other than in the framework of the account opening agreement, for the grant of a loan as aforesaid.

2) **Measures to secure the clients' rights in connection with the monies owned by them**

- a) An NBCM shall implement proper internal standards and procedures regarding the selection, appointment and periodic examination of each one of the entities detailed in sub-paragraph 1)a) above, with which it deposits the clients' monies.

When selecting the entities as aforesaid, the NBCM shall consider, inter alia, their financial strength.

- b) An NBCM shall keep written records of the following matters:
 - (1) the considerations on the basis of which it chose to contract with any one of the entities detailed in sub-paragraph 1)a) above, for the purpose of the deposit and holding of a client's monies;

- (2) the results of the periodic examination carried out for each one of the entities as aforesaid with which the NBCM has contracted for the purpose of the deposit and holding of a client's monies.

f. **An NBCM's contracting with a third party custodian**

- 1) An NBCM shall act carefully, faithfully and diligent in selecting and contracting with a third party custodian with which it deposits its clients' assets.
- 2) An NBCM shall examine the characteristics of the third party custodian in accordance with its clients' assets holding policy, before contracting with a third party custodian.

The NBCM shall document the considerations and examinations carried out by it for the purpose of selecting and contracting with a third party custodian. The documentation shall be kept at the NBCM's offices.

3) **Agreement with a third party custodian**

An NBCM shall enter into a written agreement with a third party custodian. The agreement shall cover all aspects of the contractual relationship between it and the third party custodian and shall include, *inter alia*, the following provisions:

- a) provisions enabling the NBCM to perform its duties as provider of custody services for its clients' monetary assets;
- b) provisions regulating the third party custodian's liability and the scope thereof, in the event of damage occasioned to the monetary assets of the NBCM's clients, as a result of acts done by the third party custodian and/or done by the sub-custodian operating on behalf of and for the third party custodian;
- c) provisions enabling, at any time, free transfer of monetary assets of clients held by a third party custodian, after the giving of an order from the NBCM to the third party custodian, subject to payment of commission and/or other payments due to the third party custodian, for holding the monetary assets as aforesaid;
- d) provisions enabling the NBCM to receive, routinely and on demand:
 - (1) copies of records kept by the third party custodian in connection with the monetary assets of clients deposited with it, including in connection with monies of its clients;

- (2) periodic reports and account status reports from the third party custodian, documenting all the transactions and inventory balances of the clients' monetary assets, including clients' monies held through the third party custodian.

4) **Reassessment of the NBCM's contract with a third party custodian**

An NBCM shall reassess any third party custodian through which it holds monetary assets of its clients, at such intervals as defined by it, and at least once a year, or on the occurrence of a material event requiring reassessment as aforesaid.

The NBCM shall present the reassessment to its board of directors, and in light of the reassessment's results, the NBCM's board of directors shall pass a resolution to continue or cease the holding of its clients' monetary assets through the third party custodian.

The NBCM shall document the reassessment and the board of directors' resolution as aforesaid, and keep the documentation at the NBCM's offices, together with documents supporting the reassessment.

5) **An NBCM's duties in the event that a third party custodian does not perform its obligations to the NBCM**

If an NBCM learns that a third party custodian is not performing its obligations to the NBCM, such that the NBCM is unable to perform its duties as custodian broker, pursuant to this paragraph 26. above and below, and is unable to provide proper protection for its clients' monetary assets, it shall demand that the third party custodian take all reasonable steps to remedy the failures that have come to light within a reasonable period of time.

If the failures are not remedied satisfactorily, the NBCM shall withdraw its clients' monetary assets from the third party custodian as soon as is reasonably possible.

g. **Use of a client's monetary assets**

- 1) An NBCM may use and execute transactions of any type with monetary assets of a client that are held by it for the client, including lending the client's monetary assets (hereinafter referred to as "**transactions with a client's assets**"), only if the client has given his express consent thereto, in advance and in writing (hereinafter referred to as "**the client's consent**").

The client's consent shall only be given after the client declares to the NBCM that he understands the risks involved in the execution of transactions with a client's assets, such being after the NBCM has given the client, *inter alia*, the following details:

- a) a description of the transactions with a client's assets that the NBCM may execute;
- b) an explanation of the risks involved in transactions with a client's assets;
- c) the terms and conditions that shall apply to transactions with a client's assets;
- d) the NBCM's obligation and liability to the client at the time of executing transactions with a client's assets, including the terms and conditions for returning the monetary assets to the client;
- e) details of any commission and/or payments due to the client in respect of the execution of transactions with a client's assets.

Insofar as third party custodians through which the NBCM holds monetary assets for its clients request to use monetary assets of the NBCM's clients and to execute transactions with a client's assets, they must obtain the NBCM's consent to do so, in advance and in writing. The NBCM's consent as aforesaid shall only be given if the client has given his consent thereto.

The NBCM shall ascertain, in the framework of its contract with a third party custodian for the purpose of holding monetary assets of its clients, that the third party custodian executes transactions with a client's assets only if it has received the NBCM's consent to do so, in advance and in writing.

- 2) Insofar as an NBCM has been given the client's consent to execute transactions with a client's assets, it shall adopt measures to ascertain proper conduct in connection with the execution of transactions with a client's assets, and inter alia:
 - a) the NBCM shall ascertain that its operational controls and work procedures are sufficient to ensure that use is only made of monetary assets of a client who has given his consent to the execution of transactions with a client's assets;
 - b) the NBCM shall ascertain that the execution of transactions with a client's assets is in accordance with the terms and conditions agreed with the client;
 - c) the NBCM shall ascertain that proper records are kept of the execution of transactions with a client's assets.

The NBCM shall take additional steps, insofar as required, in order to ascertain that the aforesaid is also implemented by the third party custodians, insofar as the monetary assets of a client as aforesaid are held collectively in accounts with third party custodians.

- 3) Insofar as use is made of a client's assets, subject to receipt of the client's consent as aforesaid, the NBCM shall report to the client as follows:
 - a) a report on the execution of every transaction shall be sent to the client on the day of its execution, with details of the transactions' terms and conditions;
 - b) the NBCM shall sent the client a periodic report, and at least once a quarter, detailing all the transactions executed in the client's account using the client's assets.

A report as aforesaid shall include details of each transaction, including the commission or other payments to which the client is entitled in connection with each transaction.

h. Reporting to an NBCM's client on the NBCM's policy for contracting with third party custodians and the manner of implementing it

- 1) An NBCM serving as a custodian broker shall report to its clients on its clients' assets holding policy, with regard to selecting and contracting with third party custodians for the purpose of holding the monetary assets of its clients, and on the manner of implementing this policy, including the manner in which the NBCM supervises the third party custodians' activity.
- 2) The NBCM's reports to a client as aforesaid shall be made at the following times:
 - a) at the time of contracting with the client;
 - b) at any time there is a material change in its clients' assets holding policy with regard to selecting and contracting with a third party custodian as mentioned in sub-paragraph a. above and/or in the manner of implementing the policy as aforesaid;
 - c) at such intervals as determined by the NBCM.
- 3) An NBCM may send its clients a report on its contracts with third party custodians as aforesaid in one of the following ways:
 - a) in the framework of the routine reports sent by it to its clients;
 - b) by referring the client to general information published by the NBCM, through the NBCM's website and/or in any other way in which the NBCM publishes information, provided that on request, the client is given the aforesaid information individually.

i. **NBCM's books records**

An NBCM shall keep records, supervise them and audit them, in a manner ensuring its ability to immediately identify the monetary assets of each one of its clients.

Without derogating from the aforesaid, an NBCM shall keep a separate account for each client in its records, in which the monetary assets of the client shall be recorded, and shall not mix in its records monetary assets of one client with monetary assets of another client, and shall not mix in its records monetary assets of a client with monetary assets of the NBCM.

The aforesaid in this paragraph shall also apply to monies of the client.

j. **Supervision and control measures and work procedures**

An NBCM shall adopt supervision and control measures in order to ensure proper conduct, with regard to the holding of monetary assets of clients.

The NBCM shall adopt and implement work procedures of which is to ensure the existence of proper standards of recording and management in relation to a clients' monetary assets, in order to prevent, insofar as possible, the possibility of damage to a client in consequence of a failure or negligence.

The aforesaid in this paragraph shall also apply to monies of the client.

k. **Independent auditing regarding the holding of monetary assets and monies of an NBCM's clients**

At such intervals as determined by the NBCM, and at least once a year, the NBCM shall initiate an independent audit, as follows:

- 1) a review of the records system, separation of monetary assets and monies and the necessary adjustments, having regard to the following matters:
 - a) the separation and holding of monies, as provided in paragraphs 26.e.1)a) to 26.e.1)d) above;
 - b) the separation of monetary assets, as provided in paragraph 26.c.1) above, and NBCM'S books records as provided in paragraph 26.i. above;
 - c) the existence and implementation of supervision and control measures, as provided in paragraph 26.j. above;
 - d) the making of routine adjustments to the NBCM's records as provided in paragraph 33. below.
- 2) a review of the controls system determined by the NBCM in order to comply with the requirements of sub-paragraph 1) above, and the degree of effectiveness of these controls.

The audit shall be performed by an independent accountant, who could be the NBCM's auditor.

The NBCM shall report to the Stock Exchange, once a year, on the date on which it files its annual statements with the Stock Exchange, on the performance of an independent audit as aforesaid, and on the holding of a discussion by its board of directors, and as set forth in appendix "P".

1. **A client's transaction with nostro of an NBCM in derivatives that are not traded**

The provisions of this paragraph 26. above shall not apply to a client's transaction with derivatives that are not traded, in which the NBCM is a counter-party to the transaction.

26A. Cancelled.

27. Sending notice to the client

An NBCM shall send clients who so wish written notice of every transaction or operation executed for the client, within 10 days of the date of the transaction's execution. The notice shall include at least the particulars required in the movement report, as set forth in paragraph 28.b. below.

The provisions of this paragraph shall not apply to an NBCH, the client's portfolio of which is held in a banking corporation and managed by the NBCM.

28. a. Balance report

An NBCM shall send the client, at the end of each calendar half-year at least, a report on the list of securities and other monetary assets held in the client's account and the balance in the client's monetary accounts (hereinafter referred to as "**the balance report**").

The balance report shall include the client's balances at the end of each calendar half-year and shall be sent to the client no later than the last day of the following calendar half-year.

The provisions of this paragraph shall not apply to an NBCH, the client's portfolio of which is held in a banking corporation and managed by the NBCM.

b. Movement report

An NBCM shall send a client, at the end of each calendar half-year at least, together with the balance report, as set forth in sub-paragraph a. above, a movement report, in which it shall detail all the transactions executed in the client's account in the previous calendar half-year (hereinafter referred to as "**the movement report**").

The movement report shall include, in relation to every operation or transaction, at least the following details:

- 1) the day on which the transaction was executed;
- 2) the name and number of the security or derivative;
- 3) the quantity of the security or derivative in the transaction;
- 4) the price at which the transaction was executed;
- 5) the quantity of the security or derivative in the client's account after the transaction's execution;
- 6) the amount of money with which the client's account was debited or credited;
- 7) the commission with which the client was debited;
- 8) the trading stage at which the transaction was executed (unless the transaction was executed in more than one trading stage at an average price);
- 9) if the transaction was executed off the Stock Exchange, the same shall be specified;
- 10) if the transaction was executed at the average price, the same shall be specified;
- 11) if a value day transaction was executed, details shall be given of the day of the transaction's actual execution and of its value day;
- 12) if the transaction was executed through an allocation account, the same shall be specified.

The provisions of this paragraph shall not apply to an NBCH, the client's portfolio of which is held in a banking corporation and managed by the NBCM.

c. **Reporting to a client with non-negotiable options that were allotted to the client in the scope of an employee option plan**

Notwithstanding the provisions of sub-paragraphs a. and b. above, in relation to a client account that is intended only for the depositing of non-negotiable options allotted to the client in the scope of an employee option plan implemented pursuant to section 102 of the Income Tax Ordinance (hereinafter in this paragraph referred to as "**the options**"), and/or for the exercise of the options, and which contain no other monetary assets, an NBCM can send to such a client a balance report and a movement report once a year, by no later than the 28 of February of each calendar year, in respect of the previous calendar year.

In addition, if a transaction has been made in such an account, the NBCM shall send to the client a balance report and a movement report by no later than the last day of the calendar month, following the month in which the transaction has been made.

28A. An NBCM may send its client notices and reports in accordance with this chapter (hereinafter referred to as "**the notices**") through the NBCM's website, and/or by e-mail, on fulfillment of all the following conditions:

- a. The client has signed a document including, inter alia:
 - 1) the client's consent to receive the NBCM's notices through the NBCM's website and/or by e-mail;
 - 2) the client's consent to not receive the NBCM's notices by post;
 - 3) a provision to the effect that the client may, at any time, instruct the NBCM to receive the notices by post, instead of through the NBCM's website and/or by e-mail;
 - 4) Insofar as the client has given consent to receive the notices by e-mail-the document shall include a paragraph detailing the client's e-mail address for sending the notices, as well as the client's assurance that in the event of any change in his e-mail address, the client shall report to the NBCM on the change.

The client's consent as aforesaid may be given by way of a signed written document, by way of the client's confirmation by e-mail or by way of confirmation given by the client in the designated place on the NBCM's website.

The NBCM shall document the client's consent as aforesaid and keep the documentation at its offices.

- b.
 - 1) The NBCM shall ascertain that the notices are sent to the client in the proper way.
 - 2) An NBCM which has received an indication that a notice was not sent to a client in the proper way shall contact the client and check with him the correctness of the communication details for the purpose of sending notices, and update them insofar as necessary.
 - 3) Insofar as the notices to the client are sent to him through the NBCM's website - at any time the client accesses the account on the NBCM's website, and there is a notice for the client that has not yet been opened on the website, a prominent notice shall appear to the effect that there is a notice for the client that has not yet been opened.

So long as the client has not opened a notice sent through the NBCM's website, the notice shall continue to appear in the client's account on the NBCM's website.

- c. The NBCM will monitor the cases in which it has received an indication that the notice did not reach the client, after contacting the client to check the communication details' correctness and after they have been updated in so far as necessary.

The monitoring as aforesaid shall be documented by the NBCM, and the documentation shall be kept at the NBCM's offices.

- d. If the client has agreed to receive the notices through the NBCM's website and by e-mail, the NBCM must choose at least one of the means as aforesaid as the channel through which the NBCM will send the client all the notices;
- e. The NBCM shall take proper steps to maintain the confidentiality of the information contained in the notices;
- f. The NBCM shall send notices to the client in a format enabling them to be saved and printed.

28B. Keeping notices for a client at the NBCM's offices

An NBCM may, at its client's request, not send the notices to the client, and instead keep the notices for the client at the NBCM's offices, such being in exceptional cases only, and on fulfillment of all the conditions detailed below:

- a. the client has signed a document requesting the NBCM not send the notices, but to keep the notices for the client at the NBCM's offices;
- b. if the client has not received the notices from the NBCM for a year, the NBCM shall try to locate the client and furnish the notices to the client.

If the attempt to locate the client and furnish the notices to the client fails, the NBCM shall make another attempt as aforesaid, at least once every six months.

The NBCM shall keep documentation detailing all its attempts to locate the client as aforesaid.

28C. Reporting to institutional investors

An NBCM may report to its client which is an institutional investor, as defined in the Securities (Offer of Securities to the Public) Regulations, 5767-2007, in a different manner, and at different intervals, to those prescribed in the Rules, provided that the arrangements for reporting to an institutional investor are anchored in a written agreement between the NBCM and the institutional investor, clarifying that the institutional investor is aware that these arrangements are not in accordance with the provisions of the Rules regarding reporting to clients, and that it agrees thereto.

29. Should an NBCM give a client credit for the execution of transactions in securities, it shall give the client a report of the debit balances and of the interest charges at the times customary in the banking system.

29A. Written agreement with a client of an NBCM for the opening of an account in a closed system

- a. A written agreement with a client of an NBCM for the opening of an account in a closed system, within the meaning thereof in the Prohibition of Money Laundering Order (hereinafter - "**closed system agreement**") may also be executed online through the NBCM's information systems, which are used by it for the execution of its business activity (hereinafter - "**online agreement**"), provided that the following conditions are fulfilled in respect of the online agreement:
- 1) the wording of the online agreement is presented in full on the screen in a clear and legible manner, and can be printed.

the NBCM shall have means to ascertain that the client has confirmed that he has been given an opportunity to read the agreement and has agreed to its terms and conditions.
 - 2) the online agreement shall be locked immediately after the client's confirmation, and it will not be possible to make any changes therein.
 - 3) a copy of the online agreement shall be sent to the client no later than one week from the date of its execution.
 - 4) an account opened pursuant to an online agreement shall be marked and identified as such in the NBCM's information systems, for the purpose of monitoring risks and increased surveillance by the NBCM, for a period to be determined by it and in accordance with its risk assessment.
- b. A change in an online agreement executed in a closed system may also be made by executing a new online agreement.
- c. A closed system agreement shall include all the provisions required pursuant to section 29.C. of the Rules, and shall include the following provisions, with special emphasis:
- 1) a provision regarding the duty to return the financial assets, including securities and derivatives that are not traded, which are in the client's account with the NBCM to the original account, as defined in the Prohibition of Money Laundering Order (hereinafter - "**the original account**");
 - 2) a provision determining that the client may not give an instruction to transfer the financial assets in a closed system account to an account that is not the original account, except where the original account has been closed.

- d. If the client has notified the NBCM that the original account has been closed and furnished confirmation thereof from the banking corporation or from the stock exchange member with which the original account was managed, the NBCM shall make a note thereof.

If the original account has been closed and the client has requested to transfer his financial assets, that are in his account with the NBCM, to another account of the client, the NBCM shall act as required by the Prohibition of Money Laundering Order, before transferring the financial assets as aforesaid.

- e. Financial assets, including securities and derivatives that are not traded, which are in an account in a closed system, may not be charged, except for a charge in favor of the NBCM that shall be given against the grant of a guarantee to the client, or against the grant of credit to the client, intended for the purpose of financing the client's activity in the said financial assets, as provided in the Rules.

29B. Power of attorney in fact to an attorney in fact who is not an employee of the member

The expressions in this paragraph shall bear the meanings attributed to them in the Money Laundering Prohibition Order.

a. Power of attorney in fact given by a client who is an individual

A power of attorney to a portfolio manager, who is not an employee of the member, and a power of attorney to an attorney who is not an employee of the member and not a licensed portfolio manager, (hereinafter - "**an attorney**") shall be signed by a client who is an individual in the presence of anyone authorized pursuant to the Money Laundering Prohibition Order to identify someone in person on behalf of the member.

Notwithstanding the aforesaid:

- 1) at the time a client of an NBCM, who is an individual, executes an online agreement, the NBCM may also arrange for the client to sign an online power of attorney to an attorney, without the need for face to face identification on behalf of the NBCM.
- 2) an online agreement for the grant of a power of attorney as aforesaid shall include a declaration of the client that he is aware that the attorney to whom the client is giving the power of attorney is not an employee of the NBCM.

b. Power of attorney in fact given by a client that is a corporation or public institution

A power of attorney in fact to a portfolio manager, who is not an employee of the member, and a power of attorney in fact to a person or an entity not an employee of the member and not a licensed portfolio manager, given by a client that is a corporation or public institution, shall be signed by an authorised signatory of the corporation or public institution, as the case may be. The following documents shall be annexed to the power of attorney in fact as aforesaid:

- 1) the resolution of the competent organ of the corporation or public institution, as the case may be, to give a power of attorney in fact to the portfolio manager, or person or entity, as aforesaid, in the framework of which it shall be clarified that the organ is aware that the portfolio manager or attorney in fact is not an employee of the member;
- 2) the certificate of an attorney in fact, to the effect that the resolution mentioned in sub-paragraph 1) above was duly passed and that the signatories on the aforesaid power of attorney in fact are authorized to sign on behalf of the corporation or public institution, as the case may be.

30. Cancelled.

31. Cancelled.

32. Action as provided in paragraph 27.c. of the Rules is conditional upon a reasoned written certificate being given by the NBCM's, and in his or her absence a certificate as aforesaid by his or her deputy, and by the manager of the securities department of a member that is a banking corporation, and in his or her absence a certificate as aforesaid by his or her deputy. The certificate shall be kept at the member's offices.

33. An NBCM shall make adjustments between the inventory of its and its clients' monetary assets, as appearing in its books, and the inventory of monetary assets as aforesaid entered to its credit or debit with other brokers, with clearing houses, with banking corporations, or with any other entity.

The frequency at which the adjustments shall be made and at which they shall be audited shall be determined by the NBCM's board of directors.

33A. Disconnected accounts

- a. For the purposes of this paragraph, "**independent client**" - a client of an NBCM who acts in its account at the NBCM independently, or through someone else authorised to act in the client's account who is not the NBCM (hereinafter in this paragraph referred to as "**the attorney in fact**").

- b. At least once a year, an NBCM shall perform a check to locate accounts which are candidates to be classified as disconnected accounts (hereinafter in this paragraph referred to as "**the yearly check**").
- c. An account of an independent client will be a candidate to be classified as a disconnected account in fulfillment of one or more of the following conditions:
- 1) in the yearly check it has been found that two years have passed from the day on which the last order was received in connection with the client's account.

In such regard, communication by the client and/or the attorney in fact to obtain information, through an employee of the NBCM, or through the NBCM's Internet website, or in any other way, during the past year, shall be deemed the giving of an order in connection with the client's account.
 - 2) two pieces of mail and/or two reports sent by the NBCM to the client has been returned, even if at such time orders have been given to execute transactions and transactions have been executed in the client's account.
- d. An account of a client that is managed by an NBCM shall be a candidate to be classified as a disconnected account in fulfillment of one or more of the following conditions:
- 1) in the yearly check it has been found that the deadline has passed for contacting the client for the purpose of updating his or her requirements and instructions, as stipulated in instructions to licensees in connection with clarifying the client's requirements and instructions, pursuant to the Consultancy Law, and that as of the date of the yearly check, the NBCM has not been able to contact the client, as aforesaid;
 - 2) two pieces of mail and/or two reports sent by the NBCM to the client has been returned.
- e. Before classifying a client's account as a disconnected account, the NBCM shall take steps to contact the client and/or the attorney in fact, as the case may be, as provided below:
- 1) if in the yearly check it has been found that two years have passed since the day on which the last order was received in connection with an account of an independent client, in accordance with sub-paragraph c.1) above, the NBCM shall make attempts to contact the client and/or the attorney in fact, for three months from the date of the yearly check;
 - 2) if two pieces of mail and/or two reports sent by the NBCM to the client has been returned, in accordance with sub-paragraph c.2) or d.2) above, the NBCM shall for three months from the date of their return, make attempts to locate the client's current address, and insofar as it is able to locate the current address, the NBCM shall update the client's mailing address in its information systems.

The client's address update as aforesaid, will be done after the NBCM has verified the current address via recorded conversation and/or e-mail correspondence and/or in any other way, that will be documented and kept at the NBCM's offices.

- 3) where an NBCM is unable to contact a client whose account is managed by the NBCM, for the purpose of updating the client's requirements and instructions as aforesaid, in accordance with sub-paragraph d.1) above, it shall make attempts to contact the client, for three months from the date of the quarterly check.

The NBCM shall document the attempts made to contact its clients, as aforesaid.

The documentation shall be kept at the NBCM's offices.

- f. An NBCM shall classify an independent client's account as a disconnected account and note it as such in its information systems at the following times:
 - 1) at the end of three months from the date of the yearly check in accordance with sub-paragraph e.1) above, and insofar as the NBCM's attempts to contact the client failed;
 - 2) at the end of three months from the date of return of two pieces of mail and/or two reports sent by the NBCM to the client, in accordance with sub-paragraph c.2) above, and insofar as the NBCM's attempts to contact the client, in accordance with sub-paragraph e.2) above, failed.
- g. An NBCM shall classify an account of a client managed by the NBCM as a disconnected account and shall note it as such in its information systems, at the following times:
 - 1) at the end of three months from the date of return of two pieces of mail and/or two reports sent by the NBCM to the client, in accordance with sub-paragraph d.2) above, and insofar as the NBCM's attempts to contact the client, in accordance with sub-paragraph e.2) above, failed;
 - 2) at the end of three months from the date of the yearly check in accordance with sub-paragraph e.3) above, and insofar as the NBCM's attempts to contact the client failed.
- h. An NBCM shall act as follows in connection with the disconnected accounts:
 - 1) clearly mark disconnected accounts as such in its information systems;
 - 2) concentrate all the accounts it classifies as disconnected accounts in a group of accounts that is separate from other clients accounts;

- 3) make a reasonable and protracted effort to contact a client whose account has been classified as a disconnected account, and in the case of an account of an independent client, in respect of which the client appointed an attorney in fact, the NBCM shall also make a reasonable effort to contact the attorney in fact.

If the attempt as aforesaid to contact the client and/or the attorney in fact, as the case may be, fails, the NBCM shall make further attempts to establish contact, at least every six months.

The NBCM shall document all the attempts made by it to locate the client, as aforesaid.

The documentation shall be kept at the NBCM's offices;

- 4) in a case of an account of an independent client, the NBCM shall block any activity in the account, so long as it is classified as a disconnected account, and invest the monetary assets in the account as provided below:

- a) the monetary assets in the account, which are not a cash balance and short-term bank deposits, shall be held in the portfolio unchanged;
- b) the NBCM shall invest the cash balance in the account in accordance with the client's last order, provided that it was given in the four years preceding the date of the account's classification as a disconnected account.

Insofar as the client did not give express order regarding investment of the cash balance in the account, or more than four years have passed since the date of the client's last order regarding the manner of investing the cash balance in the account, the NBCM shall invest the cash balance in the account in negotiable treasury bonds whose term to maturity does not exceed five years and in short-term bank deposits;

- c) without derogating from the provisions of sub-paragraphs a) and b) above, the blocking of activity in the client's account by the NBCM shall not apply to transactions that are not executed on the NBCM's initiative and/or on the client's initiative, including, payment of dividend, payment of interest, distribution of bonus shares and redemption of bonds.

In addition, the blocking as aforesaid shall not apply in relation to the realization, on the NBCM's initiative, of monetary assets deposited in the account, for the purpose of repaying credit provided in the account by the NBCM, insofar as realization as aforesaid is permitted pursuant to the agreement between the NBCM and the client in relation to the account;

- 5) in a case of an account of a client that is managed by the NBCM, the NBCM shall block withdrawals from the account, so long as it is classified as a disconnected account, and continue managing the client's account in accordance with the investment policy applicable to the account, as stipulated by the client at the time of drawing up the account management agreement executed with the client, or as determined with the client in the framework of the last update of the client's requirements and instructions;
- 6) the commissions charged by the NBCM in respect of a disconnected account of a client shall be identical to the commissions charged in respect of the client's account prior to its classification as a disconnected account.

Notwithstanding the aforesaid, where the NBCM's customary commissions, in respect of accounts with similar characteristics to the disconnected account, is materially lower than the commissions in respect of the disconnected account, the NBCM shall lower the commissions in the disconnected account to the level of the customary commission in respect of similar accounts as aforesaid.

- i. An NBCM shall cancel an account's classification as a disconnected account in the following circumstances:
 - 1) classification of an independent client's account as a disconnected account, by reason of the fact that two years have passed from the day on which the last order was received in the client's account, in accordance with sub-paragraph c.1) above, or by reason of the fact that two pieces of mail and/or two reports sent by the NBCM to the client was returned, in accordance with sub-paragraph c.2) above, shall be cancelled after the NBCM has managed to contact the client and/or the attorney in fact, or after it has updated the client's mailing address, as the case may be;
 - 2) classification of an account of a client that is managed by an NBCM as a disconnected account, by reason of the fact that two pieces of mail and/or two reports sent by the NBCM to the client has been returned, in accordance with sub-paragraph d.2) above, or by reason of the fact that it is unable to contact the client, for the purpose of updating the client's requirements and instructions, in accordance with sub-paragraph d.1) above, shall be cancelled after it has updated the client's mailing address, or after the NBCM has managed to contact the client for the purpose of updating the client's requirements and instructions, as the case may be.

The NBCM shall document the actions taken by it, which enabled cancellation of the account's classification as a disconnected account.

The documentation shall be kept at the NBCM's offices.

33B. Deceased client accounts

Immediately upon an NBCM learning of the death of its client, it shall note the client's account as a deceased client account, whether the deceased client was the sole account holder or held the account together with others.

Actions in the account as aforesaid shall only be taken subject to receipt of a legal opinion on the matter, and in accordance with the contents of such legal opinion.

The NBCM shall document the manner of handling the accounts of deceased clients from the moment of learning of the client's death.

The documentation shall be kept at the NBCM's offices.

33C. Person responsible for handling disconnected accounts and deceased client accounts

An NBCM shall appoint a person responsible for implementing the provisions regarding disconnected accounts and the manner of handling them, in accordance with paragraph 33A. above, and for implementing the provisions regarding deceased client accounts, in accordance with paragraph 33B. above.

The NBCM shall provide the person responsible as aforesaid with all the means required in order to perform the responsibility of this position.

33D. Audit of disconnected accounts and deceased client accounts

At least once a year, an NBCM shall audit the activity in disconnected accounts and the activity in deceased client accounts, and shall document the audit and its findings.

The documentation shall be kept at the NBCM's offices.

33E. Discussion by the NBCM's board of directors of the handling of disconnected accounts and deceased client accounts

At least once a year, the person responsible for handling disconnected accounts and deceased client accounts shall submit a report to the NBCM's board of directors regarding the action taken by the NBCM in respect of disconnected accounts and deceased client accounts, including steps taken to implement the provisions of the Rules in respect of disconnected accounts and deceased client accounts.

The NBCM's board of directors shall discuss the aforesaid report shortly after its submission.

33F. Minimum period for keeping documents pertaining to disconnected accounts and deceased client accounts

An NBCM shall keep the documentation pertaining to the handling of disconnected accounts and deceased client accounts, including audit reports in respect of such accounts, as provided in appendix "C".

Chapter VI - Monetary Sanctions

34. The amount of the monetary sanction for each monetary sanctionable offence shall be as specified against it:
- a. the failure to perform on time the duty to file a report pursuant to paragraph 20.a. of the Rules and paragraphs 25.a.2) and 25.b.2) of the Regulations - NIS 8,859 (NIS 10,365 includes VAT).
 - b. the failure to perform on time the duty to file a special certificate from the auditor in relation to the financial statements pursuant to paragraph 20.a. of the Rules and paragraph 25.a.3) of the Regulations - NIS 5,907 (NIS 6,911 includes VAT).
 - c. the failure to perform on time the duty to file an ancillary statement pursuant to paragraph 20.a. of the Rules and paragraphs 25.a.4) and 25.b.3) of the Regulations - NIS 5,907 (NIS 6,911 includes VAT).
 - d. the failure to perform on time the duty to file the auditor's certificate on investments in companies that are not traded on a stock exchange in Israel or overseas pursuant to paragraph 20.a. of the Rules and paragraphs 25.a.5) and 25.b.4) of the Regulations - NIS 5,907 (NIS 6,911 includes VAT).
 - e. the failure to perform on time the duty to file notice of appointment or retirement pursuant to one of the following paragraphs of the Rules: 3.a., 4.a. insofar as it relates to paragraph 3.a., 4A.a., 5.f., 5.r., 6.a. insofar as it relates to paragraph 5.f., 6A.a.10), 6B.a.9) and 6B.a.10) of the Rules - NIS 8,859 (NIS 10,365 includes VAT), for every appointment or retirement notice in respect of which is not given on time.
 - f. the failure to perform on time an undertaking pursuant to paragraph 6.g. of the Rules - NIS 11,811 (NIS 13,819 includes VAT).
 - g. the failure to perform on time an undertaking pursuant to paragraph 6.j. or 6.k. or 6A.a.12) insofar as it relates to paragraph 6.j., or 6A.a.13) insofar as it relates to paragraph 6.k. of the Rules - NIS 8,859 (NIS 10,365 includes VAT), for every appointment or retirement notice in respect of which is not given on time.
 - h. the failure to perform an undertaking regarding filing notice of change pursuant to one of the following paragraphs of the Rules: 4.b., 6.c. and 6A.a.2) insofar as it relates to paragraph 6.c. - NIS 29,528 (NIS 34,548 includes VAT).
 - i. Cancelled.
 - j. the failure to perform a provision pursuant to one of the following paragraphs of the Rules: 5.b., 6.d. and 6A.a.2) insofar as it relates to paragraph 5.b. or 6.d. - NIS 59,057 (NIS 69,097 includes VAT).

Notwithstanding the aforesaid, the failure to perform a provision in its articles of association pursuant to one of the following paragraphs of the Rules: 6.d.1), 6.d.2)d) and 6.d.3)a) - NIS 29,528 (NIS 34,548 includes VAT).

- k. the failure to perform a provision pursuant to paragraph 5.c. of the Rules - NIS 8,859 (NIS 10,365 includes VAT).
- l. the failure to perform a provision pursuant to paragraph 6.a. of the Rules insofar as it relates to paragraph 5.c. - NIS 8,859 (NIS 10,365 includes VAT).
- m. the failure to perform a provision pursuant to paragraph 6.e. or 6A.a.4) of the Rules - NIS 8,859 (NIS 10,365 includes VAT).
- n. the failure to perform a provision pursuant to paragraph 6.h. of the Rules - NIS 8,859 (NIS 10,365 includes VAT).
- o. the failure to perform the duty to obtain the approval of the Stock Exchange's Board of Directors as required pursuant to paragraph 12.b. of the Rules - NIS 22,147 (NIS 25,912 includes VAT).
- p. the failure to perform the duty to obtain reasoned approval as required in the Regulations pursuant to paragraph 27.c. of the Rules - NIS 4,430 (NIS 5,183 includes VAT). for each case.
- q. the failure to perform the duty to obtain the approval of the Stock Exchange's Board of Directors as required pursuant to paragraph 85.a.1) of the Rules - NIS 22,147 (NIS 25,912 includes VAT).
- r. the failure to perform the provision regarding equity as required pursuant to paragraph 5.g. of the Rules - NIS 29,528 (NIS 34,548 includes VAT).
- s. the failure to perform the provision regarding net unencumbered liquid assets as required pursuant to paragraph 5.h. of the Rules - NIS 29,528 (NIS 34,548 includes VAT).
- t. the failure to include one or more of the clause that must be included in an agreement with a client as required pursuant to paragraph 29.c. of the Rules - NIS 1,477 (NIS 1,728 includes VAT), in respect of every agreement from which the said clause is missing, and not more than NIS 17,717 (NIS 20,729 includes VAT).
- u. the failure to file on time a report on compliance with the Rule's provisions regarding credit control and collateral as required pursuant to paragraph 24J.f. of the Rules and paragraphs 25I. and 25J. of the Regulations - NIS 5,907 (NIS 6,911 includes VAT).

- v. the failure to perform one of the provisions regarding the grant of credit to its clients as required pursuant to paragraph 15. of the Rules, and paragraphs 13.a., 13.b. and 14.c of the Regulations - NIS 29,528 (NIS 34,548 includes VAT), in respect of every provision not performed.
 - w. the failure by its audit committee to discuss the possibility of replacing the auditor, in accordance with paragraph 6.k. or 6A.a.13) insofar it relates to paragraph 6.k. of the Rules and paragraph 10B.a. of the Regulations - NIS 8,859 (NIS 10,365 includes VAT).
 - x. the failure to perform the provision regarding replacement of the accountant in charge, in accordance with paragraph 6.k. or 6A.a.13) insofar it relates to paragraph 6.k. of the Rules and paragraph 10B.b. of the Regulations - NIS 8,859 (NIS 10,365 includes VAT).
 - y. the failure to file, on time, a statement regarding the auditor's service in accordance with paragraph 20.a. of the Rules and paragraph 10B.c. of the Regulations - NIS 5,907 (NIS 6,911 includes VAT).
 - z. the failure to file, on time, a monthly report , in accordance with paragraph 20.a. of the Rules and paragraph 25A4. of the Regulations - NIS 5,907 (NIS 6,911 includes VAT).
 - aa. the failure to perform the provision regarding a check-up and the failure to ascertain, each day, that it complies with the requirement for equity, initial equity and net unencumbered liquid assets, pursuant to paragraphs 5.g., 5.h. and 6A.a.6) insofar it relates to paragraph 5.g. of the Rules and pursuant to paragraph 6B. of the Regulations - NIS 2,953 (NIS 3,455 includes VAT) in respect of each daily check-up that was unperformed.
 - bb. the failure to perform the provision regarding keeping documentation of the check-ups regarding compliance with the requirements for equity, initial equity and net unencumbered liquid assets, pursuant to paragraphs 5.g., 5.h. and 6A.a.6) insofar it relates to paragraph 5.g. of the Rules and pursuant to paragraph 6B. of the Regulations - NIS 2,953 (NIS 3,455 includes VAT) in respect of each day on which documentation is not kept.
35. The terms of the monetary sanction payment notice and the member's notice of its desire to refer the matter to a panel for enquiry shall be as set out in appendix "H" to these Regulations.

36. Publication of monetary sanctions

- a. The Stock Exchange shall publish the fact of a monetary sanction's imposition, in relation to the disciplinary offences detailed in paragraphs 34.f., 34.h., 34.j., 34.k., 34.l., 34.m., 34.n., 34.o., 34.q., 34.r., 34.s. and 34.v., of the Regulations.

- b. In addition, the Stock Exchange shall publish the fact of a monetary sanction's imposition, in relation to the following disciplinary offences:
- 1) in relation to the disciplinary offences detailed in paragraphs 34.e. and 34.g. of the Regulations - if the aggregate number of cases, in the year preceding the date of the monetary sanction's imposition, in respect of which it is found that the member did not report on time any appointment and retirement, is greater than two;
 - 2) in relation to the disciplinary offences detailed in paragraph 34.p. of the Regulations - if the aggregate number of cases, in the year preceding the date of the monetary sanction's imposition, in respect of which it is found that the member did not obtain reasoned approval in writing for the failure to debit or credit a client's account with securities on the date of the transaction's execution, is greater than three;
 - 3) in relation to the disciplinary offences detailed in paragraph 34.t. of the Regulations - if the aggregate number of cases, in the year preceding the date of the monetary sanction's imposition, in respect of which it is found that the member did not include, in an agreement with its client, one or more of the clauses that must be included in an agreement with a client, is greater than 10.
- c. Notwithstanding the provisions of sub-paragraph a. above, in relation to the monetary sanctionable offences detailed in paragraphs 34.r., 34.s. and 34.v., the Stock Exchange's CEO may give orders not to publish the fact of a monetary sanction's imposition, at the CEO's discretion.
- d. The Stock Exchange's CEO may order that the fact of a monetary sanction's imposition on a member be published, even if there is no publication duty in relation to the monetary sanctionable offence committed by such member, if in the CEO's opinion of the CEO the circumstances so justify, and provided that the member has not requested, within the period of time prescribed in the Rules, to refer the matter of the monetary sanction to a panel of enquiry.

The publication shall include the details determined by the Stock Exchange's CEO.