

**BY-LAWS**  
**of the**  
**TEL AVIV**  
**STOCK EXCHANGE**  
**CLEARING HOUSE LTD.**  
**Part Two**

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## **CHAPTER ONE - CLEARING SERVICES FOR NCHM'S**

1. A member, other than a custodial member may provide services for NCHMs when the following conditions are met:
  - a. its equity shall not be less than the equity required according to the provisions of Chapter Two in Part One of the By-Laws;
  - b. it has the means and the professional staff that enable it to provide services to NCHMs;
  - c. the NCHM signed an undertaking toward the Clearing House, to comply with the By-Laws as far as they pertain to NCHMs, formulated as shown in Appendix Three of the By-Laws.
2.
  - a. If a member meets the conditions in the above section 1., then it may provide services to NCHMs, and that in accordance with an agreement between the member and the NCHM (hereafter: "clearing agreement"), and the NCHM and each of its clients shall – for all intents and purposes of the By-Laws – be treated like clients of the member.
  - b. The member that clears for an NCHM shall be debited and credited for every act of the NCHM, also including the following acts:
    - 1) securities transactions carried out on the Exchange;
    - 2) securities transactions carried out off the Exchange;
    - 3) transfers of securities to a custodian for custody;
    - 4) clearing Mutual Fund units;
    - 5) lending transactions conducted through the Clearing House's lending pool;
    - 6) various services provided by the Exchange.
3. Members shall inform the Clearing House of the identity of the NCHMs, with which they have clearing agreements.
4. If a member clears for an NCHM, then it is responsible toward the Clearing House for the clearing of the transactions of every NCHM with which it has a clearing agreement, even if – in consequence thereof – it was debited an amount greater than that agreed between them in the clearing agreement.

If a member clears for an NCHM, then it shall give the Clearing House an undertaking to clear transactions of the NCHM with which it has a clearing agreement, formulated as shown in Appendix Four of the By-Laws.

5. If a member clears for NCHMs and wants to discontinue clearing for an NCHM which clears through it, then it shall inform so to the General Manager of the Clearing House in writing; the member that clears for an NCHM and gave an aforesaid notice shall be responsible for the clearing of the transactions carried out by the NCHM until the end of 15 minutes of the time on which the said written notice was given; for the sake of clarity, let it be stated that the said responsibility shall also apply to any liability under such transactions, in respect of which the payment date or clearing date is later than the time of expiration of the liability.

When a said notice has been given, then the activity of the NCHM in trading and in the Clearing House shall be discontinued and it shall not be resumed before it signs an agreement with another member that clears for NCHMs.

6. The member that clears for NCHMs shall, five trading days before a clearing agreement lapses, give the General Manager of the Clearing House written notice of the date on which the clearing agreement will lapse; the member that clears for the NCHM shall be responsible for clearing the transactions performed by the NCHM until the date on which the agreement lapses or until the said notice is given in writing, whichever is later; for the sake of clarity, let it be stated that the said responsibility shall also apply to aforesaid transactions, in respect of which the payment date or clearing date is later than the date on which the agreement lapsed or later than the date on which the written notice was given, as the case may be.
7. An NCHM may, at any one time, accept clearing services from more than one member that clears for NCHMs.
8. The member that clears for NCHMs shall credit or debit the NCHMs which clear through it at the same time as its account with the Clearing House is credited or debited for its clearing activity, and the NCHM shall credit or debit its clients for clearing their activity at the same time as its account with the member that clears for it is credited or charged.
9. It is hereby clearly stated that the provisions of this Chapter in respect of NCHM's do not derogate from any obligation whatsoever toward the Clearing House by the member that clears for the NCHM in connection with the transactions carried out by the NCHM for which the member is the clearing member, and those transactions shall, for all intents and purposes, be deemed transactions to which the member is a party.

## **CHAPTER TWO- SECURITIES MUST BE ENTERED AT THE CLEARING HOUSE**

In this Chapter – "**securities**" include open Mutual Fund units."

1. The securities of the clients of a member, as well as the securities of the clients of an NCHM, which clear through a member, shall be registered with the Clearing House in the name of the member, which shall act as custodian for its clients and for the NCHM which clears through it; however, the following securities shall not be recorded in the member's name with the Clearing House:
  - a. securities deposited with clearing houses abroad;
  - b. securities entered in the issuer's registry in the name of the client which were deposited with the member for custody and not for registration in the member's name;
  - c. other securities, as the Board of Directors shall prescribe from time to time.
2. An NCHM shall keep its clients' securities deposits with the member that clears for the NCHM in accordance with powers of attorney that give it the right to act in the accounts in its clients' names.
3. The member's securities shall be at its disposal at all times, subject to the provisions of the By-Laws.
4.
  - a. After the end of each business day the Clearing House shall send each member – for each sub-account kept for him at the Clearing House – a report that specifies the quantity of each security entered to its credit in that sub-account.
  - b. After the end of each business day the Clearing House shall send the nominee company a report that specifies the quantity of each security for which it serves as the nominee company, which is registered to the credit of the Clearing House with the nominee company according to Clearing House records.

The nominee company shall be responsible for tracking, on an ongoing basis, the reports that the Clearing House sends it. The nominee company should check the correctness of the data that appears in each report. It should inform the Clearing House of any data item that does not match the information in its possession and should ensure that it is changed or completed as necessary. The Clearing House is not responsible for tracking the reports. Any report that was sent to the nominee company and for which no comments from the nominee company were received within 5 days of the report's sending shall be deemed final and shall bind the nominee company for all intents and purposes.

**CHAPTER THREE- SECURITIES REGISTRATION PROCEDURES AT  
NOMINEE COMPANIES AND AT THE CLEARING HOUSE**

1. The Clearing House shall enter securities registered in the name of a nominee company to the credit of its members, as specified in the By-Laws.
2. In order to assure orderly and fair trading on the Stock Exchange and orderly clearing, the following shall apply:
  - a. In addition to the records which an issuer must keep under any enactment, an issuer shall keep a separate register of securities holders for each category of securities issued by it and listed for trading on the Exchange. The register shall be kept in the form prescribed by the Companies Law 5759-1999 for keeping a register of share holders, mutatis mutandis.
  - b. Registered securities shall be registered in the issuer's register in the name of a nominee company.
  - c. The nominee company shall act as custodian for the Clearing House and shall undertake to comply with the By-Laws, as they will be from time to time, and to comply with all the other conditions that will be prescribed in their respect by the Board of Directors and the General Manager of the Clearing House.

The owner of the nominee company shall be responsible toward the Clearing House for the nominee company owned by it complying with the By-Laws that relate to its activity and responsibilities, as they will be from time to time, and that it will also comply with the decisions of the Board of Directors and of the Manager of the Clearing House on all matters connected thereto. The owner shall perform the necessary checks on a current basis, in order to ascertain that the nominee company under its ownership complies with the aforesaid.
  - d. Every convertible security of an issuer and every security deriving from its conversion, which are listed for trading on the Exchange, shall have one nominee company. Notwithstanding the aforesaid, Government bonds shall be registered in the name of the Ministry of Finance or of whoever was designated by it and short-term loans shall be registered in the name of the Bank of Israel.
3. The following provisions shall apply to securities offered to the public by an issuer:
  - a. not later than the day on which subscription lists are opened the issuer's competent organs shall adopt a resolution that the securities will be allocated to the persons entitled to them in accordance with the conditions of the prospectus; the resolution shall state that –
    - 1) the allocation day shall be the day on which the payment for the allocated securities is deposited to the issuer's credit;
    - 2) the securities, for which orders were placed by Exchange members, shall be allocated in the name of a nominee company and shall be recorded in its name on the issuer's register;
  - b. On the day of the allocation of the securities, the issuer shall deliver the following documents to the nominee company:



- 1) a letter of allocation that certifies the number and category of securities registered in the name of the nominee company in the issuer's register of securities holders (hereafter: "letter of allocation"); if the issued security is a share or debenture – the nominee company is entitled to receive a share certificate or a debenture certificate in place of a letter of allocation (hereafter: "certificate").

The certificate or the letter of allocation, as the case may be, shall not include a warning that indicates the existence of any restriction on the transferability of the security (hereafter: "Legend").

- 2) an accompanying document, as formulated in Appendix Five, as well as an advocate's certification, as formulated in Appendix Five "A" of the By-Laws;
  - 3)\*\* a copy of the immediate report about the change in the register of securities holders, which was submitted to the Securities Authority through MAGNA (Hebrew acronym of "electronic fair disclosure system", the Securities Authority's electronic reporting system – Ed.);
  - 4) a true copy of the original of the up-to-date register of securities holders, in which the securities allocated in the name of the nominee company have been registered;
  - 5) in the case of a rights issue – a copy of the certification by the Stock Exchange, that the securities' were listed.
- c. The nominee company shall deliver to the Clearing House certification that it received all the documents said in sub-paragraph b. above, and that it examined their prima facie correctness and that the term "Legend" is not imprinted on the security certificate or on the letter of allocation, as the case may be. It shall also certify that the issuer reported to the Securities Authority through MAGNA the changes in the register of securities holders, and that it examined the particulars that appear in the aforesaid documents and found them to consistent. The certification shall be as formulated in Appendix Five "B" of the By-Laws.
- d. When it has received all the documents said in sub-paragraph b. above, the nominee company shall register the securities on its books to the credit of the Clearing House and send the Clearing House a deposit order to the members' credit, as formulated in Appendix Six of the By-Laws.

If the nominee company did not receive all the documents specified in sub-paragraph b. above and / or found that they are prima facie incorrect, and / or that they do not match and / or that on the security certificate or on the letter of allocation, as the case may be, the term "Legend" is imprinted, then it shall not carry out the acts specified above, shall not give the certification that is specified

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\*\* at this stage it is not necessary to obtain a duplicate copy from double entry companies that report under Chapter Five "C" of the Securities Law correct and / or that they include inconsistencies, then it shall not perform the aforesaid acts, shall not deliver the certification specified in sub-paragraph c. above, and shall so inform the Clearing House and the issuer.

in sub-paragraph c. above, and shall so inform the Clearing House and the issuer.

- e. The Clearing House shall record the deposit on its books to the members' credit only after it received the certification specified in sub-paragraph c. above and the deposit order specified in sub-paragraph d. above, and after it checked that – in consequence of the deposit – the total number of securities of the same category deposited in the Clearing House does not exceed the quantity that – according to Stock Exchange records – was approved to be listed for trading on the Exchange.

If the Clearing House did not receive the certification specified in sub-paragraph c. above or the deposit order specified in sub-paragraph d. above, or if it found that – in consequence of the deposit – the total number of securities of the same category deposited in the Clearing House will exceed the quantity that was approved to be listed for trading on the Exchange, then the Clearing House shall not register the securities to the members' credit.

4. The provisions of section 3 above shall also apply, mutatis mutandis as the case may be, to securities allocated by private placement.
5. a. A client does not have the right to withdraw shares from the securities registered to his credit with a member and to have them registered in his name in the issuer's register of shareholders; the provisions of sub-paragraph a. shall not apply to the shares specified below:
- 1) shares that were delisted from trading on the Stock Exchange;
  - 2) shares of a foreign company, within its meaning in Part Two of the Stock Exchange by-laws;
  - 3) shares of a foreign Stock Exchange company, within its meaning in Part Two of the Stock Exchange by-laws, that are listed for trading in the United States or in Canada;
  - 4) shares of a foreign Stock Exchange company, within its meaning in Part Two of the Stock Exchange by-laws, that are not listed for trading in the United States or in Canada and that – as part of the approval to list their shares for trading on the Tel Aviv Stock exchange – was given exemption from registering all its share capital in the name of a nominee company.
- a1. A client does not have the right to withdraw closed Fund units from the securities registered to his credit with a member and to have them registered in his name in the Fund Manager's register of unit holders.
- b. If a client asked to withdraw securities that he is entitled to withdraw from the securities registered to his credit with a member and to have them registered in his name in the issuer's register (hereafter: "withdrawal"), then the following provisions shall apply:
- 1) The client's request shall be delivered to the member in writing and shall be accompanied by a transfer document (hereafter in this section: "the request");
- if the client acts through an NCHM, then the said request shall be given to the NCHM, and it shall transmit it to the member that clears for it.

- 2) The member shall submit a withdrawal order, as formulated in Appendix Seven to the By-Laws, together with the request, within three trading days after the request was received from the client.

When the withdrawal order with the request has been received by the Clearing House, the Clearing House shall debit the member for the quantity of the security stated in the withdrawal order and credit the same quantity to the nominee company. Within two trading days the Clearing House shall transmit the request with a copy of the withdrawal order to the nominee company.

- 3) A request to withdraw a quantity of the security that exceeds the balance registered to the member's credit in the sub-account to which the request refers shall not be acted on at all, and it shall be returned to the member that sent it, with the cause therefor stated.
- 4) When a nominee company has received a request, together with the copy of a withdrawal order, then within two trading days the nominee company shall transmit the request to the issuer with a photocopy of the original certificate or a photocopy of the original letter of allocation, as the case may be.
- 5) When a request has been received by an issuer, the issuer shall register the client in the Register of Securities Holders and update accordingly the quantity registered in the name of the nominee company. It shall also issue a certificate in the name of the client for the quantity withdrawn by him, as well as a letter of allocation or a new certificate in the name of the nominee company in respect of the remaining quantity that is registered in its name after the said withdrawal.

The certificate or the letter of allocation, as the case may be, that shall be issued in the name of the nominee company shall not bear the term "Legend".

- 6) Not later than two business days after the issuer received the request, he shall deliver the following documents to the nominee company (hereafter: the "withdrawal documents"):
  - (a) the document or letter of allocation, as the case may be, in the client's name as aforesaid;
  - (b) the document or letter of allocation, as the case may be, in the name of the nominee company as aforesaid;
  - (c) an covering document, as formulate in Appendix Five "C" and an advocate's certification, as formulated in Appendix Two "A" to the By-Laws;
  - (d)\* a copy of the immediate report on the change in the Register of Securities Holders, which was submitted to the Securities Authority by means of the MAGNA system.
  - (e) a true copy of the updated Register of Securities Holders.

- 7) (a)\*\* Within three trading days after the day on which the nominee company transmitted the request to the issuer, the nominee company shall check whether it has received all the withdrawal documents said in sub-paragraph 6) above, whether the withdrawal documents that it was given are prima facie in good order and that "Legend" is not imprinted on the securities certificate or on the letter of allocation, as the case may be. It shall also check whether the certificate or the letter of allocation, as the case may be, is in accord with its records and it shall ascertain through the MAGNA system that the company has made the required changes in the Register of Securities Holders.
- (b) When everything said in sub-paragraph (a) has been done, the nominee company shall – within one trading day – transmit the certificate or the letter of allocation, as the case may be, that was issued in the client's name to the member, through whom the request was submitted and the member shall transmit them to the client, either directly or through the NCHM, as the case may be. The nominee company shall also transmit to the issuer the original certificate or the original letter of allocation, as the case may be, which are mentioned in sub-paragraph 4) above.
- (c) If all the withdrawal documents specified in sub-paragraph 6) above were not received by the nominee company, or if the nominee company found that the documents are prima facie not in order, or that "Legend" is imprinted on a security certificate or on the letter of allocation, as the case may be, or that there is a discrepancy between the certificate or letter of allocation, as the case may be, and its records or the records on the MAGNA system (hereafter: "fault in the withdrawal documents"), the nominee company shall request of the issuer to correct the fault in the withdrawal documents.
- As long as the issuer has not corrected the fault in the withdrawal documents the nominee company shall not transmit the certificate or the letter of allocation, as the case may be, to the client, and it also shall not transmit to the issuer the original certificate or the original letter of allocation, as the case may be, that are mentioned in sub-paragraph 4).
- (d) If the issuer did not correct the fault in the withdrawal documents within three trading days after the nominee company addressed it as said in sub-paragraph (c) above, the nominee company shall so inform the Clearing House without delay. In its notification the nominee company shall state – after having checked the matter through the MAGNA system – whether the issuer made any change whatsoever in the Register of Securities Holders.
- (e) When the Clearing House has received the nominee company's notification said in sub-paragraph (d) above, the Clearing House shall inform the member through whom the request was received that what was requested cannot be carried out. If the nominee company stated in

the notice to the Clearing House said in sub-paragraph (d) above that the issuer did not make any change whatsoever in the Register of Securities Holders, the Clearing House shall cancel the entries it made as said in sub-paragraph 2) above, and it shall so inform the nominee company and the member through whom the request was received.

- 8) The above provisions in this section shall apply, mutatis mutandis, to the request of a client that short term loans be registered in his name in the Register kept by the Bank of Israel according to section 11 of the Short Term Loan Law 5744-1984. The withdrawal order shall be submitted to the Clearing House by the member, as formulated in Appendix Seven "A" to the By-Laws.
- 9) If an issuer acquired debentures that had been issued by it, the member with whom the debentures are registered to the issuer's credit shall submit to the Clearing without delay a withdrawal order for the withdrawal of the entire quantity that was acquired as aforesaid and that is registered with it to the issuer's credit.

The withdrawal order shall be as formulated in Appendix Seven "B" to the By-Laws and attached to it shall be the issuer's written request to withdraw the securities registered to its credit with the member. The provisions said above in this section shall apply, mutatis mutandis, to the withdrawal order.

- c. If a client requested that securities registered in his name in the issuer's register be registered to his credit with an Exchange member (hereafter: "deposit"), then the following provisions shall apply:
  - 1) the client's request shall be delivered to the Exchange member in writing and shall be accompanied by a transfer document and by documents that prove his ownership of the security (certificate or letter of allocation, as the case may be) (all these hereafter in this section: "the request");
  - 2) within three trading days after the Exchange member received the request from the client, it shall transmit the request to the nominee company; an NCHM shall transmit the request through the member that clears for it; to the request the Exchange member shall attach certification that it examined the request and that the request, including the letter of transfer, was duly signed by the client;
  - 3)\* within three trading days after it received the request, the nominee company shall transmit it to the issuer, after it made certain that the particulars in the request documents are consistent and after it made certain that the client is registered in the securities holders register in MAGNA as the owner of the securities, the deposit of which he requested.
  - 4) When the request is received by the issuer, then it shall act as follows:

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\* At this stage, checking the MAGNA system is not required in respect of the double entry companies that report under Chapter Five "C" of the Securities Law.

- a) it shall examine whether the documents in witness of the client's ownership of the securities are true, and whether the said documents are consistent with the issuer's register of securities holders;
  - b) after it is satisfied that the said documents are true and that the said particulars are consistent, it shall erase the client from the register of securities holders and enter the nominee company as the owner of the securities; it shall also issue a letter of allocation or a certificate in the name of the nominee company; the term "Legend" shall not be imprinted on the certificate or the letter of allocation, as the case may be.
  - c)\*\* it shall send a report of the change to the Securities Authority by means of the MAGNA system;
  - d) it shall transmit to the nominee company the certificate or the letter of allocation, as the case may be, an accompanying document formulated as said in Appendix Five of the By-Laws, an advocate's certification formulated as said in Appendix Five "A" to the By-Laws, a true copy of the updated register of securities holders, as well as a copy of the immediate report, which it submitted to the Securities Authority through the MAGNA system.
- 5) The nominee company shall certify to the Clearing House that it received all the documents mentioned in sub-paragraph 4)d) above and that it checked whether they are a priori correct and that the term "Legend" is not imprinted on the certificate or on the letter of allocation, as the case may be. It shall also certify that the issuer reported to the Securities Authority through MAGNA changes in the register of securities holders and that it examined the particulars that appear in the aforesaid documents and found them to be consistent. The certification shall be formulated as shown in Appendix Five "B" to the By-Laws.
  - 6) When it receives all the documents said in sub-paragraph 4)d) above, the nominee company shall enter the securities on its books to the credit of the Clearing House and send the Clearing House a deposit order to the credit of the Clearing House member, formulated as shown in Appendix Eight to the By-Laws
  - 7) The Clearing House shall enter the deposit on its books to the member's credit only after it received the certification specified in sub-paragraph 5) above, and the deposit order specified in sub-paragraph 6) above, and after it examined whether – in consequence of the deposit – the total quantity of securities of that category deposited with the Clearing House will not exceed – according to the records of the Stock Exchange – the quantity approved to be listed for trading on the Exchange

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\*\* At this stage it is not necessary to obtain a duplicate copy from double entry companies that report under Chapter Five "C" of the Securities Law.

If the Clearing House did not receive the certification specified in sub-paragraph 5) above or the deposit order specified in sub-paragraph 6) above, or if it found that – in consequence of the deposit – the total quantity of securities of that category deposited with the Clearing House will exceed the quantity approved to be listed for trading on the Exchange, then the Clearing House shall not register the securities to the member's credit.

6. Deposits and withdrawals of registered securities shall be carried out only at a client's request, which shall be accompanied by an appropriate transfer document; if the transfer of a registered security, as required by a deposit or withdrawal, is subject to a payment charged by the issuer, then the member through which the request was submitted shall be debited.
7. The nominee company shall provide services for the members only through the Clearing House.
8. The nominee company shall keep every document received by it in accordance with the By-Laws.

**CHAPTER FOUR- MEMBERS' ACCOUNTS WITH THE CLEARING  
HOUSE**

1. A member shall keep a securities account with the Clearing House, divided into separate sub-accounts – one separate sub-account for the member's activity for its clients and another separate sub-account for the member's nostro activity (hereafter: "the nostro account").
2. If, for technical and operational reasons, a member prefers to conduct its costumers' activities at the Clearing House in more than one sub-account, then he may do so, subject to the rules prescribed in the By-Laws and on the following conditions:
  - a. the member's equity shall not be less than the equity required according to the provisions of Chapter Two in Part One of the By-law.;
  - b. the member has the means and the professional manpower that enable it to keep separate sub-accounts.
3. A member shall be responsible to the Clearing House for the fulfillment of all his obligations that stem from or are connected to all the clearing orders and clearing acts carried out in all the subaccounts kept in its name at the Clearing House, and this includes – but without derogating from the generality of the aforesaid – the member's responsibility toward the Clearing House for payment of the full consideration for every security that the member acquired and for the transfer and delivery of every security the member sold, whether as part of the member's nostro activity or as part of the member's activity for its clients; without derogating from the aforesaid, the member's securities account shall be kept at the Clearing House as follows:
  - a. on all matters connected to acts with securities, the Clearing House shall treat each of the member's subaccounts as a completely independent and separate account;
  - b. the Clearing House shall perform acts in each of the member's subaccounts without taking into account any credit or debit balances in the member's other subaccounts.
4.
  - a. Each of the member's sub-accounts shall be kept separately and it shall be identified by a separate number.
  - b. The member shall inform the Clearing House of the number of the sub-account, in which it conducts its nostro activity.
  - c. A member's order to perform any act whatsoever – including the purchase or sale of a security, either on or off the Exchange – shall explicitly state the number of the member's sub-account, to which it refers.
  - d. The Clearing House shall issue reports and clearing sheets, as specified in the By-Laws, separately for each of the member's sub-accounts.
5. Monetary clearing of the clearing orders and clearing acts in all the member's accounts with the Clearing House shall be carried out in the aggregate and without separating the clearing by the separate subaccounts. In respect of monetary clearing, the debits and



credits that stem from the member's various subaccounts shall be treated like debits and credits that stem from a single account.

Notwithstanding the aforesaid, monetary clearing of activity in the additional account of Derivative (MAOF) collateral, as defined in Chapter Sixteen below, shall be carried out separately, as specified in Chapter Sixteen below.

6. Notwithstanding the provisions of this Chapter, and without derogating from the provisions of Chapter Five in this Part of the By-Laws, if a securities shortfall occurs in a member's sub-account (that is not the nostro account), and if all or part of the missing securities are in the member's nostro account, then the General Manager of the Clearing House may transfer the missing securities from the member's nostro account to his sub-account in which the securities shortfall arose, and for that purpose he may debit the missing securities against the nostro account and credit them to the sub-account; notice thereof shall be given to the member.
7. A request to keep an additional sub-account for its clients shall be submitted by the member on the form attached to the By-Laws as Appendix Nine. The Clearing House shall inform member on what date the additional sub-account will be opened.
8. If a member wants to close a sub-account, then it shall so inform the Clearing House in writing. In the notice the member shall state the number of the sub-account which shall be credit or debited instead of the closed account. The Clearing House shall inform the member on what date the sub-account will be closed.

## CHAPTER FIVE–CLEARING SECURITIES

### Applicability

1. Debits and credits of the securities accounts of the members, which stem from clearing orders and clearing acts, shall be made as specified in this Chapter (hereafter: "clearing securities").

### Definition

2. In this Chapter –

**"day of receipt" –**

on a day that is a trading day – the day on which the document, the security or the payment was received by the Clearing House, on condition that it was received at least one and a half hours before the end of the trading day, except if there is a different provision in this Chapter;

or –

on a day that is a business day, but is not a trading day – the day on which the document, the security or the payment was received by the Clearing House, on condition that it was received by 11:00 AM, except if there is a different provision in this Chapter.

### Request to clear securities

3. a. A request to clear securities, which derives from the transactions or the acts specified below, shall be submitted to the Clearing House by means of the form that designated therefore and duly signed, as specified below:

	<b>Transaction / act</b>	<b>Form</b>	<b>Signed by</b>
1	Deposit according to a / prospectus/ private allocation/ exercise a of convertible security	Appendix Six	Nominee company
2	Withdrawal at a Client's request	Appendix Seven	The member who submits the request
3	Withdrawal of Makam at the client's request	Appendix Seven "A"	The member who submits the request
4	Withdrawal at the purchaser's request upon a repurchase or a purchase offer	Appendix Seven "B"	The member that submits the request
5	Deposit by order of a client who was registered as the owner	Appendix Eight	Nominee company

	<b>Transaction / act</b>	<b>Form</b>	<b>Signed by</b>
6	Transfer by layers	Appendix Ten	The transferring member
7	DR transfer	Appendix Eleven	The transferring member
8	Off-exchange transaction other than a Repo transaction with the Bank of Israel	Appendix Twelve	The selling member and the buying member
9	canceled	-	-
10	Reverse repo with the Bank of Israel (cash)	Appendix Twelve "A"	Bank of Israel
11	canceled	-	-
12	Reverse repo with the Bank of Israel (MTM)	Appendix Thirteen "A"	Bank of Israel
13	Loan transfer (when the lending was done other than within the framework of the Clearing House's lending pool)	Appendix Thirteen "B"	Exchange member who transfers and Exchange member who receives
14	Loan return transfer (when the lending was done other than within the framework of the Clearing House's lending pool)	Appendix Thirteen "C"	Exchange member who transfers and Exchange member who receives
15	Transfer to custody	Appendix Fourteen	The transferring member and the recipient member
16	Conversion	Appendix Fifteen	The member who submits the request
17	RF (Receive free)	Appendix Twenty-one, Twenty-one "A" or Twenty-one "C", as the case may be	The recipient member
18	Reclaim order	Appendix Twenty-one "B"	The member submitting the order

	<b>Transaction / act</b>	<b>Form</b>	<b>Signed by</b>
19	DF (Delivery free)	Appendix Twenty-two or Twenty-two "B", as the case may be.	The transferor member
20	Deposit of Government bonds against monetary payment through the Clearing house	Appendix Thirty-three	Ministry of Finance
21	Withdrawal of Government bonds at the client's request	Appendix Thirty-four	The requesting member
22	Cash repurchase	Appendix Forty-four	Ministry of Finance
23	Swap	Appendix Forty-five	Ministry of Finance
24	Deposit of Government bonds that were issued in consequence of swap	Appendix Forty-six	Ministry of Finance
	<b>The Clearing House's Lending Pool</b>		
25	Lending offer	Appendix Forty-nine	Lending member
26	Order for removal from the Clearing House's lending pool	Appendix Forty-nine "A"	Lending member
27	Order for updating a lending offer	Appendix Forty-nine "B"	Lending member
28	Acceptance notice for a lending offer	Appendix Forty-nine "C"	Borrowing member

	<b>Transaction / act</b>	<b>Form</b>	<b>Signed by</b>
29	Early termination notice for lending offer	Appendix Forty-nine "D"	Lending member / borrowing member
30	Handling order for the returned securities	Appendix Forty-nine "E"	Lending member

- b. A request to transfer securities not against monetary consideration, which was sent to the Clearing House for implementation by means of a computerized transmission, shall be carried out by way of a file transmitted from the transferor member to the transferee member through the Clearing House.

The transmitted file shall only include data that relate to clients who agreed that their data be transmitted between the transferor member and the transferee member through the Clearing House.

In order to perform the clearing the Clearing House shall extract from the transmitted file the data that are specified in Appendix Ten of the By-Laws.

#### **Clearing transactions with the Bank of Israel**

4. Clearing of reverse Repos with the Bank of Israel and / or the clearing of off Exchange transactions (that include monetary clearing), which are carried out in continuation the issue of a short term loan by the Bank of Israel shall be carried out according to clearing instructions that the Clearing House will receive from the Bank of Israel alone, without obtaining the approval of the member that is the opposite party to the transaction. The said clearing shall be carried out on condition that the member that is the other party to the transaction gave the Clearing House a writ of authorization, as formulated in Appendix Forty-seven to the By-Laws, which authorizes the Clearing House to enter all the debits against the member's monetary account or against the monetary account of the member that clears for it, as the case may be, and also all the debits in the sub-accounts of the member, in accordance with instructions that the Clearing House will receive from the Bank of Israel and without any need for the member's specific approval of each individual aforesaid transaction.

The member shall deliver a signed copy of the writ of authorization to the Bank of Israel.

#### **Rules for clearing securities**

5. a. 1) Only the actual balance shall be the balance used for clearing securities.
- 2) A member, who has given a clearing order, must cause the subaccount to which the order relates to have an actual balance of the said security on the date set for its clearing, as specified in paragraph 9 below, in a quantity sufficient for its clearing in full.
- 3) It is hereby clarified that nothing in the provisions of the By-Laws, including – but without derogating from the generality of the aforesaid – the

following provisions of this Chapter, derogates from the member's obligation said in subparagraph 2) above.

- b. The members' securities accounts shall be debited and credited in respect of each clearing order with a security according to the quantity of the security regarding which the clearing order was given.
6. a. Without derogating from the provisions of Chapter Seven in Part Two of the By-Laws, a member is not entitled to securities by virtue of a transaction or act that he carried out, unless the full consideration for acquisition of the securities has been received by the Clearing House . If the full amount of the said consideration was not received by the Clearing House, ownership of the securities shall be vested in the Clearing House and the member shall not have any right thereto; for this purpose the provisions of section 34 of the Sale Law 5728-1968 shall apply to the Clearing House and it shall be deemed to have purchased the securities from a person whose business is the sale of assets of the kind sold, the sale having been in the ordinary course of his business. Without derogating from the aforesaid, the Clearing House shall be entitled and authorized to transfer the securities to a securities account that is kept at the Clearing House in the name of the Clearing House and to sell the securities to any third party whatsoever, free of any right of the member, all at the discretion of the Manager of the Clearing House, and the provisions prescribed in this Chapter shall apply to that matter.
  - b. If, for any reason whatsoever, a member's account was credited with securities before the full consideration was received by the Clearing House, the credit in the member's account shall be on condition that the full consideration will be made by the member and will be received by the Clearing House at the times set therefor in the By-Laws.  
  
If the full amount is not received by the Clearing House as aforesaid, ownership of the securities shall be vested in the Clearing House and the member shall not have any right to them and the provisions prescribed in sub section a. above shall apply.
7. In each of a member's sub-accounts securities shall be related first on account of the transactions that he performed on the Exchange and then on account of the other transactions or acts that he performed, as will be decided for this purpose by the Manager of the Clearing House

### **Times for clearing**

8. Securities shall be cleared in two rounds, as specified below:  
  
The first clearing round shall take place on every business day, simultaneously with the monetary clearing performed in the course of the first multi-lateral clearing window, as set forth in Chapter Six below.  
  
The second clearing round shall take place on every business day, simultaneously with the monetary clearing performed in the course of the second multi-lateral clearing window, as set forth in Chapter Six below.
9. Below are specified the securities clearing times:

In this section –

“The deadline for the submission of requests” –

- On Fridays and holiday eves – 11:00;
- On trading days during the intermediate days of Sukkot and Passover – 12:00;
- On any other trading day – 14:00.

<b>Act or Transaction</b>	<b>Time for clearing</b>
a. Stock Exchange transaction, other than a repo transaction	In the first clearing round on the first business day after the day on which a report about performance of the transaction was received at the Clearing House.
b. Repo transaction	<p>When a repo transaction has been received at the Clearing House, its first leg shall be cleared in the first clearing round on the first business day after the day on which it was received at the Clearing House, while the second leg shall be cleared in the first clearing round on the day set in the repo transaction for clearing the second leg, on condition that it is a business day.</p> <p>If the day set in the repo transaction for clearing the second leg is not a business day, clearing of the second leg shall be carried out on the first business day thereafter.</p> <p>Notwithstanding the aforesaid, the first leg of an overnight transaction shall be cleared in the second clearing round on the day on which the transaction was received at the Clearing House.</p>
c. Off exchange transaction, other than reverse repo with the Bank of Israel	In the first clearing round on the first business day after the day on which the request to clear the transaction was received at the Clearing House.
d. Request for transfer to custody that was received at the Clearing House by the deadline for the submission of requests at the Clearing House.	In the first clearing round on the first business day after the day on which the transfer request was received at the Clearing House, or in the second

Act or Transaction	Time for clearing
	clearing round on the day on which the transfer request was received at the Clearing House, if the member requested that the transfer be cleared on the same day.
e. Application to transfer to custody, received by the Clearing House after the deadline for the submission of requests	In the first clearing round on the first business day after the day on which the transfer request was received at the Clearing House
f. Reverse repo with the Bank of Israel	In the first clearing round on the first business day after the day on which the request to clear the transaction was received at the Clearing House
g. Deposit order, other than a deposit order said in sub-paragraph i below, as well as a withdrawal order or a request for the transfer by layers or a DR transfer request or an RF request in relation to a DSC, received at the Clearing House before the deadline for the submission of requests	In the second clearing round on the business day on which the deposit order, the withdrawal order a request to transfer by layers, a DR transfer request or an RF request in relation to a DSC, as the case may be, was received at the Clearing House before the deadline for the submission of requests
h. Deposit order, other than a deposit order said in sub-paragraph 9 below, and a withdrawal order or a request for the transfer by layers, a DR transfer request or an RF request in relation to a DSC, received at the Clearing House after the deadline for the submission of requests	In the first clearing round on the first business day after the day on which the deposit order, the withdrawal order the request for the transfer by layers, a DR transfer request or an RF request in relation to a DSC, as the case may be, was received at the Clearing House
i. Deposit order that stems from the first listing of a security	In the first clearing round on the first business day the day on which the deposit order was received at the Clearing House
j. 1) a conversion request, which was received by the Clearing House until 12:00 o'clock noon on a trading day that is not the last day for exercising the security or for exercising	In the second clearing round on the trading day on which the conversion request was received at the Clearing House



Act or Transaction	Time for clearing
<p>rights</p> <p>2) a conversion request, which was received by the Clearing House after 12:00 o'clock noon on the last trading day before the last day for exercising the security or for exercising rights, until 12:00 noon on the trading day that is the last day for exercising the security or for exercising rights</p>	<p>In the second clearing round on the trading day that is the last day for exercising the security or for exercising rights</p>
<p>k. 1) A DF request in relation to a DSC received by the Clearing House on any trading day, by the deadline for the submission of requests</p>	<p>In the second clearing round on the trading day on which the Clearing House received the request; however, if on this day there is no clearing by the DTC, in the first clearing round on the first day on which clearing takes place by the DTC</p>
<p>2) A DF request in relation to a DSC received by the Clearing House on Fridays and holiday eves by the deadline for the submission of requests</p>	<p>In the first clearing round on the first business day after the day on which the Clearing House received the request; however, if on this day there is no clearing by the DTC, in the first clearing round on the first day on which clearing takes place by the DTC.</p>
<p>l. A DF request in relation to a DSC received by the Clearing House on any trading day, after the deadline for the submission of requests</p>	<p>In the first clearing round on the first business day after the day on which the request was received at the Clearing House; however, if on this day there is no clearing by the DTC, in the first clearing round on the first day on which clearing takes place by the DTC.</p>
<p>m. An RF request in relation to an ECS received by the Clearing House by 12 noon on any trading day.</p>	<p>In accordance with the timetable prescribed in Chapter Fifteen "A" of Part Two of the By-Laws.</p>
<p>n. An RF request in relation to an ECS received by the Clearing House on any trading day, after 12 noon.</p>	<p>In accordance with the timetable prescribed in Chapter Fifteen "A" of Part Two of the By-Law</p>

<b>Act or Transaction</b>	<b>Time for clearing</b>
o. A DF request in relation to an ECS received by the Clearing House on any trading day.	In accordance with the timetable prescribed in Chapter Fifteen "A" of Part Two of the By-Laws..
p. A loan other than within the framework of the Clearing House's lending pool - request for a loan transfer or a loan return transfer, received at the Clearing House by the latest time for the submission of requests	In the first clearing round on the first business day after the day on which the Clearing House received the request for the loan transfer or the loan return transfer, or in the second clearing round on the day on which the Clearing House received the request for the loan transfer or the loan return transfer, if the member requested that the request for the loan transfer or the loan return transfer be carried out on that day
q. A loan other than within the framework of the Clearing House's lending pool - request for a loan transfer or a loan return transfer, received at the Clearing House after the latest time for the submission of requests	In the first clearing round on the first business day after the day on which the Clearing House received the request for the loan transfer or the loan return transfer
r. Lending transaction (entered into within the framework of the Clearing House's lending pool)	In the first clearing round, on the first business day after the day on which the lending transaction was entered into
s. Loan return (on termination of a lending transaction entered into within the framework of the Clearing House's lending pool)	In the first clearing round, on the first business day after the day on which the lending transaction was terminated
t. Lending offer	Immediately after the lending offer was received at the Clearing House
u. Order for removal from the Clearing House's lending pool	the order for removal from the Clearing House's lending pool was received at the Clearing House.

**Time for receipt of various clearing orders**

- 9A. a. The clearing orders for performing the acts/transactions specified above shall be deemed to have been received at the Clearing House at the time at which, according to the records of the Clearing House, the order was actually received at the Clearing House. However –
- 1) In the case of a TASE transaction, the clearing orders pertaining thereto shall be deemed to have been received at the Clearing House at the time at which, according to the records of the Stock Exchange, the transaction was engaged in at the Stock Exchange.
  - 2) In the case of a transaction on the MTS system, the clearing orders pertaining thereto shall be deemed to have been received at the Clearing House in accordance with the provisions prescribed in Chapter Nineteen and Chapter Nineteen “A” in this Part of the By-Laws.
  - 3) In the case of a transfer to custody and an off-exchange transaction, the clearing orders pertaining thereto shall be deemed to have been received at the Clearing House from the time that the clearing orders of both parties to the transfer to custody or to the off-exchange transaction, as the case may be, were received at the Clearing House, and subject to the orders of both parties to the transaction or to the transfer, as the case may be, being in correlation with each other.
  - 4) In the case of a lending transaction, the clearing orders pertaining thereto shall be deemed to have been received at the Clearing House from the time that the acceptance notice, according to this term’s meaning in Chapter Eight of this Part of the By-Laws, was received at the Clearing House.
- b. With effect from the time that a clearing order is received at the Clearing House, as referred to in sub-paragraph a. above, it is irrevocable, and it shall not be possible to cancel it being recorded at the Clearing house, to alter it or to demand that the Clearing House not carry out the clearing act related directly or indirectly to the order.
- c. Notwithstanding the provisions of sub-paragraph b. above, and subject to the Clearing House not having yet carried out the order, the member may cancel the clearing orders for the execution of the acts set forth below, and that until the last time at which the transaction can be submitted, on the day it was submitted:
- 1) a deposit order;
  - 2) a withdrawal order;
  - 3) a request for transfer by layers
  - 4) a DR transfer request;
  - 5) a conversion request;
  - 6) a DF request;
  - 7) an RF request;
- d. Notwithstanding the provisions of sub-paragraph b. above, if a TASE transaction is cancelled in accordance with that stated in the TASE Rules and in regulations under them, or if MTS delivers a notice regarding the cancellation of a transaction

on the MTS system, as stated in these By-Laws, all the clearing orders relating to the aforesaid transaction or stemming therefrom, shall be cancelled.

### **Separate clearing**

10. a. Notwithstanding the provisions of section 9 above, the Clearing House shall clear an act or transaction that is not a Stock Exchange transaction before the time set for clearing it as said in the above section 9 (hereafter: "separate clearing"), and that when all the conditions specified below have been met:
- 1) a request for separate clearing was received by the Clearing House signed by the members who are parties to the act or transaction;
  - 2) the request for separate clearing was received by the Clearing House on a trading day at the following times: on a trading day during the interim days of Succoth or of Passover – up to 12:00 noon; on any other trading day – until 1:00 PM;
- it is hereby made clear that that the Ch/ does not assume an obligation to carry out a request for separate clearing that was nor received at the times prescribed above; however, if the Clearing House so decided at its discretion, it may carry out said separate clearing;
- 3) the quantity of securities stated in the request for separate clearing does not exceed the actual balance in the sub-account to which it refers; if the Clearing House received a request for separate clearing of a quantity of securities greater than the actual balance in the sub-account to which it refers, the request shall not be carried out at all and it shall be returned to the member who requested to sell or to transfer the securities; if there is another party to the transaction or act, the Clearing House shall inform the other party that the transaction or the act was not carried out without stating the reason therefor.
- b. Notwithstanding the provisions of section 9 above, the Clearing House may clear an act or transaction that is not a Stock Exchange transaction by separate clearing, and that in order to make clearing corrections.
- c. Updated clearing sheets that include the debits and credits made in consequence of separate clearing shall be available to the members soon after the separate clearing was carried out.

### **Lack of a sufficient quantity of securities**

11. Without derogating from the provisions of paragraph 5 above, a clearing order or clearing act that relates to a quantity of securities in excess of the actual balance in the subaccount to which it relates and which – if that were not the case – would have been cleared in the first clearing round of a certain day, shall not be cleared in the said first clearing round and shall be moved for clearing in the second clearing round on the same day.
12. A transaction that is not an Exchange transaction or an act that is not a transfer to custody (on Exchange) that was not cleared in the second clearing round as said in section 11 above, because a sufficient quantity was not in the actual balance in the sub-

account to which it relates shall not be carried out at all and shall be returned to the member who wished to sell or transfer the securities. If there is another party to the transaction or act, the Clearing House shall inform the other party that the transaction or act was not carried out, without stating the reason therefore.

**Pending transaction**

13. a. A transaction on the Stock Exchange or a transfer to custody (on Exchange)(hereafter: "the original transaction") that was not cleared in the second clearing round, as said in section 11 above, because a sufficient actual quantity was not in the sub-account to which it relates shall become a pending transaction and shall be marked as such in the clearing system.
- b. When an original transaction has become a pending transaction the Clearing House shall inform each of the parties to the transaction of the particulars of the transaction and of the identity of the opposite party to the transaction.
- c. On the first business day after the record date for obtaining partial redemption of a security that is the subject of a pending transaction, the Clearing House shall – before the first clearing round – subtract from the quantity of securities, in respect of which the original transaction was made, a quantity equal to the quantity of securities that would have been redeemed if the original transaction had not turned into a pending transaction. The quantity of securities to be subtracted as aforesaid shall be rounded to the nearest whole number (hereafter: "the redeemed quantity").

Furthermore, the balance to be delivered by the selling member and also the balance to be received by the buying member shall be updated according to the aforesaid.

Let it be clearly stated that the aforesaid does not change the consideration that was agreed between the parties to the original transaction.

- d. If a corporate event other than partial redemption occurred in respect of a security that is the subject of a pending transaction, and in consequence thereof the quantity of securities to which each holder of the security is entitled will change, or if in consequence thereof a holder of the security will be entitled to another security that is listed for trading on a Stock Exchange, then before the first clearing round on the day designated the payment day in respect of the corporate event the quantity of the security in the pending transaction shall be updated just as it would have been updated if the original transaction had not become a pending transaction. If, in consequence thereof, fractions of securities are created, the quantity shall be rounded to the nearest whole number.

Furthermore, the balance to be delivered by the selling member and the balance to be received by the buying member shall also be updated according to the aforesaid.

Let it be clearly stated that the aforesaid shall not change the consideration determined between the parties to the original transaction.

In order to remove any doubt it is hereby clearly stated that, if there is a payment

day due to any right attached to the security that is the subject of the pending transaction (such as interest, interest in kind, dividend, dividend in kind, rights and bonus shares), the quantities shall not be updated as aforesaid. In cases in which the Clearing House provides claim service in respect of a said right, the Clearing House shall act according to the provisions of section 25 below in this Chapter.

- e. A pending transaction shall be brought to be cleared in each of the clearing rounds after the second clearing round said in section 11 above, until the actual balance in the sub-account to which the pending transaction relates is not less than the balance that is needed for it to be cleared. After every clearing round, in which the pending transaction was not cleared, the Clearing House shall so inform the parties to the transaction.

When the actual quantity in the sub-account to which the transaction relates is sufficient, the Clearing House shall clear the transaction.

14. a. 1) On every trading day on which a member has a net balance to deliver of any security, the Clearing House shall – at the end of the second clearing round – calculate the amount to be debited against the member's monetary account according to the opening price of the security on that trading day, multiplied by the net balance to deliver and also by the safety factor specified in sub-paragraph 2) below.

On Fridays and on holiday eves the amount to be debited against the member's monetary account shall be calculated after the second clearing round according to the closing price on the preceding trading day.

On the intermediate days of Succoth and the intermediate days of Passover the amount to be debited against the member's monetary account shall be calculated after the second clearing round according to the closing price on that day.

The calculation specified above shall be made anew on each business day in respect of every net balance to deliver of every security, and that as long as the member has a net balance to deliver in respect of any security.

- 2) The safety factor referred to in sub-paragraph 1) above shall be as follows:

<b>Type of security</b>	<b>Safety factor</b>
(a) Government bonds and short-term loans	The safety factor will be as prescribed in section 2 of Chapter Three “A” in Part One of the By-Laws.
(b) Shares included in the TA-35 index and debentures convertible into such shares	25%
(c) Shares included in the TA-90 index	40%

Type of security	Safety factor
and debentures convertible into such shares, units of a foreign traded fund	
(d) Shares included TA-SME60 index and debentures convertible into such shares, debentures, commercial securities, debenture ETFs and share ETFs	50%
(e) Shares included in the TA-Growth index and debentures convertible into such shares	75%
(f) Other shares and debentures convertible into such shares, warrants, buy options, convertibles into debentures and high -tech fund units.	100%

- b. A member must pay the Clearing House the amount calculated by the calculation in sub-paragraph a. above (hereafter in this section: "the calculated amount"). In order to make the payment the Clearing House will debit the calculated amount against the member's monetary account and credit that amount to one of the transit accounts of the Clearing House (hereafter: "the Clearing House transit account"), which for this purpose will be held by the Clearing House in a member bank with a high short term rating or in a bank that received a foreign bank license and a permit to open a branch in Israel, as prescribed in sections 4(a)(2) and 28(a) of the Banking (Licensing) Law 5741-1981 and that is a "bank with a high short term rating".

Notwithstanding the aforesaid –

- 1) if on any business day the amount deposited in the Clearing House transit account in respect of the net balance to deliver of that security is higher than the calculated amount, the Clearing House shall debit the amount of the differential against the Clearing House transit account and credit that amount to the member's monetary account;
  - 2) if on any business day the amount deposited in the Clearing House transit account in respect of the net balance to deliver of that security is less than the calculated amount, the Clearing House shall debit the amount of the differential against the member's monetary account and credit that amount to the Clearing House transit account;
  - 3) if on any business day the amount deposited in the Clearing House transit account in respect of the net balance to deliver of that security is equal to the calculated amount, the Clearing House shall not make any debit or credit.
- c. The member's monetary account will be debited or credited by the Clearing House

as said in sub-paragraph b. above in the third multilateral clearing window on the business day on which the calculation was made.

Notwithstanding the aforesaid, if the calculation was made on a Friday or holiday eve or during the intermediate days of Succoth or during the intermediate days of Passover, the said debit or credit shall be made by the Clearing House in the first multilateral clearing window on the first business day after the day on which the calculation was made.

- d. A member must pay the Clearing House an amount equal to 1.5%, divided by 365, of the value of the member's net balance to deliver for each day on which the member has a net balance to deliver in respect of Government bonds, debentures, debenture exchange traded funds, convertibles into debentures, short term loans and commercial securities, and 3% divided by 365 of the value of the member's net balance to deliver for each day on which the member has a net balance to deliver in respect of shares, convertible debentures, share exchange traded funds, warrants and buy options.

The value of the net balance to deliver of any security shall be calculated according to the security's opening price on that business day.

On Fridays and holiday eves the value of the net balance to deliver of the security shall be calculated according to the closing price on the preceding trading day.

For purposes of making the payment, the Clearing House shall debit the member's monetary account.

- e. At the end of each calendar month the Clearing House shall credit to the member's monetary account an amount equal to the total of all daily balances to the credit of the Clearing House in the Clearing House transit account, which derived from the member's pending transactions in the course of the past month, multiplied by 100% of the lowest daily interest rate that was credited to the Clearing House transit account in the course of that month, the interest rate having been rounded down to the nearest tenth of a per cent. The calculation shall be made separately for each sub-account.

If the amount that was calculated as aforesaid is less than NIS 100, the member shall not be credited.

Notwithstanding the aforesaid, the Clearing House shall not credit an amount of the daily interest to the member, as said above, in respect of the amounts held in the Clearing House transit account that stemmed from a pending transaction that became a failed transaction.

### **Failed Transactions – General**

15. a. If a pending transaction was not cleared as aforesaid until the first multi-lateral clearing window was closed on the fourth trading day after the day on which the original transaction was made (T+4), the pending transaction shall become a failed transaction and shall be marked as such in the clearing system.

It is hereby clearly stated that, once a pending transaction has become a failed transaction, the provisions of the above section 13.e. shall not apply to it any



longer and the transaction shall not be brought forward for clearing during the subsequent clearing rounds.

Notwithstanding the aforesaid, the Clearing House may turn the pending transaction into a failed transaction at an earlier time, after it gave the parties notice to that effect. Furthermore, if the securities that are the subject of the pending transaction are securities that are traded both in Tel Aviv and abroad and that are cleared both at a Clearing House in Israel and at a foreign Clearing House, the Clearing House may postpone turning the pending transaction into a failed transaction and it may bring the transaction to be cleared in the subsequent clearing rounds, as said in the above section 13.e., and that up to the time when the first multi-lateral clearing window is closed on the eighth trading day after the day on which the original transaction was carried out (T+8).

- b. If the record date for the partial redemption of a security that is the subject of a failed transaction occurs, the provisions prescribed in section 13.c. above shall apply, *mutatis mutandis*, as the case may be.
  - c. If the payment day in respect of a corporate event other than partial redemption occurs in respect of a security that is the subject of a failed transaction, and in consequence thereof the quantity of securities to which each holder of the security is entitled will change, or if in consequence thereof a holder of the security will be entitled to another security that is listed for trading on a Stock Exchange, then the provisions prescribed in section 13.d. above shall apply, *mutatis mutandis*, as the case may be.
16. After the first round on the trading day on which a pending transaction turned into a failed transaction the provisions specified below shall apply:
- a. The Clearing House shall transfer the entire quantity of securities that are the subject of the failed transaction and that is in the sub-account through which the selling member performed the sale to a securities account kept at the Clearing House in the name of the Clearing House and that is dedicated to this purpose (hereafter: "the Clearing House securities account"). To that end the Clearing House shall debit the quantity of securities that is the subject of the failed transaction and that is in the sub-account through which the selling member performed the sale and credit that quantity to the Clearing House securities account. The Clearing House shall inform the selling member of the aforesaid debit against his account.
  - b. The Clearing House shall transfer securities that are the subject of the failed transaction from the selling member's nostro account – if such there are – to the Clearing House securities account, and that in respect of a quantity equal to the differential between the missing quantity (as defined below) and the quantity of securities that were transferred from the sub-account through which the selling member performed the sale, as specified in sub section a. above. The transfer shall be carried out by debiting the said quantity against the nostro account and crediting that quantity to the Clearing House securities account. The Clearing House shall inform the selling member of the aforesaid debit against his account.

In this Chapter –

"the missing quantity" – the entire quantity of securities that the selling member undertook to deliver as part of the original transaction, that quantity being adjusted in the manner specified in paragraphs 13.c., 13.d., 15.b. or 15.c. above, as required.

- c. When the Clearing House has acted as said in sub-paragraphs a. and b. above and when the entire quantity needed in order to clear the missing quantity has been accumulated in the Clearing House securities account, then the Clearing House shall credit the accumulated quantity to the selling member and clear the failed transaction between the buying member and the selling member.
- d. When the Clearing House has acted as said in sub-paragraphs a. and b. above, but the entire quantity needed in order to clear the missing quantity has not been accumulated in the Clearing House securities account, the Clearing House shall act to buy a quantity of securities equal to the missing quantity, less quantities that were transferred to the Clearing House securities account, as said in sub-paragraphs a. and b. above (hereafter: balance of the missing quantity) and these provisions shall apply:
  - 1) the selling member must pay the Clearing House the amount obtained by multiplying the balance of the missing quantity by the price of the security at which the original transaction was carried out. To that end the Clearing House shall debit that amount against the selling member's monetary account and credit that amount to the Clearing House transit account.
  - 2) the Clearing House shall act to buy the balance of the missing quantity through a member that is the bank with which the Clearing House transit account is kept (hereafter: "the purchasing agent").

Let it be clearly stated:

- (a) if one of the following dates occurs – the record date for a final redemption, the final date for exercising an warrant or a convertible debenture or the final date for the exercise of rights – then the Clearing House shall purchase the entire missing quantity as aforesaid only up to the last trading day of the security, and in respect of rights up to the last day for exercising the rights.
  - (b) If the final date occurs for transferring the consideration for a forced sale or for delisting of the security that is the subject of the failed transaction, then the Clearing House shall buy the balance of the missing quantity only up to the last day for trading in the security.
- 3) The Clearing House shall instruct the purchasing agent to purchase the balance of the missing quantity, either on or off the Exchange, without any limit on the price.
  - 4\*) On each business day, as long as the Clearing House has not acquired the entire balance of the missing quantity, the Clearing House shall, at the end of second clearing round, calculate the amount that shall be debited against the selling member's monetary account, according to the opening price of the security on that business day, multiplied by the differential between the

entire balance of the missing quantity and the quantity that was acquired by the Clearing House up to that date in respect of that transaction, as specified below.

On Fridays and holiday eves the amount to be debited against the monetary account of the selling member shall be calculated after the second clearing round according to the closing price of the preceding day.

On the intermediate days of Succoth and the intermediate days of Passover the amount to be debited against the monetary account of the member shall be calculated after the second clearing round according to the closing price of that day.

If the amount deposited in the Clearing House transit account on account of that transaction is greater than the amount according to the aforesaid calculation, the Clearing House shall debit the amount of the differential against the Clearing House transit account and credit that amount to the selling member's monetary account.

If the amount deposited in the Clearing House transit account on account of that transaction is less than the amount obtained by the aforesaid calculation, the Clearing House shall debit the amount of the differential against the selling member's monetary account and credit that amount to the Clearing House transit account.

If the amount deposited in the Clearing House transit account on account of that transaction is equal to the amount obtained by the calculation, the Clearing House shall not make any credit or debit whatsoever.

- 5) Debits or credits to a member's monetary account, as said in sub-paragraph 4) above, shall be made by the Clearing House in the first multilateral clearing window on the business day on which the calculation was made.

Notwithstanding the aforesaid, if the calculation was made on a Friday or holiday eve, or during the intermediate days of Succoth or of Passover, the said debit or credit shall be made by the Clearing House in the first multilateral clearing window on the first business day after the day on which the calculation was made.

- 6) Without derogating from any other right that the Clearing House has under the By-Laws, the Clearing House may use the money deposited in the transit account, as specified in paragraphs 14, 16.d.1) and 16.d.4) above, for the purchase of the balance of the missing quantity.

#### **Clearing a pending transaction or a failed transactions**

17. a. When the purchasing agent has bought the balance of the missing quantity or any part thereof, the purchasing agent shall transfer the securities that he bought as aforesaid to the securities account of the Clearing House.
- b. When all the securities needed in order to clear the entire missing quantity has been accumulated in the securities account of the Clearing House, the Clearing House shall credit the accumulated securities to the selling member and clear the failed

transaction between the buying member and the selling member.

- c. If 21 days passed since the date on which the original transaction was made and the Clearing House has not managed to accumulate the entire missing quantity in the Clearing House securities account, the Clearing House shall clear the transaction by way of a monetary accounting, as specified in section 20 below, except in respect of repo transactions, to which the provisions of sub-paragraph a. above shall continue to apply until all the securities needed in order to clear the entire missing quantity have been accumulated in the Clearing House securities account.
18. a. If a failed transaction was cleared by the Clearing House as said in section 17.b. above and if the consideration for purchasing the balance of the missing quantity was greater than the amount deposited in respect of that transaction in the transit account of the Clearing House, as specified in section 16.d. above, the selling member must pay to the Clearing House the amount of the differential between the consideration for the purchase of the balance of the missing quantity and the amount deposited in the Clearing House transit account, as aforesaid. To this end the Clearing House shall debit the amount of the said differential against the selling member's monetary account.
    - b. If the amount deposited in respect of that transaction in the transit account of the Clearing House, as specified in section 16.d. above, is greater than the consideration for purchasing the balance of the missing quantity, the Clearing House shall credit the amount of the differential between the amount deposited in the Clearing House transit account in respect of that transaction and the amount of the consideration for the purchase to the selling member's monetary account.
    - c. If the consideration for purchasing the balance of the missing quantity was less than the amount obtained by multiplying the balance of the missing quantity by the price of the security at which the original transaction was carried out, the Clearing House shall debit the amount of the differential between the amount obtained by multiplying the balance of the missing quantity by the price of the security at which the original transaction was carried out and the amount of the consideration for purchasing the balance of the missing quantity against the selling member's monetary account. This amount shall remain in the Clearing House transit account.
  19. If the Clearing House received any rights whatsoever that were paid by the issuer in respect of the securities that accumulated in the Clearing House securities account, as said in paragraphs 16 and 17.a. above, the Clearing House shall credit the said rights to the selling member, as far as that is possible.
  20. a. In addition to the provisions of section 17.c. above, the Clearing House shall clear a pending transaction or a failed transaction that is not a repo transaction by way of monetary accounting or accounting in kind, as the case may be, in each of the instances specified below:
    - 1) If the payment day for the final redemption or for the voluntary early redemption of the capital amount of a debenture occurred after an original transaction became a pending transaction or a failed transaction, on condition that the transaction was not canceled by the buying member as specified in section 21 below. In a said case, an accounting shall be made as

said in paragraphs 20.c.2) or 20.c.3) below, as the case may be;

- 2) If the payment day for a partial redemption occurred after an original transaction became a pending transaction or a failed transaction, the Clearing House shall clear the redeemed quantity, on condition that the transaction was not canceled by the buying member as specified in section 21 below; ; in a said case, an accounting shall be made as said in section 20.c.4) below;
- 3) If the payment day occurred in respect of a corporate event and in consequence thereof a holder of the security will be entitled to another security that is not traded on a Stock Exchange or to any other rights after the original transaction became a pending or a failed transaction, on condition that the transaction was not canceled by the buying member, as specified in section 21 below; in a said case a monetary accounting shall be made on the payment day;
- 4) If the final day for trading an warrant occurs after the original transaction became a pending or a failed transaction, on condition that the transaction was not canceled by the buying member, as specified in section 21 below; in a said case a monetary accounting shall be made on the last exercise date of the warrant;

If trading did not take place on the day on which the final day for trading the warrant occurred, the Clearing House may, at its discretion, make the monetary accounting in a manner different from that said in section 20.c. below.

- 5) If an original transaction in rights was carried out on the day for trading rights and became a pending or a failed transaction; in the said case the monetary accounting shall be made on the day that is the last day for exercising the rights;
- 6) The security was delisted because of a forced sale or any other reason after the original transaction with the security became a pending or a failed transaction, on condition that the transaction was not canceled by the buying member, as specified in section 21 below; in a said case a monetary accounting shall be made on the second business day after the day on which the security was delisted;

If there was no trading in the security before it was delisted, the Clearing House may, at its discretion, make the monetary accounting in a manner different from that said in section 20.c. below;

- 7) The buying member canceled the failed transaction, as specified in section 21 below;
- 8) An event occurred, because of which the Clearing House has the right to demand immediate payment of the obligations of the selling member or of the buying member (as said in Chapter Three "B" of Part One of the By-Laws).

- b. In addition to the aforesaid in sub-paragraph a. above, the Clearing House may

clear a pending transaction or a failed transaction that is not a repo transaction by way of monetary accounting, if the record date in respect of a corporate event occurred after the transaction became a pending transaction or a failed transaction. The said clearing shall be carried out on the record date, on the payment date or at any other time set by the Clearing House at its discretion.

- c. An aforesaid monetary accounting or accounting in kind shall be carried out after the end of the second clearing round on the day of the accounting, as follows:
- 1) a) (1) If, on the date of the monetary accounting, the last known closing price of the security (hereafter: "price of the security on the day of the monetary accounting) is higher than the price of the security at which the original transaction was made, the amount of the differential between the price of the security on the day of the monetary accounting and the price of the security at which the original transaction was made, multiplied by the missing quantity, shall be credited to the buying member's monetary account and that amount shall be debited against the selling member's monetary account. If the price of the security on the day of the monetary accounting is equal to or less than the price of the security at which the original transaction was made, the monetary account of the selling member shall not be debited and the monetary account of the buying member shall not be credited with any amount.
  - (2) If the original transaction was cleared by the Clearing House by way of monetary accounting, as aforesaid, the Clearing House shall credit to the selling member the amount deposited in respect of that transaction in the transit account of the Clearing House as said in section 16.d. above.
  - b) (1) If part of the missing quantity accumulated in the Clearing House securities account (hereafter: "the accumulated quantity") up to the date of the monetary accounting, the Clearing House shall clear the proportional part of the failed transaction according to the accumulated quantity. To that end the Clearing House shall credit the purchased quantity to the buying member and debit an amount equal to the price of the security at which the original transaction was made, multiplied by the accumulated quantity (hereafter: "the proportional amount of consideration") against his monetary account. The Clearing House shall also credit the proportional amount of consideration to the monetary account of the selling member,
  - (2) If the Clearing House cleared part of the failed transaction, as said above, and the consideration for the purchase of the quantity purchased by the Clearing House, as said in section 16.d., is greater than the amount deposited in respect of that transaction in the transit account of the Clearing House, as specified in section 16.d. above, the selling member must pay

the Clearing House the amount of the differential between the consideration for the purchase and the amount that was deposited in the Clearing House transit account.

To that end the Clearing House shall debit the amount of the said differential against the selling member's monetary account.

If the amount deposited in respect of that transaction in the transit account of the Clearing House, as specified in section 16.d. above, is greater than the consideration for the purchase of the purchased quantity, the Clearing House shall credit the amount of the differential between the amount deposited in respect of that transaction in the Clearing House transit account and the consideration for purchasing the purchased quantity to the selling member's monetary account.

If the consideration for the purchase of the purchased quantity is less than the amount obtained by multiplying the balance of the missing quantity by the price of the security at which the original transaction was carried out, the Clearing House shall debit the amount of the differential between the amount obtained by multiplying the balance of the missing quantity by the price of the security at which the original transaction was carried out, and the consideration for the purchase of the purchased quantity against the selling member's monetary account.

- (3) In addition to the provisions of sub-paragraph 1)b)(2) above, the Clearing House shall make a monetary accounting, as specified in sub-paragraph 1)a)(1) above, in respect of the missing quantity, less the aforesaid accumulated quantity.

2) **Final redemption**

Notwithstanding the provisions of section 20.c.1) above, in the case of a final redemption, as said in section 20.a.1) above, the monetary accounting or the accounting in kind shall be carried out as follows:

a) **Monetary accounting**

- (1) If, on the payment day, the amount of redemption of the missing quantity is greater than the consideration set in the original transaction, the amount of differential between the said amounts shall be debited against the selling member's monetary account and the said amount shall be credited to the buying member's monetary account.

If, on the payment day, the amount of redemption of the missing quantity is equal to or less than the consideration set in the original transaction, the selling member's monetary account shall not be debited and the buying member's monetary account shall not be credited with any amount.

- (2) Notwithstanding the aforesaid, if on the day of payment the

issuer did not carry out the final redemption of the security that was the subject of the original transaction, the Clearing House shall not clear the transaction and shall not make any monetary accounting as specified above on the payment day.

If, after the payment day, the issuer did make any payment – in full or in part – in respect of the final redemption of the security that is the subject of the original transaction, the Clearing House shall make a monetary accounting as specified above, in accordance with the conditions of the final redemption that was carried out by the issuer.

Purchased

- (3) (a) If part of the missing quantity accumulated in the Clearing House securities account up to the trading day before the record date, then on the record date the Clearing House shall clear the proportional part of the failed transaction in accordance with the quantity that accumulated as aforesaid, and the provisions prescribed in sub-paragraph 20.c.1)b)(1) and (2) above shall apply to this matter, *mutatis mutandis*, as the case may be.
- (b) Furthermore, the provisions prescribed in the above section 20.c.2) (a(1) and (2) shall apply in respect of the missing quantity, less the quantity that accumulated, as aforesaid.

b) **Accounting in kind**

If the issuer performed the final redemption by way of a payment in kind (that is, not by way of a monetary payment) on or after the payment day, the Clearing House shall act as follows:

- (1) (a) The Clearing House shall debit the consideration prescribed in the original transaction against the buying member's monetary account and credit that amount to the selling member's monetary account.
- (b) The Clearing House shall debit the selling member and credit the buying member in accordance with the conditions of the final redemption, as carried out by the issuer, and that whether in cash or in kind, all in the manner and on the conditions that will be determined for this matter by the Clearing House at its discretion.
- (2) If until the trading day before the record date part of the missing quantity was accumulated in the Clearing House securities account, the provisions on clearing the proportional part of the failed transaction prescribed in section 20.c.2)a)(3)(a) above shall apply, *mutatis mutandis*, as the case may be, and the Clearing House shall make the accounting in kind as said in



section 20.c.2)b)(1) above in respect of the missing quantity, less the quantity that was accumulated as aforesaid.

3) **Voluntary early redemption of a debentures fund**

Notwithstanding the provisions of section 20.c.1) above, in the case of the voluntary early redemption of a debentures fund, if the buying member asked that his monetary account be credited with the amount he would have received, if the original transaction had been cleared on or before the record date, then the buying member shall submit to the Clearing House a written application, as formulated in Appendix Fifteen "B1". When the said application has been submitted, the provisions prescribed for a monetary accounting at a final redemption shall apply, as said in section 20.c.2)a)(1) above, mutatis mutandis as the case may be.

4) **Partial redemption**

Notwithstanding the provisions of section 20.c.1) above, in the case of a partial redemption said in section 20.a.2) above the following provisions shall apply:

- (a) On the payment day the amount of redemption of the redeemed quantity shall be debited against the selling member's monetary account and the same amount shall be credited to the buying member's monetary account.
- (b) Notwithstanding the provisions of sub-paragraph (a), if on the payment day the issuer did not carry out the partial redemption of the security that is the subject of the transaction, the Clearing House shall not clear the redeemed quantity and shall not make the monetary accounting as specified above.
- (c) If, after the payment day, the issuer makes any payment – in full or in part – in respect of the partial redemption of the security that is the subject of the original transaction, the Clearing House shall make a monetary accounting, as specified in sub-paragraph (a) above, in accordance with the payment made by the issuer.
- (d) If the issuer made the partial redemption by way of a payment in kind (that is, not by way of a monetary payment), either on the payment day or thereafter, the Clearing House shall debit the selling member and credit the buying member in accordance with the conditions of the partial redemption, as it was carried out by the issuer, and that either in cash or in kind, all in the manner and on the conditions that will be prescribed therefore by the Clearing House at its discretion.
- (e) It is hereby clearly stated that the provisions prescribed in this Chapter in respect of pending transactions or failed transactions, as the case may be, shall continue to apply in respect of the missing quantity (as adjusted according to paragraphs 13.c. or 15 above).

d. The provisions of sub-paragraphs a. to c. above shall not apply to repo

transactions.

21. a. 1) Beginning with the date on which a pending transaction became a failed transaction the buying member may cancel the transaction at any time.  
 If the buying member wishes to cancel the transaction as aforesaid, the Clearing House shall make a monetary accounting, as specified in section 20.c.1) above.  
 The request to cancel shall be as formulated in Appendix 35 that is attached to the By-Laws.
  - 2) Notwithstanding the provisions of sub-paragraph 1) above –
    - (a) when a transaction has become a pending transaction, the buying member may cancel the original transaction, if the record date for final redemption of the security occurred (even before the pending transaction became a failed transaction), on condition that the request to cancel is submitted by the buying member on or after the day on which trading in the secured is stopped and up to the record date.  
 The request to cancel shall be as formulated in Appendix 36 that is attached to the By-Laws.
    - (b) If the record date for the receipt of any right in respect of a security occurred after a pending transaction became a failed transaction, and if the right is of the kind of rights for which the Clearing House provides claim services, as specified below in this Chapter, then beginning with the record date for receiving the said right the buying member shall not have the right to cancel the original transaction.
    - (c) If the record date in respect of a corporate event occurred in respect of the security that is the subject of the transaction after a pending transaction became a failed transaction, then beginning with the record date and thereafter the buying member shall not have the right to cancel the original transaction.
  - b. The provisions of sub-paragraph (a) above shall not apply to repo transactions.
22. It is hereby clearly stated that, if the Board of Directors of the Clearing House decided on the early conclusion of all repo transactions to which a member is party, as specified in Chapter Nineteen "D" below, then all the repo transactions to which the member is party will be concluded early and the provisions prescribed in Chapter Nineteen "D" below shall apply thereto.
  23. The Clearing House shall act on all matters connected to pending transactions or to failed transactions according to what is specified above in this Chapter Five and the Clearing House shall not be under any obligation to perform any act or to make any payment on any matter connected to a pending transaction or to a failed transaction, except where that obligation is explicitly prescribed above in this Chapter Five and subject to the conditions that are prescribed there.
  24. It is hereby clearly stated that, if the Clearing House suffers any monetary damage that stems from any act that is specified in this Chapter or in connection therewith, then

without derogating from the members' undertakings toward the Clearing House the Clearing House may act on all matters connected to the Risk Fund, as specified in Chapter Three "A" of Part One of the By-Laws.

**Claim service**

25. a. **General provisions**

- 1) Claim service, as specified below in this section 25, is not provided in respect of securities of companies to which the tax laws of the United States apply.
- 2) A claim service is only provided in respect of the rights attached to securities that are specified below:
  - (a) cash dividend payments (hereafter: "dividends");
  - (b) cash interest payments (hereafter: "interest");
  - (c) dividend payments in kind that are carried out through the distribution of securities traded on a Stock Exchange (hereafter: "dividends in kind");
  - (d) interest payments in kind that are carried out through the distribution of securities traded on a Stock Exchange (hereafter: "interest in kind");
  - (e) distribution of bonus shares (hereafter: "bonus shares");
  - (f) offerings by way of rights (hereafter: ":rights") to holders of the company's shares.
- 3) If a transaction was carried out with a security and if on the record date for the receipt of any right in respect of the security the transaction was a pending transaction or a failed transaction, then – If the Clearing House provides claim service in respect of the aforesaid right – the Clearing House shall act to provide claim service, as specified below in this section 25 and in accordance with the conditions prescribed in it.
- 4) It is hereby clearly stated that the Clearing House is not under any obligation to provide a claim service and that the Clearing House will act to provide that service only in respect of certain rights, as specified above, and that in order to help members arrange between them efficiently the receipt of the said rights in the case of a pending transaction or a failed transaction.
- 5) In providing a claim service, the Clearing House shall only act as a connecting factor between the Clearing House members.  
 It is hereby clearly stated that the Clearing House will not be responsible for the award of any right or for the actual performance of any payment whatsoever, in respect of which the Clearing House provides a claim service, and that the Clearing House shall not guarantee that or be responsible for it in any manner.
- 6) Without derogating from the generality of the aforesaid, if an event occurred

that gives the Clearing House the right to call for the immediate payment of a member's obligations (as said in Chapter Three "A" of Part One of the By-Laws) or if an event occurred in respect of which the Clearing House has the right to announce the early conclusion of all repo transactions to which a member is party (as said in Chapter Nineteen "D" above), the Clearing House shall not provide claim service in respect of transactions to which the said member is a party.

- 7) Without derogating from any other power vested in the Clearing House under these By-Laws, each member of the Clearing House hereby authorizes the Clearing House to make in his name and in his place all the credits and debits that stem from the acts that the Clearing House performs as part of a claim service.
- 8) It is hereby clearly stated that provision of a claim service does not derogate from the rights of one member vis-à-vis another member that is an opposing party to a pending transaction or to a failed transaction (hereafter: "the opposite party"), in respect of any damage or expense caused to the member as the result of any act or omission by the opposite party.

b. **Making payments – general**

- 1) The Clearing House shall make all the debits and credits under a claim service – as far as possible – on the payment day or immediately thereafter, on condition that the payment actually was made by the issuer. Let it be clearly stated that – if because of any reason whatsoever the payment was not actually made by the issuer– the Clearing House shall not provide a claim service in respect of the said payment.
- 2) The Clearing House shall not deal with the tax aspects that are connected to payments made as part of a claim service and shall not deduct tax at the source.
- 3) It is not possible to waive the receipt of any right or payment whatsoever through the Clearing House, if the Clearing House provides a claim service in respect of the said right or payment. Without derogating from the generality of the aforesaid, it is hereby clearly stated that a client does not have the right to inform the member through whom he acts that he waives receipt of any right or payment whatsoever through the Clearing House, and the member does not have the right to give notice of a said waiver to the Clearing House according to the provisions of Chapter Nine of Part Two of the By-Laws, if the Clearing House provides claim service in respect of the said right or payment.

c. **Dividend and interest payments in cash**

The Clearing House shall debit the selling member for an amount equal to the amount of interest or amount of dividend, as the case may be, to which the buying member would have been as entitled, if the original transaction had been cleared up to or on the record date, and it shall credit that amount to the buying member's monetary account.

d. **Payment in securities traded on a Stock Exchange**

In the event of a dividend payment or of an interest payment in kind, or of a distribution of bonus shares or of rights, as said above in section 25.a.2), the following provisions shall apply:

- 1) on the payment day the Clearing House shall debit against the sub-account through which the selling member carried out the original transaction the quantity of securities to which the buying member would have been entitled, if the original transaction had been cleared up to and including the record date, and it shall credit that quantity to the sub-account through which the buying member carried out the original transaction.
  - 2) If in the selling member's sub-account there is not an actual quantity of securities that suffices for making the debit, the Clearing House shall try to debit the selling member's sub-account in each of the following clearing rounds, until the actual balance in the said sub-account is not less than the balance required in order to make the debit. If a sufficient balance is actually created in the sub-account to which the debit relates, the Clearing House shall make the debit and the credit as said in sub-paragraph 1) above.
  - 3) If the Clearing House did not manage to make the debit as said in sub-paragraph d.2) above until the end of 21 days after the payment date, because of the lack of a sufficient actual quantity, then the Clearing House shall debit the amount obtained by multiplying the quantity of securities to which the buying member was entitled as aforesaid by the price of the security, as it was on the payment day or as it is on the day of the monetary accounting, whichever is larger, against the selling member's monetary account and credit that amount to the buying member's monetary account.
  - 4) Notwithstanding the aforesaid, in the event of a rights distribution the Clearing House shall act as said in the closing passage of sub-paragraph d.3) above on the last day for exercising the rights.
- e. When the Clearing House has made a debit or a credit according to the above provisions of this section 25, it shall make reports that detail the entries in their accounts available to the members.

**Refund of expenses, exemption, indemnification and compensation**

26. a. 1) Without derogating from the provisions of the By-Laws, the selling member or the member that transfers to custody (on Exchange) shall bear all the costs that will be caused the Clearing House, including – but without derogating from the generality of the aforesaid – all payments, expenses, premiums and commissions that will be involved in or connected to the activity of the Clearing House in connection with a pending transaction or a failed transaction, including – but without derogating from the generality of the aforesaid – in connection with any lack of securities or lack of monetary cover that derive from the transactions or acts carried out by him or that are connected thereto. These amounts shall be added to all the member's other obligations toward the Clearing House and they shall, for all intents and

purposes, be deemed an integral part thereof, and they shall be paid by the member to the Clearing House – immediately and without any delay – as specified in Chapter Six of Part Two of the By-Laws, except when the Clearing House decided that the payments be made in some other manner, in which case the payment shall be made in the other manner, all as will be decided by the Clearing House.

- 2) The provisions of the above sub-paragraph a.1) shall not derogate from the member's obligation to pay to the Clearing House all the amounts that derive from debits made in its monetary account under the By-Laws.
- b. The Clearing House and the Stock Exchange and also those who act on their behalf – that is their officers, managers and employees (all those shall hereafter in this section be called "those who act on behalf of the Clearing House") – shall be exempt of and shall not bear any responsibility or liability for any loss, damage, expense or deficit of any sort and kind whatsoever (hereafter in this section: "damage") that are liable to be caused to any person or to any entity, including – but without derogating from the generality of the aforesaid – such as are liable to be caused a member because of any action, act or omission of any kind whatsoever (except when committed with malice) by the Clearing House, by the Stock Exchange or by any of those who act on behalf of the Clearing House in connection with the purchase of the missing quantity and with any other thing or matter that is connected to this Chapter.
  - c. A member who did not comply with any of the provisions of this Chapter (hereafter: "member in violation") shall indemnify and compensate the Clearing House and each member of the Clearing House in respect of all the obligations, expenses and damage – direct or indirect – that are caused to any of them in connection with a pending transaction or a failed transaction, including – but without derogating from the generality of the aforesaid – in connection with a lack of securities or lack of monetary cover that derives from the transactions or from the acts that were carried out by the member in violation or in connection thereto.

## **CHAPTER SIX- MONETARY CLEARING**

1. a. Without derogating from any other provision in the By-Laws, a member must pay to the Clearing House all the amounts connected to or derived from all the clearing orders and clearing acts to which it is a party, whether within the framework of the members nostro activity or within the framework of the member's activity for its clients.
- b. Without derogating from the conditions and the provisions prescribed in the By-Laws, monetary debits and credits that derive from clearing orders or clearing acts performed in the Clearing House (hereafter: "the monetary clearing") shall be carried out as specified in this Chapter.
2. a. For the performance of monetary clearing, the Clearing House is connected to a payments system – within the meaning of that term in the System Rules – known as RTGS.

The orders of the Clearing House to debit/credit the monetary accounts shall be transferred for implementation in RTGS. The activity of the Clearing House in RTGS is subject to the System Rules that apply to it.

- b. The Clearing House shall extend monetary clearing services to member banks that participate in the RTGS System and have monetary accounts, and also to NBMs and custodial members who have contracted with a MPMC.

Monetary clearing of an NBM and of a custodial member shall be carried out by crediting/debiting the MPMC, with whom the NBM or the custodial member, as the case may be, contracted.

Notwithstanding the aforesaid, a custodial member is not obligated to contract with a MPMC. If a custodial member has not contracted with a MPMC, the Clearing House will not allow it to carry out clearing actions involving monetary debiting.

A custodial member that had not appointed a MPMC will deliver to the Clearing House, using the form that is attached as Appendix Fourteen "F" to this part of the By-Laws, the details of a bank account managed at a member that is a bank. Such account will be used solely for crediting the member.

- c. Members who participate in the System hereby authorize the Clearing House to perform in their place all the clearing orders and monetary credit and debits, which stem from the clearing orders and clearing acts to which they are a party, as well as from the clearing orders and clearing acts of the NBMs or the custodial members for whom they are the MPMC, in their monetary accounts through the System, in accordance with the System Rules and according to what is specified in the By-Laws.
- d. 1) If a member's activity on the System was interrupted, because its use of the System was blocked as a result of it having been suspended from activity on the System or having been expelled from the System, the member shall immediately inform the Clearing House thereof by a message to be

delivered by facsimile and confirmed by a telephone call to the Manager of the Clearing House.

If the Clearing House learned that a member's activity on the System was interrupted as aforesaid, then the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, shall order an immediate temporary interruption in the provision of Clearing House services to the member, and the provisions of Chapter Three "B" in Part One of the By-Laws regarding the temporary interruption in the provision of Clearing House services shall apply.

- 2) If a bank member intends to cancel its participation in the RTGS System at its own initiative, it shall so inform the Clearing House in writing thirty days before the date on which the member wishes the cancellation of its participation to go into effect, and the provisions of Chapter Three "B" in Part One of the By-Laws regarding the suspension and the cancellation of membership shall apply.
  - 3) If the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, has decided on a temporary interruption in the provision of Clearing House services to a MPMC, or if the contract of an NBM or the custodial member with the MPMC for it was cancelled and it did not contract with another MPMC, then the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order that the provision of Clearing House services to the NBM or the custodial member, as the case may be, be immediately interrupted temporarily, and the provisions of Chapter Three "B" in Part One of the By-Laws regarding the temporary interruption in the provision of Clearing House services shall apply
3. Monetary clearing of the clearing orders and clearing acts specified below shall be carried out on every business day:
- a. transactions that were carried out during the preceding trading day, including transactions carried out on the MTS system and the fees in their respect, exclusive of Repo transactions;
  - b. the first leg of Repo transactions (other than overnight transactions) that the Clearing House received on the preceding clearing day;
  - c. the first leg of overnight transactions that the Clearing House received on that day;
  - d. the second leg of Repo transactions for which that day is the date of execution;
  - e. acts to the credit and debit of the Clearing House transit account, as defined in Chapter Five of this Part of the By-Laws;
  - f. payments of dividends, interest, linkage differentials and capital redemptions;
  - g. the exercise of rights;
  - h. the exercise of warrants;
  - i. credits / debits in respect of the creation and redemption of mutual fund units, carried out on the preceding trading day;



- j. credits / debits in respect of a lending fee for lending within the framework of lending transactions conducted through the Clearing House's lending pool;
  - k. credits / debits in respect of other services that the Clearing House or the Stock Exchange provide for their members;
  - l. any other act, which the Manager of the Clearing House will prescribe.
- 3A. The monetary clearing shall be performed by way of netting, with the debits that the member is to pay or the credits that he is to receive being deducted from the credits he is to receive or from the debits he is to pay, respectively.
4. a. On each business day there will be three multilateral clearing windows, as specified below:
- 1) a multilateral clearing window between 8:35 and 9:15 AM;
  - 2) a multilateral clearing window between 3:30 and 4:00 PM;
  - 3) a multilateral clearing window between 5:30 and 6:00 PM.
- However –
- on Fridays and holiday eves there shall be only two multilateral clearing windows, as specified below:
- 1) a multilateral clearing window between 8:35 and 9:15 AM;
  - 2) a multilateral clearing window between 12:15 and 12:45 PM.
- During the intermediate days of Succoth and the intermediate days of Passover there shall be only two multilateral clearing windows, as specified below:
- 1) a multilateral clearing window between 8:35 and 9:15 AM;
  - 2) a multilateral clearing window between 1:30 and 2:00 PM;
- b. The Manager of the Clearing House may apply to the Bank of Israel that it postpones the opening time or the closing time of any multilateral clearing window, or that it open an additional multilateral clearing window ("emergency window").
5. a. Shortly before the opening of any multilateral clearing window, the Clearing House shall send to the System the multilateral monetary payment orders that stem from all the clearing orders and clearing acts carried out on the Clearing House until that time. Multilateral payment orders shall be sent to the System by the Clearing House in the order of precedence, which the Manager of the Clearing House shall prescribe from time to time.
- b. 1) If the Clearing House received notification from the System that a multilateral payment order cannot be carried out, then the Manager of the Clearing House may transmit a corrected multilateral payment order to the System in place of the multilateral payment order that was rejected by the System. As part of the correction of the said order, the Manager of the Clearing House may, inter alia, cancel clearing orders and clearing acts, the cancellation of which shall make it possible to carry out the corrected multilateral payment order on the System.

The Manager of the Clearing House may also supplement the amount required in order to complete the clearing out of the means of the Clearing House, and that until the collateral is realized by the Clearing House, as prescribed in paragraph 3 of Chapter Three "B" in Part One of the By-Laws, on condition that that amount not be greater than the share in the risk fund of the member, whose failure to meet his monetary obligation made it impossible to perform the clearing.

If that amount is insufficient to complete the clearing, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may decide to supplement the additional amount required in order to complete the clearing out of the means of the Clearing House, and that until the collateral is realized by the Clearing House, as prescribed in paragraph 3 of Chapter Three "B" in Part One of the By-Laws, on condition that this additional amount is not greater than NIS 100 million.

Without derogating from the provisions of Chapters Five and Seven of Part Two of the By-Laws, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may decide to supplement the amount required in order to complete the clearing, even if in consequence thereof a clearing order or clearing act is carried out – for whose performance the Clearing House is not responsible, as specified in Chapter Seven of Part Two of the By-Laws.

It is hereby clarified that supplementing the clearing out of the means of the Clearing House does not derogate from any right whatsoever that the Clearing House has under the By-Laws, including the right to realize the collateral that the member in violation provided, as well as the right to realize the collateral that another member provided, and that until all obligations toward the Clearing House under the By-Laws by the member in violation have been paid

- 2) Without derogating from the aforesaid, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order that the provision of Clearing House services be immediately interrupted temporarily to the member, which did not meet its monetary obligation until the time set above in paragraph 4.a. above for closing the multilateral clearing window, because of which the multilateral payment order could not be carried out, and the provisions of Chapter Three "B" in Part One of the By-Laws regarding the temporary interruption in the provision of Clearing House services shall apply.
6. a. Bilateral payment orders shall be sent to the System by the Clearing House until 6:00 PM on each business day; however, on Fridays and holiday eves bilateral payment orders shall be sent to the System by the Clearing House until 11:30 AM.
  - b.
    - 1) The latest time for clearing a bilateral payment order shall be two hours after it was received by the System, but not later than 6:00 PM on Sundays through Thursdays, and no later than 11:30 AM on Fridays and holiday eves (hereafter: "latest time for clearing").
    - 2) If there is no sufficient monetary balance in the monetary account of the member whose account is to be debited, then the bilateral payment order to be performed in the member's account with the System shall wait until the latest time for its performance.

- 3) If the bilateral payment order was not cleared until the latest time for clearing, then the order shall be cancelled by the System, and the Clearing House shall cancel the clearing orders or clearing acts from which the bilateral payment order stemmed.
7. Clearance of multilateral payment orders and clearance of bilateral payment orders shall be final and shall not be liable to cancellation after their clearance was completed according to the System Rules.
  8. a. Every NBM and every custodial member shall have only one member who performs monetary clearing for it.
    - b. 1) A member who performs monetary clearing for another is responsible toward the Clearing House in respect of the obligations of the NBM or of the custodial member, up to the debit ceiling.

The debit ceiling shall not be less than the minimum debit ceiling.

For this purpose:

**"minimum debit ceiling"** – an amount equal to the highest daily net balance debited against the NBM or the custodial member during the last calendar quarter, which ended before the date of the monetary clearing, with the seven business days on which the net daily balance debited against the NBM, was the greatest in the said quarter not being taken into account, provided that it does not exceed the amount of NIS 125 million.

The calculation of the minimum debit ceiling of each NBM or custodial member shall be carried out by the Clearing House at the end of each quarter, and it shall go into effect on the 21<sup>st</sup> of the month following the end of each such quarter (January 21<sup>st</sup>, April 21<sup>st</sup>, July 21<sup>st</sup> and October 21<sup>st</sup>, as appropriate).

Notwithstanding the aforesaid, the minimum debit ceiling of a new NBM or custodial member, for the period from the date on which the member commences activity until the end of the second calendar quarter from the commencement date of its activity, shall be determined by the CEO of the Clearing House, based on the nature of the member's activity. At the end of such period, the minimum debit ceiling will be calculated according to the principle prescribed above.

- 2) Before a NBM or custodial member begins to operate, the NBM or the custodial member, as the case may be, shall deliver a writ of authorization from the member that performs monetary clearing for it to the Clearing House, as formulated in Appendix Fourteen "A" (hereafter: "writ of authorization"), in which the debit ceiling shall be stated.
- 3) If the updated minimum debit ceiling is greater than the amount of debit ceiling set in respect of the preceding quarter, then the NBM or the custodial member, as the case may be, shall – up to the 20<sup>th</sup> of the month following the end of such quarter, not later than 12:00 noon (January 20<sup>th</sup>, April 20<sup>th</sup>, July 20<sup>th</sup> and October 20<sup>th</sup>, as appropriate) deliver a new and updated writ of authorization from the member who performs monetary

clearing for it

- 4) If an NBM or a custodial member, as the case may be, produced a writ of authorization, then its monetary debit balances that stem from multilateral clearing shall be debited against the monetary account of its MPMC, and that up to the debit ceiling.

If the NBM or the custodial member, as the case may be, did not produce a writ of authorization by the time set therefor, or if the NBM or the custodial member, as the case may be, delivered a writ of authorization in an amount smaller than the minimum debit ceiling, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order that the provision of Clearing House services to the NBM or the custodial member, as the case may be, be immediately interrupted temporarily, and the provisions of Chapter Three "B" in Part One of the By-Laws regarding the temporary interruption in the provision of Clearing House services shall apply.

- c. 1) A member who performs monetary clearing for others may at any time increase the debit ceiling and an up-dating writ of authorization shall be in effect after its receipt by the Clearing House.
- 2) A member who performs monetary clearing for others may at decrease the debit ceiling up to 45 minutes before the time for opening a multilateral clearing window

The up-dated writ of authorization shall be in effect from its receipt by the Clearing House; however if the writ of authorization was received 45 minutes or less before the time for opening a multilateral clearing window, then it will be taken to have been received by the Clearing House after the multilateral clearing window was closed, and the member who performs monetary clearing will continue to be obligated toward the Clearing House in respect of the NBM's debits or of the custodial member's debits, as the case may be, up to the debit ceiling before the up-dating, and that until after the said multilateral clearing window is closed and after clearing in that multilateral clearing window has been carried out.

In any case, the reduction shall not apply to the amounts that already were debited to the monetary account of the member who performs monetary clearing for the NBM's debits or for the custodial member's debits, as the case may be, up to the receipt of the updated writ of authorization by the Clearing House.

Reducing the ceiling to less than the minimum debit ceiling shall be taken to be a notification of the end of the contract between the NBM or the custodial member, as the case may be, and the member who performs monetary clearing for it, as specified in section 9 below.

An increase or a decrease of the debit ceiling shall be performed by delivering an up-dated writ of authorization to the Clearing House, as formulated in Appendix Fourteen "A", and which shall replace the previous writ of authorization and take its place.

- d. If, in consequence of clearing a multilateral payment order, the monetary debit balance of an NBM or of the custodial member, as the case may be, is liable to exceed the debit ceiling, then the NBM or the custodial member, as the case may be, shall – up to 5 minutes before the time set in paragraph 4.a. above as the time for opening the multilateral clearing window, within which the multilateral payment order is to be cleared – deliver to the Clearing House an authorization to debit the amount of the difference between the debit ceiling and the total monetary debit balance against the monetary account of its MPMC. The said authorization shall be formulated as said in Appendix Fourteen "B".

If the NBM or the custodial member, as the case may be, did not deliver the aforesaid authorization by 5 minutes before the time set in paragraph 4.a. above as the time for opening the multilateral clearing window, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order an immediate temporary interruption in the provision of clearing services to the member, and the provisions of Chapter Three "B" in Part One of the By-Laws regarding the temporary interruption in the provision of clearing services shall apply.

- e. Before each multilateral clearing window, the Clearing House shall calculate – and report to the NBM or to the custodial member, as the case may be, and to the member that performs monetary clearing for it – the net balance by which the member who performs monetary clearing is expected to be debited / credited in respect of the activity of the NBM or of the custodial member, as the case may be.

The actual debit is liable to differ from the report the Clearing House will deliver as aforesaid, and that in case one or more of the multilateral payment orders are rejected by the System for any reason whatsoever.

- f. For every monetary debit balance that stems from bilateral clearing by an NBM or by a custodial member, the NBM or the custodial member, as the case may be, shall deliver a written authorization from its MPMC to debit the monetary account of the MPMC in the amount of the monetary debit balance that stems from clearing the bilateral payment order. The said authorization shall be as formulated in Appendix Fourteen "C".

Delivery of the aforesaid authorization to the Clearing House is a condition for the Clearing House sending the bilateral clearing order to be performed by the System.

If the aforesaid authorization was not received by the last time for send bilateral payment orders, as said in paragraph 6 above, then clearing of the bilateral payment order shall not be carried and the clearing orders or clearing acts from which the debit balance stems shall be cancelled.

The MPMC shall be responsible to the Clearing House for every debit that stems from an authorization that it gave as aforesaid.

Notwithstanding the aforesaid, where the debit balance of the NBM derives from the clearing of a failed transaction, as set out in paragraph 17.b. to Chapter Five of this part of the By-Laws, the NBM will deliver the aforesaid authorization to the Clearing House within an hour of receiving the Clearing House's notice of the

existence of the debit balance. If the aforesaid authorization is not received by the end of one hour of the Clearing House's notice, the Clearing House will debit, without prejudice to any other power conferred upon it pursuant to the By-Laws, to the NBM a monetary amount of NIS 1,000 with the addition of VAT.

9. If a MPMC wishes to cease being a MPMC for an NBM or for a custodial member, it shall so inform the Clearing House by a notice delivered by facsimile, with the clearing House's receipt of the notice being confirmed by a telephone call to the Manager of the Clearing House, or in his absence to the CEO of TASE. With effect from the date of said notice being delivered to the Manager of the Clearing House, the member shall cease to be the MPMC for the NBM or for the custodial member, as the case may be.

Notwithstanding the aforesaid, if the said notice was delivered 45 minutes or less before the time for opening a multilateral clearing window, it shall be deemed to have been received by the Clearing House only when that multilateral clearing window is closed and the MPMC shall continue to be responsible to the Clearing House for the debits of the NBM or of the custodial member, as the case may be, up to the debit ceiling, up to the time for closing the said multilateral clearing window and the performance of clearing in that multilateral clearing window.

When a said notice has been given and the NBM or the custodial member, as the case may be, has not contracted with another MPMC, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order an immediate temporary interruption in the provision of Clearing House services to the NBM or to the custodial member, as the case may be, and the provisions of Chapter Three "B" in Part One of the By-Laws regarding the temporary interruption in the provision of Clearing House services shall apply.

10. If a member did not cover a monetary debit balance that stems from the clearing of multilateral payment orders up to the time when he should have done so according to the provisions of this Chapter of the By-Laws, then the Clearing House shall – without derogating from any other authority vested in it under the By-Laws – debit the amount of NIS 3,000 plus VAT against the member for each delay.
11. Notwithstanding the above provisions, monetary clearing in terms of dollars shall not be carried out through the RTGS System, but as specified in this section:
- a. a member that is a bank shall keep a monetary account with the Bank of Israel for clearing in dollars. Clearing in dollars of a member that is a bank shall be carried out by the Clearing House by crediting or debiting that monetary account on the business day that the Clearing House designated as the determining day for monetary clearing in dollars (hereafter: "dollar clearing day");
  - b. clearing in dollars for an NBM or for a custodial member shall be carried out on the dollar clearing day by debiting or crediting the monetary account of the member who performs clearing for it;
  - c. on each business day the Clearing House shall submit to the Bank of Israel the documents related to dollar clearing on that day, and it shall accordingly debit or credit the monetary accounts of the members that are banks.
  - d. 1) A member that performs monetary clearing is responsible to the Clearing

House for the dollar debits of the NBM or of the custodial member, as the case may be, up to the ceiling for dollar debits;

The ceiling for dollar debits shall not be less than \$ 50,000 (hereafter: "the minimum ceiling for dollar debits");

- 2) Before an NBM or the custodial member, as the case may be, begins activity the NBM or the custodial member, as the case may be, shall submit a writ of authorization from the member that performs monetary clearing for it, formulated as said in the attached Appendix Fourteen "A1", in which the ceiling for dollar debits shall be stated (hereafter: "dollar authorization").
- 3) When the NBM or the custodial member, as the case may be, has delivered a dollar authorization, its monetary debit balances that derive from dollar clearing shall be debited against the account of its MPMC, and that up to the ceiling for dollar debits;

If the NBM or the custodial member, as the case may be, did not deliver a dollar authorization by the time set therefor or if the NBM or the custodial member, as the case may be, delivered a dollar authorization in an amount smaller than the minimum ceiling for dollar debits, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order an immediate temporary interruption in the provision of Clearing House services to the NBM or to the custodial member, as the case may be, and the provisions of Chapter Three "B" in Part One of the By-Laws regarding temporary interruption in the provision of Clearing House services shall apply.

- e. 1) A member that performs monetary clearing may at any time increase the ceiling for dollar clearing and the up-dated dollar authorization shall be in effect as of the time when it was received by the Clearing House.
- 2) A member that performs monetary clearing may reduce the ceiling for dollar clearing on any clearing day until 8:45 AM.

The up-dated dollar authorization shall be in effect from the time when it was received by the Clearing House, but if the up-dated dollar authorization was received by the Clearing House after 8:45 AM, it shall be deemed to have been received by the Clearing House on the next clearing day and the member that performs monetary clearing shall continue to be responsible to the Clearing House for the debits of the NBM or of the custodial member, as the case may be, up to the dollar ceiling amount that was in effect before the up-date, and that until the next clearing day.

In any case, the reduction shall not affect the amounts that already have been debited against the monetary account of the member that performs monetary clearing for the debits of the NBM or for the debits of the custodial member, as the case may be, up to when the up-dated dollar authorization is received by the Clearing House.

A reduction of the ceiling for dollar debits to less than the minimum ceiling for dollar debits shall be treated like a notice that the contract between the



NBM or the custodial member, as the case may be, and the member that performs monetary clearing for it has been canceled, as specified in the above section 9.

An increase or reduction of the ceiling for dollar debits shall be made by delivering to the Clearing House an up-dated written dollar authorization, as formulated in the attached Appendix Fourteen "A1", which shall replace the previous writ of dollar authorization.

- f. If, in consequence of monetary dollar clearing, the monetary balance of dollar debits of the NBM or of the custodial member, as the case may be, is expected to exceed the ceiling for dollar debits, the NBM or the custodial member, as the case may be, shall deliver to the Clearing House up to 9:30 AM an authorization to debit the monetary account of the member that performs monetary clearing in the amount of the differential between the ceiling for dollar debits and the total balance of dollar debits; the said authorization shall be formulated as said in the attached Appendix Fourteen "E".

If a said authorization was received by the Clearing House from the member that performs monetary clearing, the monetary dollar debit balances of the NBM or of the custodial member, as the case may be, on the clearing day shall be debited against the monetary account of the member that performs clearing for it.

- g. If the NBM or the custodial member, as the case may be, did not deliver said authorization by 9:30 AM on any day for dollar clearing, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order an immediate temporary interruption in the provision of clearing services to the member, and the provisions of Chapter Three "B" in Part One of the By-Laws regarding temporary interruption in the provision of clearing services shall apply.
- h. Dollar clearing in respect of the clearing orders and clearing acts of an NBM or of the custodial member, as the case may be, that are cleared in a separate clearing shall be performed at the same time as the clearing of securities, as specified below:

The MPMC for the NBM or for the custodial member, as the case may be, shall, within 45 minutes of when the NBM or the custodial member, as the case may be, received notice from the Clearing House of the amount debited against it in a separate clearing, give the Clearing House an authorization formulated according to Appendix Fourteen "D" and the Clearing House shall debit the monetary account of the MPMC for the NBM or for the custodial member, as the case may be.

If said authorization was not received by the Clearing House, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order an immediate temporary interruption in the provision of Clearing House services to the member and the provisions of Chapter Three "B" in Part One of the By-Laws regarding temporary interruption in the provision of Clearing House services shall apply.

- i. Dollar clearing in respect of the clearing orders and clearing acts of a member that

is a bank, which are cleared in a separate clearing, shall be performed at the same time as the clearing of securities by means of an immediate debit against its monetary account.

- j. If a member does not cover a monetary debit balance until the date when he should have done so according to the above provisions of this section, the Clearing House shall debit the amount of NIS 3,000 plus VAT for every day of delay against the member's monetary account, without derogating from any other authority vested in it under the By-Laws.
12. a. The Clearing House shall produce clearing sheets in a format to be decided by it. The clearing sheets shall include details that will be determined from time to time by the Manager of the Clearing House. Separate clearing sheets shall be produced for each sub-account.
- b. 1) The activities of NCHM's that are not carried in a separate sub-account shall be specified on the clearing sheets of the members that clear for them. The details shall include both to of securities and monetary consideration. Furthermore the Clearing House shall produce for each NCHM an overall clearing report, which includes the particulars of the transactions and acts performed by the NCHM. The report shall include particulars prescribed from time to time by the Manager of the Clearing House.
  - 2) The monetary acts of an NBM and of the custodial member shall be specified on its monetary clearing sheet, and in addition the summary of the monetary acts shall be stated (in a single amount) on the monetary clearing sheet of the member who performs monetary clearing.
- c. Immediately before monetary clearing is carried out (of multilateral payment orders / bilateral payment orders) the Clearing House shall make the members' monetary clearing sheets available to the members, which include the monetary acts that will be cleared for them during that monetary clearing.

The clearing sheets shall become final and absolute after monetary clearing has been carried out in accordance with the System Rules.

**CHAPTER SEVEN- RESPONSIBILITY OF THE CLEARING HOUSE**  
**FOR THE EXECUTION OF TRANSACTIONS OR ACTS**

1. a. 1) If a TASE member sold securities in a TASE transaction or if he was the transferor in a transfer to custody (on TASE) received by the Clearing House, and he transferred the said securities to the Clearing House as required by the By-Laws, the Clearing House shall credit the amount of consideration for the said securities to the selling or transferring member, as the case may be, or – in the case of a NCHM – to the MPMC, according to the rules and conditions prescribed in the By-Laws, and that even if the full consideration for the securities was not received by the Clearing House.
  - 2) A TASE member, who sold securities in a TASE transaction or who was the transferor in a transfer to custody (on TASE) received by the Clearing House, shall not be entitled to the consideration received for the sale or transfer of the securities, as the case may be, unless he has transferred to the Clearing House the securities that he sold or that he undertook to transfer, as aforesaid.
  - b. 1) If a TASE member bought securities in a TASE transaction or if he was the transferee in a transfer to custody (on TASE) ) received by the Clearing House, and he transferred the full consideration for them to the Clearing House, as required by the By-Laws, the Clearing House shall act to transfer to the buying or transferee member, as the case may be, or – in the case of a NCHM – to the MPMC, the securities that he bought or that he is entitled to receive, as the case may be, or the consideration for them, all according to the rules and conditions prescribed in the By-Laws, and that even if the selling member or the transferor member, as the case may be, did not transfer the securities that he sold or undertook to transfer as aforesaid.  
  
It is hereby clarified that the aforesaid responsibility of the Clearing House shall not apply to rights attached to securities, such as: interest, interest in kind, dividends, dividends in kind, bonus shares and anything connected thereto.
  - 2) A TASE member, who bought securities in a TASE transaction or who was the transferee in a transfer to custody (on TASE) ) received by the Clearing House,, as the case may be, is not entitled to the securities, except if the full consideration for them was received by the Clearing House. If the full consideration for them was not received by the Clearing House, ownership of the securities shall be vested in the Clearing House and the member shall not have any right to them; in this context the provisions of Section 34 of the Sale Law, 5728-1968 shall apply to the Clearing House and it shall be deemed to have purchased the securities from a person whose business is the sale of assets of the kind sold, the sale having been in the ordinary course of his business.
2. a. A clearing order to clear a transaction that is not a TASE transaction or a clearing order to clear an act that is not a transfer to custody (on TASE) shall not be

- carried out at all and shall be returned to the member who gave the clearing order, if the full consideration for the transaction has not been paid in full.
- b. A clearing order to clear a transaction that is not a TASE transaction or a clearing order to clear an act that is not a transfer to custody (on TASE) shall not be carried out at all and shall be returned to the member who requested the sale or transfer of the securities, if the actual balance of the quantity of securities in the subaccount to which the transaction relates is insufficient to clear the transaction.
3.
    - a. If a member lends securities within the framework of a lending transaction entered into through the Clearing House's lending pool, the Clearing House shall act to transfer to the lending member, at the end of the lending period, the securities that were lent by it, or their proceeds, all in accordance with the terms and rules specified in the By-Laws, with this being the case even if the borrowing member has not transferred the securities it borrowed to the Clearing House.
    - b. A clearing order to settle a lending transaction entered into over the Clearing House's lending pool shall not be carried out at all if the borrowing member has not transferred to the Clearing House the full initial collateral as specified in Chapter Eight "A" of this Part of the By-Laws.
    - c. A clearing order to settle a lending transaction entered into over the Clearing House's lending pool shall not be carried out at all if the lending member's actual balance is of an insufficient amount to clear the lending transaction in an available for lending account.
  4. The aforesaid in the above paragraphs 2 and 3 shall not derogate from a member's obligations, as specified below:
    - a. to pay the Clearing House all the amounts connected to or deriving from all the clearing orders and clearing acts carried out by it, whether as part of the member's nostro activity or as part of the member's activity for its clients, including a NCHM for whom he is carrying out the clearing;
    - b. to ascertain that, at the time when a clearing order to which the member is a party is being cleared – whether as part of its nostro activity or as part of the member's activity for its clients, including a NCHM for whom he is carrying out the clearing – the actual balance of the quantity of securities in the subaccount to which the clearing order relates is sufficient to clear the clearing order, in full.
  5. A member who violated any of his obligations that are specified in paragraph 4 above (hereafter: "member in violation") shall indemnify and compensate the Clearing House and each member of the Clearing House in respect of the obligations, expenses and direct or indirect damage caused to any of them, including – but without derogating from the generality of the aforesaid – in connection with any securities shortfall or lack of monetary cover that stem from or are connected to the clearing orders and clearing acts carried out by the member in violation.
  6. The aforesaid shall not derogate from or infringe on any right that the Clearing House has under any statute, agreement or these By-Laws, including – but without derogating from the generality of the aforesaid – the rights of the Clearing House under Chapters Three, Three "A" and Three "B" in Part One of these By-Laws.

**CHAPTER EIGHT- LENDING SECURITIES THROUGH THE  
CLEARING HOUSE'S LENDING POOL**

**General**

1. a. Activity of the Clearing House's lending pool shall be subject to that stated in this Chapter, as well as that stated in the By-Laws with the necessary changes and adjustments.
- b. Activity on the Clearing House's lending pool is intended for Clearing House members that have joined the Clearing House's lending pool, as set forth below.
- c. The Clearing House's lending pool shall be open for the issuance of orders on every trading day, commencing from the end of the first multilateral clearing window, through to an hour and a half from the end of the trading day.

**Joining the Clearing House's lending pool**

2. a. The Clearing House shall open for every Clearing House member a subaccount that is designated for the member's activity on the Clearing House's lending pool (an available for lending account).
- b. A member interested in conducting activity over the Clearing House's lending pool shall inform the Clearing House, using the form attached as Appendix Forty-eight to this Part of the By-Laws, of the subaccount that will serve as its default account for the purpose of transferring inventory from the Clearing House's lending pool and for the purpose of making payments in kind to which the member shall be entitled, as set forth in this Chapter below. Using the aforesaid form, the member shall also state whether it intends to operate via an independent connection to the Blockchain platform or via the Clearing House by means of an Internet connection.

**Securities permitted to be lent**

3. a. Lending transactions can be conducted through the Clearing House's lending pool pursuant to this Chapter in all securities that are traded on the Stock Exchange, other than convertible securities and securities that are taxable under US tax laws.
- b. Notwithstanding that stated in subparagraph a. above, the Manager of the Clearing House or a person authorized by him may decide that lending transactions may not be conducted in a particular security, or in different types of securities, in special circumstances or if he is of the opinion that this would necessitate special operating arrangements.
- c. Should the Manager of the Clearing House or a person authorized by him decide that lending transactions may not be conducted in a particular security, as stated in subparagraph b. above, he may order the early termination of lending transactions in the aforesaid security.

**Lending offer and order for removal from the Clearing House's lending pool**

4. a. A member interested in offering to lend securities shall send a lending offer to the Clearing House. A lending offer shall include the security's name, its number, the maximum quantity of the security being offered on loan, the type of lending, the lending period, the lending fee rate (in annualized terms), and the details of the subaccount from which the securities will be transferred to the member's available for lending account. The lending offer shall be as formulated in Appendix Forty-nine.
- b. A member interested in removing from the lending book securities being offered by it for lending shall send the Clearing House an order for removal from the Clearing House's lending pool, which shall include the security's name, its number, the quantity that the member wishes to have removed from the lending book, and the subaccount to which the member wishes the inventory to be transferred. The order for removal from the Clearing House's lending pool shall be as formulated in Appendix Forty-nine "A".
- c. A lending offer and an order for removal from the Clearing House's lending pool shall be implemented by the Clearing House subject to that stated below:
  - 1) the balance to be used in order to settle the order is only an actual balance;
  - 2) a member that submitted an order to the Clearing House must ensure that, on the date specified for its settlement, there is an actual balance of the aforesaid security in the designated subaccount, in a quantity sufficient for the purpose of fully settling the transaction;
  - 3) the inventory shall be settled on the date specified in paragraph 9 of Chapter Five of this Part of the By-Laws.
- d. Subject to that stated in subparagraph c. above:
  - 1) after a lending offer has been received at the Clearing House and the available for lending account has been credited with the balance, the lending offer will be listed in the lending book;
  - 2) immediately after an order for removal from the Clearing House's lending pool has been received, the Clearing House will cease listing the securities that are the subject of the order in the lending book. The transfer of the inventory, in accordance with the order for removal from the Clearing House's lending pool, from the available for lending account to the subaccount as per the member's instructions to the Clearing House, shall be conducted as stated in paragraph 9 of Chapter 5 of this Part in the By-Laws.
- e. Without derogating from that stated in subparagraph c. above, an order pertaining to a quantity of securities that exceeds the amount of the actual balance in the subaccount to which it relates, shall not be executed and shall be returned to the member that issued the order.

- f. A lending member may update the following details in a lending offer at any time: the type of lending, the lending fee and the lending period. An order for updating a lending offer shall be as formulated as set forth in Appendix Forty-nine “B”.
- g. The lending offer in the lending book shall be updated adjacent to the time when an order for updating a lending offer is received at the Clearing House. It is clarified that the aforesaid updating shall apply only with regard to securities that had not yet been lent at the time of updating.

### **The lending book**

- 5. a. The lending book shall include, with regard to each offer, the maximum quantity being offered on loan, as well as the following lending terms: details of the security, type of lending (viz. with an early termination option or without an early termination option), the lending fee, and the lending period denoted in days (hereafter: “the lending offer terms”). All lending offers that have identical terms shall be shown in the lending book as one lending offer.
- b. The identity of the lending members shall not be shown in the lending book.

### **The lending period**

- 6. a. The lending period of a lending transaction with an early termination option (recurs) shall be 30, 60 or 90 calendar days, as shall be specified in the lending offer terms.
- b. The lending period of a lending transaction without an early termination option (non-recurs) shall be between 1 and 100 calendar days, as shall be specified in the lending offer terms.
- c. The lending period shall begin on the date that the Clearing House actually credits the securities being borrowed to the borrowing member’s account and shall end as set forth in paragraph 8. below.
- d. The lending period of a redeemable security shall end, at the latest, 30 days prior to the record date for the final redemption of the security.

### **Acceptance notice and entering into a lending transaction**

- 7. a. A member wishing to accept a lending offer that appears in the lending book shall submit a notice to the Clearing House accepting the lending offer. The acceptance notice shall include the lending offer terms, the quantity of the securities that the member wishes to borrow and the subaccount to which the securities being borrowed should be transferred, this as formulated in Appendix Forty-nine “C”.
- b. Upon an acceptance notice for a lending offer being received at the Clearing House, the following shall apply –
  - 1) The Clearing House shall ensure that the lending book contains a lending offer that matches the lending offer terms shown in the acceptance offer and that the quantity of securities denoted in the acceptance notice does not exceed the quantity of securities offered within the framework of the lending offer.

- 2) Should the quantity of securities denoted in the acceptance notice exceed the quantity of securities offered in the lending offer, the lending will not take place at all and the acceptance notice will be returned to the member that submitted it.
- 3) When the circumstances set forth in subparagraph 1) exist, transactions shall be entered into between the member accepting the lending offer and each of the lending members whose securities are included in the lending offer, with this being done in the following manner:
  - (a) where the lending offer shown in the lending book consists of securities of one lending member, one transaction shall be entered into between the borrowing member and the lending member;
  - (b) where the lending offer shown in the lending book consists of securities of two or more lending members, a separate transaction shall be entered into between the borrowing member and each of the lending members.
- 4) Where the lending offer shown in the lending book consists of securities of two or more lending members and the acceptance notice was given with regard to a smaller quantity than the total of the entire quantity offered within the framework of the aforesaid lending offer, the quantity being borrowed shall be divided between the lending members as follows:
  - (a) first of all, the quantity being offered by the lending member offering the largest quantity shall be borrowed and, subsequently the quantity being offered by the lending member offering the second largest quantity shall be borrowed, and so forth in descending order until the entire quantity included in the acceptance notice has been filled;
  - (b) if two or more lending members have offered an identical quantity, the quantity being borrowed will be divided between them randomly.
- 5) Immediately after the aforementioned lending transaction has been entered into, the quantity included in the lending transaction shall be deducted from the lending offer shown in the lending book.
- 6) The Clearing House shall settle the aforesaid lending transaction by debiting the available for lending accounts of the lending member with the quantity being borrowed and shall credit this quantity to the subaccount of the borrowing member that was denoted in the acceptance notice. The settlement will be carried out on the dates specified in paragraph 9 of Chapter Five of this Part of the By-Laws.
- 7) Simultaneously with the settlement of the aforementioned lending transaction, the borrowing member shall be debited with the initial collateral, as specified in Chapter Eight "A" of this Part of the By-Laws.



**Termination of lending transaction**

8. a. End of the lending period:
- 1) in the case of a lending transaction without an early termination option – the date specified in the lending offer terms;
  - 2) in the case of a lending transaction with an early termination option – the date specified in the lender’s or borrower’s notice, as the case may be, regarding the termination of the lending transaction and, if no such notice was given, the date specified in the lending offer terms.

The notice regarding early termination, as above, shall be in the format attached to the By-Laws as Appendix Forty-nine “D”.

- b. At the end of the lending period, the securities borrowed within the framework of the lending transaction shall be returned from the borrowing member to the lending member (hereafter: “loan return”). The Clearing House shall clear the loan return by debiting the subaccount of the borrowing member that was credited with the borrowed securities, as referred to in paragraph 7 above, with the quantity borrowed in the lending transaction, and by crediting the available for lending account of the lending member with this quantity.

The settlement will be carried out on the dates specified in paragraph 9 of Chapter Five of this Part of the By-Laws.

The borrowing member must ensure that, on the date of the aforesaid debit, there will be an actual balance in the aforementioned subaccount in an amount sufficient for the Clearing House to make the aforesaid debit.

In the next multilateral clearing window following the settlement of the aforementioned loan return, the borrowing member shall be credited with the collateral that was debited in respect of the lending transaction, as set forth in Chapter Eight “A” of this Part of the By-Laws.

- c. 1) Following the settlement of the loan return (hereafter in this subparagraph: “the returned securities”), the securities with which the lending member was credited in the aforementioned available for lending account shall not appear in the lending book.
- 2) By the end of the third trading day following the end of the lending period, the member shall instruct the Clearing House how to handle the returned securities. In this context, the member may instruct the Clearing House to transfer the returned securities, wholly or partly, from the available for lending account to one of its subaccounts at the Clearing House. Alternatively, the member may submit a new lending offer with regard to the returned securities, wholly or partly, under terms to be specified.

Should the member submit such a lending offer, it will be published in the lending book immediately after its submission.

The handling order for the returned securities shall be in the format attached to the By-Laws as Appendix Forty-nine “E”.

- 3) If the member has not given the Clearing House any handling order for the returned securities by the end of the third trading day following the end of the lending period, as aforesaid, the Clearing House shall publish a lending offer in respect of the returned securities at the start of the fourth trading day following the end of the lending period. The terms of the lending offer that the Clearing House shall publish as aforesaid shall be identical to the lending offer terms pursuant to which the securities were lent in the lending transaction that terminated.

If, on that day, it is not possible to publish a lending offer in said security, the offer shall be published at the start of the first trading day on which it is possible to publish a lending offer in the security.

### **Lending fee**

9. a. A lending offer shall include details of the lending fee that the lender requires. The lending fee shall be denoted by the lender as a percentage of the value of the security, in annualized terms.
- b. The borrower has to pay a daily lending fee to the lender from the date on which its account is credited with the securities borrowed within the framework of the lending transaction through the end of the lending period.
- c. Without derogating from that stated in subparagraph b. above, the borrower shall be charged with a daily lending fee if the lending transaction has become a temporarily failed return, with this also being after the end of the lending period specified by the parties.

The borrower shall be charged with the lending fee referred to in this subparagraph from the date on which the lending transaction became a temporarily failed return through the date when the loan return was actually settled, as set out in paragraph 11. below. If the temporarily failed return has become a return default, the borrower shall be charged with lending fees until the date when the return default is settled, as set out in paragraph 13. Below, or until a monetary settlement has been carried out, as set out in paragraph 14. below.

- d. The daily lending fee shall equal the amount obtained by multiplying the lending fee, as specified by the lending member in the lending offer, by the quantity of the security being borrowed and by the closing price of the security on said date, divided by the number of days in the calendar year to which the calculation relates. However, with regard to Fridays and holiday eves and to days that are not trading days, the aforesaid calculation shall be made according to the base price of the security on the first trading day following the day for which the calculation was made.
- e. The debiting of the borrower's monetary account and the crediting of the lender's monetary account with the daily lending fee shall be carried out by the Clearing House in the first multilateral clearing window on the business day immediately following the date of the aforesaid calculation.

**Insufficient quantity in inventory**

10. a. If, on the date of carrying out the loan return, as set forth in paragraph 8.b. above, the actual balance in the borrower's subaccount is insufficient to perform the debit, the loan return shall not be carried out in the first settlement round, and will be transferred for performance in the second settlement round.
- b. If the loan return has not been carried out as stated in subparagraph 8.b. above, the loan return shall become a temporarily failed return and shall be marked as such in the clearing system.

**Temporarily failed return**

11. a. If the loan return has become a temporarily failed return, each of the parties to the lending transaction shall be sent the identity of the second party to the transaction by the Clearing House.
- b. The temporarily failed return shall be transferred for settlement in each of the settlement rounds following the second settlement round, as referred to in paragraph 10.a. above, until the actual balance on the subaccount of the borrowing member that was credited with the securities, as referred to in paragraph 7 above, equals at least the balance required for its settlement. After each settlement round in which the temporarily failed return was not settled, the Clearing House shall report this to the two parties to the transaction.

If the actual balance in the aforementioned subaccount of the borrowing member comprises a sufficient quantity, the Clearing House shall perform the loan return.

- c. If the aforesaid temporarily failed return has not been settled by the close of the first multilateral clearing window on the fourth trading day following the day on which the lending period ended (T+4), the temporarily failed return shall become a loan return default (hereafter: "return default") and shall be marked as such in the clearing system. It is hereby clarified that, from the time of the temporarily failed return becoming a return default, the contents of subparagraph b. above shall no longer apply and the loan return shall no longer be transferred for settlement in the subsequent settlement rounds.

Notwithstanding the aforesaid, if the securities that are the subject of the loan return are securities that are traded both in Tel Aviv and overseas and are cleared both at a clearing house in Israel and also at a clearing house abroad, the Clearing House may defer the declaration of the temporarily failed return as a return default, and transfer it for settlement in the subsequent settlement rounds, as stated in subparagraph b. above, with this being until the close of the first multilateral clearing window on the eighth trading day following the day on which the lending period ended (T+8).

- d. Should this occur on the record date for a corporate event in a security that is the subject of the temporarily failed return, the Clearing House shall act in the manner prescribed in paragraph 16. of this Chapter.

**Return default**

12. a. Following the first settlement round, on the trading day when the temporarily failed return became a return default, the provisions set forth below shall apply:
- 1) The Clearing House shall transfer the entire quantity of the securities that are the subject of the return default, which are in the borrowing member's subaccount which was credited with the borrowed securities as referred to in paragraph 7. above, to the inventory account that is held at the Clearing House in the name of the Clearing House and is intended for such purpose (hereafter: "the Clearing House's inventory account"). To this end, the Clearing House shall debit the borrowing member's aforesaid subaccount with the quantity of the securities that are the subject of the return default and that are held in said account, and shall credit the Clearing House's inventory account with this quantity. The Clearing House shall notify the borrowing member that its account has been debited as aforesaid.
  - 2) The Clearing House shall transfer, from the nostro account of the borrowing member to the Clearing House's inventory account, the securities that are the subject of the return default, insofar as there are such securities, and this in a quantity equivalent to the difference between the total quantity lent and the quantity transferred to the Clearing House's inventory account, as referred to in subparagraph 1) above. The transfer shall be carried out by means of debiting the nostro account with the aforesaid quantity and crediting the Clearing House's inventory account with this quantity. The Clearing House shall notify the borrowing member that its account has been debited as aforesaid.
  - 3) If the Clearing House has acted as stated in subparagraphs 1) and 2) above and the whole inventory required to settle the loan return has been accumulated in the Clearing House's inventory account, the Clearing House shall credit the borrowing member with the aforesaid accumulated inventory and shall settle the loan return by debiting the borrowing member and crediting the lending member with the full quantity of the securities.
  - 4) If the Clearing House has acted as stated in subparagraphs 1) and 2) above but the whole inventory required to settle the loan return has not been accumulated in the Clearing House's inventory account, the Clearing House shall act to purchase a quantity of securities equivalent to the difference between the full quantity of the loan return and the quantity transferred to the Clearing House's inventory account, as referred to in subparagraphs 1) and 2) above (hereafter: "the shortfall quantity"), and the following provisions shall apply:
    - (a) The borrowing member is required to pay the sum obtained by multiplying the missing quantity by the base price of the security on the scheduled date of settlement of the loan return. To this end, the Clearing House shall debit the monetary account of the borrowing member and shall credit this amount to the transit account of the Clearing House.

- (b) The Clearing House shall act to purchase the missing quantity through a member that is a bank at which the Clearing House keeps a transit account (hereafter: “the purchasing agent”).
  - (c) The Clearing House shall instruct the purchasing agent to purchase the missing quantity, in on- or off-Exchange transactions, with no limit on the price, with this to be done by the end of the next trading day following the trading day when the temporarily failed return became a return default.
  - (d) Without prejudicing any other right conferred on the Clearing House under the By-Laws, the Clearing House may make use of the funds deposited in the transit account, as set forth above in this subparagraph 4), in order to carry out the purchase of the missing quantity.
- b. Should this occur on the record date for a corporate event in a security that is the subject of the return default, the Clearing House shall act in the manner prescribed in paragraph 16. of this Chapter.

### **Settlement of return default**

13. a. If the purchasing agent has purchased the missing quantity or any part thereof, the purchasing agent shall transfer the inventory so purchased to the Clearing House’s inventory account.
- b. When all the inventory required to settle the return default has been accumulated in the Clearing House’s inventory account, the Clearing House shall credit the borrowing member with the accumulated inventory, and the return default shall be settled between the borrowing member and the lending member by debiting the borrowing member and crediting the default account of the lending member with the full quantity of the securities.
- c. Should the Clearing House be unsuccessful in accumulating in the Clearing House’s inventory account all the inventory required to settle the return default by the end of the trading day immediately following the trading day when the temporarily failed return became a return default, then the Clearing House shall settle the transaction by means of a monetary settlement, as set forth in paragraph 14. below.
- d. If the return default has been settled by the Clearing House, as referred to in subparagraph 2. above, and the purchase consideration for the missing quantity exceeded the amount deposited with respect to that transaction, in the transit account of the Clearing House, as specified in paragraph 12.a.4) above, the borrowing member is required to pay the Clearing House the amount of the difference. To this end, the Clearing House shall debit the borrowing member’s monetary account with the amount of the aforesaid difference.
- e. If the purchase consideration for the missing quantity was less than the amount deposited, with respect to that transaction, in the transit account of the Clearing House, as specified in paragraph 12.a.4) above, the difference shall be left in the transit account of the Clearing House.

- f. If the Clearing House received any rights whatsoever that were paid by the issuer with respect to the securities that accumulated in the Clearing House inventory account, the Clearing House shall credit the said rights to the borrowing member, as far as that is possible.
- g. In the next multilateral clearing window following the settlement of the return default, as referred to above, the borrowing member shall be credited with the collateral that was debited with respect to the lending transaction, as specified in Chapter Eight “A” of this Part of the By-Laws.

### **Monetary settlement**

14. The monetary settlement shall be performed after the end of the trading day immediately following the trading day when the temporarily failed return became a return default, in the manner set forth below:
- a. The amount of the monetary settlement shall be calculated by multiplying the missing quantity by the last-known price of the security that is the subject of the return default. The monetary account of the borrowing member shall be debited and the monetary account of the lending member shall be credited with this amount.
  - b.
    - 1) If the return default was settled by means of a monetary settlement, the Clearing House shall credit the borrowing member with the amount deposited with respect to that transaction, in the transit account of the Clearing House, as referred to in paragraph 12.a.4) above.
    - 2) If part of the missing quantity has been accumulated in the Clearing House’s inventory account (hereafter: “the accumulated quantity”) by the time of performing the monetary settlement, then the Clearing House shall settle the proportionate part of the return default, in accordance with the accumulated quantity. To this end, the Clearing House shall credit the lending member with the accumulated quantity. The aforesaid credit shall be carried out through the member’s default account.
    - 3) If the Clearing House has settled parts of the return default, as referred to in subparagraph 2) above, and the purchase consideration for the quantity purchased by the Clearing House, as referred to in paragraph 12.a.4) above, exceeded the amount deposited with respect to that transaction, in the transit account of the Clearing House, as specified in paragraph 12.a.4) above, the borrowing member is required to pay the Clearing House the amount of the difference between the purchase consideration and the amount deposited in the transit account of the Clearing House.  

To this end, the Clearing House shall debit the borrowing member’s monetary account with the amount of the aforesaid difference.
    - 4) If the purchase consideration for the purchased quantity was less than the amount deposited with respect to that transaction in the transit account of the Clearing House, as specified in paragraph 12.a.4) above, the difference shall be left in the transit account of the Clearing House.

- 5) The Clearing House shall perform the monetary settlement, as referred to in subparagraph a. above, with regard to the missing quantity, net of the accumulated quantity, as referred to in subparagraph b.2) above.

### **The rights linked to the borrowed securities**

15. All the rights that are linked to the borrowed securities, apart from the voting rights, shall remain in the hands of the lending member and shall not be transferred to the borrowing member. The voting rights by virtue of the borrowed securities shall be conferred on the borrowing member.

### **Corporate events**

16. Upon the occurrence of a corporate event in a security, the Clearing House shall act as follows:
  - a. **Partial redemption and partial redemption in kind (hereafter: “partial redemption”)**
    - 1) From the record date for the partial redemption through to the day after the record date and, if the record date is not a business day, from the business day preceding the record date through to the next business day, it shall not be possible to carry out the following acts:
      - a) notification of early termination of a lending transaction;
      - b) submission of a new lending offer;
      - c) Acceptance of and engagement in a new lending transaction;
      - d) issuance of an order for removal from the Clearing House’s lending pool.
    - 2) On the business day following the record date, the Clearing House shall reduce the quantity of the securities that are the subject of the lending transaction by a quantity equivalent to the quantity of the redeemed securities.
    - 3) Shortly after the record date, the Clearing House shall reduce the quantity of securities on offer for loan by a quantity equivalent to the quantity of the redeemed securities.

Any fractional shares that may result from such reduction will be transferred to the member’s default account.
    - 4) On the payment date, the Clearing House shall act as follows:
      - a) In the case of a partial redemption payment in cash, the Clearing House shall debit the monetary account of the borrowing member and shall credit the monetary account of the lending member with an amount equivalent to the amount of the redemption with respect to the quantity of redeemed securities.
      - b) In the case of a partial redemption payment in kind, the Clearing House shall debit the subaccount of the borrowing member, which

was credited with the borrowed securities as referred to in paragraph 7. above, with the security in the quantity meant to be received as payment with respect to the quantity borrowed, and shall credit this quantity to the subaccount that the lending member has specified as the default account. If the actual quantity of securities in the borrowing member's subaccount was insufficient to perform the aforesaid debit, the Clearing House shall debit the monetary account of the borrowing member with an amount equivalent to the sum obtained from multiplying the missing quantity of securities by the last-known price on the date of performing the debit and shall credit the monetary account of the lending member with this amount.

A payment in kind with respect to a security deposited in the available for lending account shall be made to the subaccount that the lending member has specified as the default account.

**b. Capital consolidation / reduction**

- 1) On the trading day following the date when the Clearing House was informed of the date of performing a capital consolidation / reduction (hereafter: "the event"), the lending offer that relates to the security that is the subject of the event shall be removed from the lending book.
- 2) From the trading day following the date when the Clearing House was informed of the date of the event through the date of the event, it will not be possible to submit a new lending offer for the securities that are the subject of the event.
- 3) From the record date through the date of the event (and if the record date is not a business day, from the business day preceding the record date through the date of the event), it shall not be possible to perform the following actions:
  - a) notification of early termination of a lending transaction;
  - b) issuance of an order for removal from the Clearing House's lending pool.
- 4) On the date of the event, the Clearing House shall make the necessary adjustments to the inventory of the securities in accordance with the terms of the event.
- 5) On the first trading day following the period referred to in subparagraph 3) above, the lender shall instruct the Clearing House to transfer the securities, wholly or partially, from the available for lending account to one of its subaccounts at the Clearing House. Alternatively, the member may submit a new lending offer with regard to these securities, wholly or partially, under terms to be specified, with this to be done within 30 days from the trading day following the period referred to in subparagraph 3) above. If the lending member has not done this, the Clearing House shall transfer the securities to the subaccount that the lending member has specified as the default account.



c. **Dividends and interest**

On the payment date, the Clearing House shall debit the monetary account of the borrowing member and shall credit the monetary account of the lending member with the amount of the dividend or interest, as the case may be, received with respect to the quantity of the securities that are the subject of the lending transaction.

d. **Dividends in kind and interest in kind**

On the date of making the payment in kind, the Clearing House shall debit the subaccount of the borrowing member, which was credited with the borrowed securities as referred to in paragraph 7. above, with the security in the quantity meant to be received as payment with respect to the quantity borrowed and shall credit this quantity to the subaccount that the lending member has specified as the default account. If the actual quantity of securities in the borrowing member's subaccount was insufficient to perform the aforesaid debit, the Clearing House shall debit the monetary account of the borrowing member with an amount equivalent to the sum obtained from multiplying the missing quantity of securities by the last-known price on the date of performing the debit and shall credit the monetary account of the lending member with this amount.

A payment in kind with respect to a security deposited in the available for lending account shall be made to the subaccount that the lending member has specified as the default account.

e. **Bonus shares**

1) On the bonus shares distribution date, the Clearing House shall debit the subaccount of the borrowing member, which was credited with the borrowed securities as referred to in paragraph 7. above, with the bonus shares, in an amount equivalent to the quantity of bonus shares to which the lending member would have been entitled had it held the borrowed securities on the record date, and shall credit the subaccount that the lending member has specified as the default account with this quantity. If the actual quantity of securities in the borrowing member's subaccount was insufficient to perform the aforesaid debit, the Clearing House shall debit the monetary account of the borrowing member with an amount equivalent to the sum obtained from multiplying the missing quantity of securities by the last-known price on the date of performing the debit and shall credit the monetary account of the lending member with this amount.

2) a distribution of bonus shares with respect to a security deposited in the available for lending account shall be made to the subaccount that the lending member has specified as the default account.

f. **Merger**

1) From the record date preceding the date of closing the merger, the lending offers relating to the security that is the subject of the merger shall be removed from the lending book and it shall not be possible to perform the

following actions:

- a) submission of a new lending offer;
  - b) issuance of an order for removal from the Clearing House's lending pool.
- 2) On the date of carrying out the merger, the Clearing House shall debit the subaccount of the borrowing member, which was credited with the borrowed securities as referred to in paragraph 7. above, with the security in the quantity meant to be received as payment with respect to the quantity borrowed and shall credit this quantity to the subaccount that the lending member has specified as the default account. If the actual quantity of securities in the borrowing member's subaccount was insufficient to perform the aforesaid debit, the Clearing House shall debit the monetary account of the borrowing member with an amount equivalent to the sum obtained from multiplying the missing quantity of securities by the last-known price on the date of performing the debit and shall credit the monetary account of the lending member with this amount.

g. **Exchange event**

- 1) On the trading day immediately following the dates when the Clearing House was informed of the date of performing an event within the framework of which securities are exchanged (hereafter: "exchange event"), the lending offers relating to the security that is the subject of the exchange event shall be removed from the lending book.

In addition, the Clearing House shall invoke the early termination of all the lending transactions in the securities that are the subject of the exchange event.

- 2) From the record date preceding the date of performing the exchange event, it shall not be possible to perform the following actions:
- a) submission of a new lending offer;
  - b) issuance of an order for removal from the Clearing House's lending pool.

h. **Final redemption and final redemption in kind**

- 1) When 30 days or less are left until the record date for the final redemption of a security, the lending offers relating to the security shall be removed from the lending book and it shall not be possible to submit to new lending offers relating to that security.
- 2) If a record date has been set, which is not the final redemption date, a lending member may not issue an order for removal from the Clearing House's lending pool of the securities being redeemed from the aforesaid record date.

i. **Delisting of a security traded on the Stock Exchange**

- 1) On the business day immediately following the date when the Clearing House was informed of the delisting date of a security traded on the Stock

Exchange, the lending offers relating to the security that is the subject of the event shall be removed from the lending book.

In addition, the Clearing House shall invoke the early termination of all the lending transactions in the security that is the subject of the event and will not allow new lending offers to be made in relation to such security.

- 2) The lending member shall instruct the Clearing House to transfer the securities from the available for lending account to one of its subaccounts at the Clearing House, with this to be done within 30 days from the day when the lending transactions ended, as referred to in subparagraph 1) above. If the lending member has not done this, the Clearing House shall transfer the securities to the subaccount that the lending member has specified as the default account.
- j. In the case of a borrowed security, it is not possible to waive receipt of any right or payment whatsoever, through the Clearing House, with respect to the borrowed quantity.
  - k. In an instance where the Clearing House has invoked the early termination of a lending transaction, as set forth in subparagraphs g. and i. above, and the borrowing member's subaccount to which the borrowed securities were transferred has insufficient inventory to settle the loan return, the Clearing House shall debit the monetary account of the borrowing member with an amount equivalent to the sum obtained from multiplying the missing quantity of securities by the last-known price on the date of making the settlement and shall credit the monetary account of the lending member with this amount.

**Refund of costs and expenses, exemption, indemnification, and compensation**

17. a. Without derogating from the provisions of the By-Laws, the borrowing member shall bear all the costs that will be caused to the Clearing House, including – but without derogating from the generality of the aforesaid – all payments, expenses, premiums and commissions that shall be involved in or connected to the activity of the Clearing House in connection with corporate events, a temporarily failed return or a return default, including – but without derogating from the generality of the aforesaid – in connection with any lack of securities or lack of monetary cover that derive from the transactions or acts carried out by it or that are connected thereto. These amounts shall be added to all the member's other obligations toward the Clearing House and they shall, for all intents and purposes, be deemed an integral part thereof, and they shall be paid by the member to the Clearing House – immediately and without any delay – as specified in Chapter Six of Part Two of the By-Laws, except when the Clearing House has decided that the payment be made in some other manner, in which case the payment shall be made in the other manner, all as shall be decided by the Clearing House.
- b. The provisions of the above subparagraph a. shall not derogate from the member's obligation to pay to the Clearing House all the amounts that derive from debits made to its monetary account under the By-Laws.
- c. The Clearing House and the Stock Exchange and also those who act on their

behalf – that is their officers, managers and employees (all those shall hereafter in this paragraph be called: "those who act on behalf of the Clearing House") – shall be exempt of and shall not bear any responsibility or liability for any loss, damage, expense or deficit of any sort and kind whatsoever (hereafter in this paragraph: "damage") that are liable to be caused to any person or to any entity, including – but without derogating from the generality of the aforesaid – such as are liable to be caused to a member because of any action, act or omission of any kind whatsoever (except when committed with malice) by the Clearing House, by the Stock Exchange or by any of those who act on behalf of the Clearing House in connection with the purchase of the missing quantity and with any other thing or matter that is connected to this Chapter.

- d. A member who has not complied with any of the provisions of this Chapter (hereafter: "member in violation") shall indemnify and compensate the Clearing House and each member of the Clearing House in respect of all the obligations, expenses and damage – direct or indirect – that are caused to any of them in connection with corporate events, a temporarily failed return or a return default, including – but without derogating from the generality of the aforesaid – in connection with a lack of securities or lack of monetary cover that derives from the transactions or from the acts that were carried out by the member in violation or in connection thereto.

#### **Default of a member**

18. a. Should an event occur with regard to which the Clearing House is entitled to call for the immediate payment of the obligations of a borrowing member or of a lending member (hereafter: "member in violation"), as referred to in Chapter Three "B" of Part One of the By-Laws, the Clearing House is entitled to, but not obliged to, invoke the early termination of all the lending transactions to which the member in default is a party.
- b. If the Clearing House has given notice of early termination of all the lending transactions to which the member in default is a party, the following provisions shall apply:
  1. Transactions in which the member in violation is the lender – the lending period shall end on the date when the aforesaid early termination takes effect and the Clearing House shall carry out a monetary settlement with the borrowing member, in accordance with the regulations prescribed in paragraph 14. above, mutatis mutandis, at the end of the same clearing day.
  2. Transactions in which the member in violation is the borrower – the lending period shall end on the date when the aforesaid early termination takes effect, and the Clearing House shall act to transfer to the lending borrower the securities lent by it, or their consideration, all in accordance with the terms and rules prescribed in the By-Laws.

**CHAPTER EIGHT “A” – COLLAERAL FOR THE  
CLEARING HOUSE’S LENDING POOL**

**1. General**

- a. A member shall give the Clearing House, and pledge in its favor, collateral with respect to its activity on the Clearing House’s lending pool, as specified in this Chapter and in the above Chapter Three "A" in Part One of the By-Laws.

The collateral that shall be given to the Clearing House as specified in this Chapter shall be given and pledged as collateral for fulfilling the member's obligations toward the Clearing House with respect to its activity on the Clearing House’s lending pool, as specified in this Chapter and in the above Chapter Three "A" in Part One of the By-Laws and also as collateral for fulfilling the member's other obligations toward the Clearing House.

- b. In this Chapter –

<b>“calculation date of the collateral requirement” or “calculation date”</b>	-	the date the Clearing House set for calculating the collateral requirement, as specified in this Chapter below;
<b>“Collateral adjustment date”</b>	-	every first multilateral clearing window and every second multilateral clearing window following the settlement date of the lending transaction;
<b>“Lending transactions portfolio”</b>	-	the total of all the lending transactions to which the member is a party.

**2. Overall amount of collateral**

The overall amount of collateral required from a member is an amount equivalent to the total collateral required from the member in accordance with paragraph 3. below, with the addition of the amount of collateral required with respect to the member’s lending transactions portfolio, in accordance with paragraph 4. below.

**3. Minimum collateral with respect to a single lending transaction**

- a. When a lending transaction has been entered into as specified in paragraph 7. of Chapter Eight in this Part of the By-Laws, the Clearing House shall calculate – adjacent to the first multilateral clearing window, on the next business day – the amount of the initial margin (IM) required from the borrowing member with respect to that lending transaction ( $IM^{\text{specific}}$ ), in accordance with the following formula

$$IM_{SB_{i,j}}^{\text{Specific}} = P_j \times Q_{SB_{i,j}} \times MRR_j$$

For this purpose:

- $IM_{SBi,j}^{Specific}$  - the total of the initial margin, in NIS terms, required from the borrowing member for a lending transaction (SBi) performed in security  $j$ ;
- SB - a lending transaction in which the member is the borrower;
- $i$  - the number of lending transaction in the Clearing House's systems;
- $j$  - the identifier of the security that is the subject of the lending transaction;
- $P_j$  - the known base price of security  $j$  in agorot on the Stock Exchange;
- $Q_{SBi}$  - the quantity of security  $j$  in a lending transaction (SBi);
- $MRR_j$  - the collateral rate required for a transaction in security  $j$ , as set forth in paragraph 5. below.

- b. The borrowing member is required to pay the Clearing House the amount of the initial minimum margin, as obtained from the aforesaid calculation. For the purpose of making the payment, the Clearing House shall debit the monetary account of the borrowing member, in the first multilateral clearing window, on the business day immediately following the date when the lending transaction was entered into, simultaneously with settling the lending transaction, and shall credit this amount to the Clearing House's account at the Bank of Israel (hereafter, in this Chapter: "the Clearing House's collateral account").
- c. After the member has been debited with the initial minimum margin, as referred to in subparagraph b. above, and prior to any adjustment date, the Clearing House shall make a calculation of the amount of the initial minimum margin required from the borrowing member in accordance with the formula specified in subparagraph a. above, where -
- The price of the security ( $P_j$ ), which shall be used for the purpose of the calculation, is:
- 1) when the adjustment date is in the first multilateral clearing window – the known base price on that day;
  - 2) when the adjustment date is in the second multilateral clearing window – the opening price set for the security on that day and, if no opening price is set on that day, the calculation shall be done according to the base price as stated in subparagraph 1) above.
- d. The borrowing member is required to pay the Clearing House the amount of the initial minimum margin, as obtained from the calculation, as referred to in subparagraph c. above (hereafter, in this paragraph: "the calculation amount"). For the purpose of making the payment, the Clearing House shall debit, on every

adjustment date, the monetary account of the member with the calculation amount, and shall credit this amount to the Clearing House's collateral account.

Notwithstanding the aforesaid –

- 1) if, on any adjustment date, the amount deposited in the Clearing House's collateral account with respect to the lending transaction shall be greater than the amount of the calculation, then the Clearing House shall debit the Clearing House's collateral account with the amount of the difference, and shall credit this amount to the monetary account of the borrowing member;
- 2) if, on any adjustment date, the amount deposited in the Clearing House's collateral account with respect to the lending transaction shall be less than the calculation amount, then the Clearing House shall debit the monetary account of the borrowing member with the amount of the difference, and shall credit this amount to the Clearing House's collateral account;
- 3) if, on any adjustment date, the amount deposited in the Clearing House's collateral account with respect to a lending transaction shall be equal to the calculation amount, then the Clearing House shall not perform any debit or credit.

#### 4. Collateral with respect to the lending transactions portfolio

- a. On every business day, in addition to the collateral that the member is required to give in accordance with paragraph 3. above, the member shall give the Clearing House collateral with respect to its lending transactions portfolio, all as set forth in this paragraph below.
- b. The Clearing House shall calculate the amount of the collateral required in respect of the member's lending transactions portfolio ( $IM^{\text{Portfolio}}$ ) on each business day, adjacent to the first multilateral clearing window. The calculation shall be done in accordance with the following formula:

$$IM_{CM_k}^{\text{Portfolio}} = \text{MAX} \left\{ \left[ EX_{CM_k}^{\text{net}} - IM_{SB^{\text{new}}}^{\text{Specific}} - IM_{SB^{\text{open}}}^{\text{Specific}} - \text{DFRB} \right], 0 \right\}$$

For this purpose:

- $IM_{CM_k}^{\text{Portfolio}}$  - total initial margin, in shekel terms, required from the Clearing House member, with respect to its lending transactions portfolio;
- $EX_{CM_k}^{\text{net}}$  - amount of the member's net exposure, in shekel terms, with respect to its lending transactions portfolio, as calculated in accordance with the formula in paragraph c. below;
- $IM_{SB^{\text{new}}}^{\text{Specific}}$  - amount of the initial margin, in shekel terms, required from the borrowing member with respect to lending transactions entered into but not yet settled ( $SB^{\text{new}}$ ), as calculated in accordance with the formula in paragraph

3.a. above;

- $IM_{SB^{open}}^{Specific}$  - amount of the initial margin, in shekel terms, required from the borrowing member, on the adjustment date falling in the first multilateral clearing window, with respect to lending transactions entered into and settled ( $SB^{open}$ ), as calculated in accordance with the formula in paragraph 3.c. above;
- DFRB - amount, in shekel terms, that the Clearing House may deduct from the member's net exposure amount, in shekel terms, with respect to its lending transactions portfolio, as specified in subparagraph f. below;
- CM - Clearing House member;
- K - identifier of the Clearing House member.

- c. The amount of the member's net exposure, in shekel terms, with respect to the lending transactions portfolio ( $EX_{CM_k}^{net}$ ) shall be calculated in accordance with the following formula:

$$EX_{CM_k}^{net} = \sum_i^n (V_{SB_i}^{new} + V_{SB_i}^{open}) - \sum_i^n (V_{SL_i}^{new} + V_{SL_i}^{open})$$

For this purpose:

- $EX_{CM_k}^{net}$  - amount of the member's net exposure, in shekel terms, with respect to its lending transactions portfolio;
- $V_{SB_i}^{new}$  - adjusted value of lending transaction  $i$ , which has been entered into but not yet settled, in which the member is the borrower, shall be calculated as specified in subparagraph d. below;
- $V_{SB_i}^{open}$  - adjusted value of lending transaction  $i$ , which has been entered into and settled, in which the member is the borrower, shall be calculated as specified in subparagraph d. below;
- $V_{SL_i}^{new}$  - adjusted value of lending transaction  $i$ , which has been entered into but not yet settled, in which the member is the lender, shall be calculated as specified in subparagraph e. below;
- $V_{SL_i}^{open}$  - adjusted value of lending transaction  $i$ , which has been entered into and settled, in which the member is the lender, shall be calculated as specified in subparagraph e. below. For the purpose of this definition – “lending transaction” –



a lending transaction whose lending period had not yet ended on the calculation date;

$i$  - lending transaction number in the Clearing House's systems.

- d. The adjusted value of lending transaction  $i$ , in which the member is the borrower, shall be calculated in accordance with the following formula:

$$V_{SB_i} = P_j \times Q_{SB_{i,j}} \times (1 + SR_j)$$

For this purpose:

$V_{SB_i}$  - adjusted value of lending transaction;

$SB_i$  - lending transaction in which the member is the borrower;

$i$  - lending transaction number in the Clearing House's systems;

$P_j$  - the base price of security  $j$  in agorot on the Stock Exchange;

$j$  - identifier of the security in which lending transaction was performed;

$Q_{SB_{i,j}}$  - quantity of security  $j$  in a lending transaction  $SB_i$ ;

$SR_j$  - price volatility range of security  $j$  as specified in paragraph 5. below.

- e. The adjusted value of lending transaction  $i$ , in which the member is the lender, shall be calculated in accordance with the following formula:

$$V_{SL_i} = P_j \times Q_{SL_{i,j}} \times (1 - SR_j)$$

For this purpose:

$V_{SL_i}$  - adjusted value of lending transaction;

$SL_i$  - lending transaction in which the member is the lender;

$i$  - lending transaction number in the Clearing House's systems;

$P_j$  - the base price of security  $j$  in agorot on the Stock Exchange;

$j$  - identifier of the security in which lending transaction was performed;

$Q_{SL_{i,j}}$  - quantity of security  $j$  in a lending transaction  $SL_i$ ;

$SR_j$  - maximum volatility range parameter of security  $j$  as specified in paragraph 5. below.

f. **Determination of DFRB (Default Fund Reduction Buffer)**

- 1) For the purpose of calculating the amount of collateral required with respect to the lending transactions portfolio of a member, the Clearing House may deduct from the net exposure amount in shekel terms ( $EX_{CM_k}^{net}$ ) an amount that shall not exceed the amount specified in subparagraph a.2) in Chapter Three "A" of Part One of the By-Laws (hereafter, in this paragraph: "the deduction amount"). The deduction amount for each member shall be determined in accordance with the methodology that the Board of Directors of the Clearing House shall prescribe.
- 2) The Manager of the Clearing House may determine different deduction amounts for different Clearing House members, all in accordance with the aforesaid methodology.
- 3) Notification of the deduction amount determined for a member, in accordance with the aforesaid methodology, and of every change made thereto, shall be sent to the Clearing House members by such means as the Clearing House shall prescribe from time to time.

g. A member is required to pay the Clearing House the initial margin amount for the lending transactions portfolio, arrived at in accordance with the calculation referred to in subparagraph b. above (hereafter, in this paragraph: "the calculation amount"). For the purpose of making the payment, the Clearing House shall debit – on every business day, in the first multilateral clearing window – the calculation amount to the monetary account of the member, and shall credit this amount to the Clearing House's collateral account.

Notwithstanding the aforesaid –

- 1) if, on any calculation date, the amount deposited in the Clearing House's collateral account with respect to the lending transactions portfolio shall be greater than the amount of the calculation, then the Clearing House shall debit the Clearing House's collateral account with the amount of the difference, and shall credit this amount to the monetary account of the member;
- 2) if, on any calculation date, the amount deposited in the Clearing House's collateral account with respect to the lending transactions portfolio shall be less than the calculation amount, then the Clearing House shall debit the monetary account of the member with the amount of the difference, and shall credit this amount to the Clearing House's collateral account;
- 3) if, on any adjustment date, the amount deposited in the Clearing House's collateral account shall be equal to the calculation amount, then the Clearing House shall not perform any debit or credit.

**5. Margin rate required for a single lending transaction (MRR) and the maximum volatility range parameter (SR)**

- a. For the purpose of calculating the margin amount for a single lending transaction, as referred to in paragraph 3.a. above, the Clearing House shall prescribe the required margin rate (Margin Requirement Rate – MRR) that the Clearing House member shall have to provide, with respect to the security that is the subject of the transaction (hereafter, in this paragraph: “the Margin Requirement Rate”).
- b. For the purpose of calculating the required margin amount with respect to the lending transactions portfolio, as referred to in paragraph 4. above, the Clearing House shall prescribe a maximum volatility range parameter (Scan Range – SR) for the security price (hereafter, in this paragraph: “the Scan Range”) for every lending transaction to which the member is a party.
- c. The Board of Directors of the Clearing House shall prescribe a methodology for calculating the Margin Requirement Rate for a single lending transaction (MRR) and the methodology for calculating the maximum Scan Range parameter (SR) (hereafter, in this paragraph: “the Methodology”).

Notwithstanding the aforesaid:

- 1) In special cases where the Manager of the Clearing House believes it to be appropriate to prescribe a Margin Requirement Rate or a Scan Range greater than that determined in accordance with the Methodology for each, as the case may be, the Manager of the Clearing House, in consultation with the CEO of the Stock Exchange and the chief risk officer, may immediately do so.
- 2) In special cases, the Board of Directors, on the recommendation of the Manager of the Clearing House which had been accepted after consultation with the CEO of the Stock Exchange and the chief risk officer, may prescribe that the Margin Requirement Rates or the Scan Range be less than that determined in accordance with each Methodology, as the case may be.

Notification of the Margin Requirement Rate and of the Scan Range, as determined according to the relevant Methodology, as well as of any change made to each of these, shall be sent to the Clearing House members by such means as the Clearing House shall prescribe from time to time. In addition, the Margin Requirement Rates and Scan Ranges shall be published for every security on the website of the Stock Exchange at [tase.co.il](http://tase.co.il).

- d. If the aforementioned Margin Requirement Rate or the Scan Range is changed, the Clearing House shall recalculate the margin in accordance with the updated Margin Requirement Rate or with the updated Scan Range, as the case may be, with effect from the first adjustment date following the date of the aforesaid change.

## **CHAPTER NINE-EXERCISE OF RIGHTS ATTACHED TO SECURITIES**

### **1. General**

- a. All rights in respect of securities registered with the nominee company to the credit of the Clearing House shall be cleared through the Clearing House, as specified below in this Chapter.

The Clearing House shall credit any right whatsoever to a member in accordance with actual balance registered with the Clearing House to his credit on the record date.

A member credited with any right by the Clearing House shall transmit the right to the client who is entitled to it.

- b. Beginning with the first business day after the record date for receiving any right whatsoever, the deposits and the withdrawals from and to the nominee company shall be carried out with entitlement to the right no longer attached to the security.
- c. Repealed.
- d. On the day on which a right attached to a security is exercised, the Clearing House shall make reports available to the members, specifying the movement in the members' accounts that stem from the exercise of the rights.
- e. If on the record date for receiving any right in respect of a security there is a pending transaction or a failed transaction, then – if the Clearing House provided a claim service in respect of the said right, the Clearing House shall act to provide a claim service, as specified in Chapter Five in this Part of the By-Laws.

### **2. Performance of payments**

The following provisions shall apply to payments made under this Chapter:

- a. the Clearing House has the right to postpone the payment day if – because of technical reasons – it is not possible to perform the credit / debit on the payment day.
- b. 1) The issuer must credit the amount of the payment to the bank account of the nominee company no later than at 9:30 AM on the payment day;  
notwithstanding the aforesaid, if payment is carried out in a foreign currency, then the issuer must credit the bank account of the nominee company no later than two business days before the payment day;
- 2) if the issuer did not comply with his aforesaid obligation, then the nominee company shall so inform the Manager of the Clearing House no later than at 11:00 AM on the payment day.  
In the said case, the Clearing House shall not make the payments and it shall give notice thereof to the members;
- 3) notwithstanding the aforesaid, if the Clearing House receives notification from the nominee company by 12:00 noon of the payment day, that the issuer deposited the money for performance of the payment in the nominee

company's bank account, and subject to the payment day being a business day the Clearing House may make the payment already on that day; if the Clearing House has made the payment on the payment day as aforesaid, it shall so inform the members; if the Clearing House did not make the payment on the payment day, as aforesaid, the payment shall be made on the first business day thereafter.

- c. Payments in foreign currency shall be made only in currencies, in respect of which permission to perform the clearing was received from the Bank of Israel , unless otherwise stated in the By-Laws.

**2A. Performance of special payments in US dollars**

Notwithstanding that stated in paragraph 2. above and in Chapter Six of this Part, the following provisions shall apply to payments performed in U.S. dollars, the amount of which exceeds an amount set from time to time by the Clearing House and published by it (hereafter, in this paragraph: "a special dollar payment"); however, the Clearing House Manager may prescribe that a special dollar payment shall not be performed in the way prescribed in this paragraph, but shall be performed in accordance with that prescribed in paragraph 2., if, in his opinion, performance of the payment is subject to special operational arrangements.

- 1) A special dollar payment shall be performed through a bank account kept by the Clearing House with a commercial bank in the United States, the details of which shall be given to issuers that customarily perform U.S. dollar payments.
- 2) The Clearing House shall perform the special dollar payment by means of crediting a bank account kept with a commercial bank in the United States, about which the member shall have notified the Clearing House, which is designated for the performance of special dollar payments.
- 3) The Clearing House shall perform the special dollar payments only on days when trading takes place on the Tel-Aviv Stock Exchange, and which are business days in the United States (hereafter, in this paragraph: "special dollar payment performance day").
- 4) An issuer that performs a special dollar payment must credit the aforesaid bank account of the Clearing House with the amount of the special dollar payment not later than two business days before the payment date.
- 5) After the Clearing House has verified that its bank account has been credited with the amount of the special dollar payment in full, it shall credit the bank accounts referred to above, of the members, with the amounts due to them, within one business day after the day the Clearing House account in the US has been credited with the amount of the payment, and subject to sub-paragraph 3) above, but not before the payment date.
- 6) If the Clearing House's bank account in the United States has not been credited with the amount of the special dollar payment in full by the date prescribed in sub-paragraph 4) above, for any reason whatsoever, the Clearing House shall not perform the special dollar payment and shall notify the members of this.
- 7) Notwithstanding the aforesaid, the Clearing House may perform the special dollar

payment if the Clearing House's bank account in the United States has been credited with the amount of the special dollar payment in full after the date referred to in sub-paragraph 4) above, but not later than by 12:00 Israel time on the payment date.

- 8) For the purpose of performing special dollar payments, the Clearing House operates through an account that it keeps with a commercial bank in the United States. In accordance with this, the Clearing House's ability to provide the aforesaid service is subject to the laws applicable to the account and to the terms and conditions of the account management agreement that the Clearing House has signed with the bank in the United States.

3. **Conditional crediting of securities allocations**

- a. The competent organs of the issuer shall adopt – not later than one day before the record date in respect of a corporate event in consequence of which securities will be allocated – a decision, according to which the securities are allocated to all persons who will be entitled to them according to the issuer's registers on the record date; the date of the allocation shall be as is specified in the By-Laws; a decision in relation to rights shall also relate to the allocation of the securities that stem from the exercise of those rights, to the extent that they are actually exercised.
- b. No later than one trading day before the date of the allocation of the securities, the issuer shall deliver the following documents to the nominee company:
- 1) a letter of allocation that certifies the number and category of securities registered in the name of the nominee company in the issuer's register of securities holders (hereafter: "letter of allocation") in accordance with the decision said in sub-paragraph a.; if the issued security is a share or debenture – the nominee company is entitled to receive a share certificate or a debenture certificate in place of a letter of allocation (hereafter: "certificate");
  - 2) an accompanying document, as formulated in Appendix Five of the By-Laws, as well as an advocate's certification, as formulated in Appendix Five "A" of the By-Laws;
  - 3)\* a copy of the immediate report about the change in the register of securities holders, which was submitted to the Securities Authority through MAGNA (Hebrew acronym of "electronic fair disclosure system", the Securities Authority's electronic reporting system – Ed.);
  - 4) a true copy of the original of the up-to-date register of securities holders, in which the securities allocated in the name of the nominee company have been registered;
  - 5) in the case of a rights issue – a copy of the certification by the Stock Exchange, that the securities' were listed.

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\* at this stage it is not necessary to obtain a said copy from double entry companies that report under Chapter Five "C" of the Securities Law

c. The entries in the nominee company, in the Clearing House and in the members' accounts said in paragraphs 5, 6 and 7 below (all together hereafter: the "entries") shall be conditional, until they become final and absolute or until they are canceled, as specified in sub-paragraph d. below.

d. 1) The nominee company shall check whether the documents delivered to it as specified in sub-paragraph b. above are prima facie in order. It shall also check whether the certificate or the letter of allocation, as the case may be, is consistent with the records. If the nominee company finds that the certificate or the letter of allocation, as the case may be, is consistent with the records, then it shall give a certification to the Clearing House, formulated as shown in Appendix Five "B" of the By-Laws.

If all the documents specified in sub-paragraph b. above were not received by the nominee company, or if the nominee company finds that the documents are not prima facie in order or that there are discrepancies, then it shall not give the Clearing House the aforesaid certification.

When the Clearing House receives the aforesaid notice, the entries shall become final and absolute.

2) If the nominee company found that there is a discrepancy between the certificate and the letter of allocation, as the case may be, and the records, then it shall give notice thereof to the Clearing House without delay. If the Clearing House received a said notice, then it shall make the necessary adjustments and inform the members about them.

When the necessary adjustments have been made and after the nominee company has given the certification said in sub-paragraph 1) above to the Clearing House, the entries shall become final and absolute.

3) If the nominee company did not give the certification said in sub-paragraph 1) to the Clearing House until the end of three trading days after the date of the allocation, then the Clearing House shall cancel the entries and so inform the members.

e. Exchange members shall not permit their clients to sell securities, in respect of which the entries are conditional.

#### 4. **Cash dividends and interest**

a. Notice of the payment of a cash dividend and of the "record" date for payment by a company that has no convertible securities listed for trading shall be received at the Exchange at least five days before the record date.

b. Notice of the payment of a cash dividend and of the "record" date for payment by a company that does have convertible securities listed for trading shall be received at the Exchange at least eight days before the record date.

c. If a company distributes a cash dividend, then it shall give notice of the rate of the dividend per share at least two days before the day of payment.

d. On the day on which a dividend or interest is paid in cash, the Clearing House shall debit the bank account of the nominee company in the amount of payment

due according to the quantity registered to the credit of the Clearing House at the nominee company on the record date, less the amounts that stem from notices that waived receiving the payment through the Clearing House.

In the cases in which the deduction at the source is made by the issuer, the Clearing House shall debit the nominee company's bank account for the amount of the payment that is due according to the quantity to the credit of the Clearing House with the nominee company on the determining day, less the amounts derived from notices that waived receipt of the payment through the Clearing House, less amounts deducted at the source by the issuer and with the addition of amounts derived from certifications of exemption from tax deduction at the source.

This amount payable shall be divided between the members, so that each member entitled to payment is credited by the Clearing House with a payment in accordance with the actual balance of the security registered to its credit at the Clearing House on the record date and in respect of which it is entitled to payment; the payment shall be made separately for each type of currency.

- e. On the payment date, the Clearing House shall debit the bank account of the nominee company with the payment and shall credit the members' accounts at the Bank of Israel, in accordance with that stated in sub-paragraph d. above.
- f. The date for payment of a cash dividend shall be as follows:
  - 1) A dividend, in respect of which tax is deducted by the issuer, shall be paid between the twelfth day and the thirtieth day after the determining date for the dividend.
  - 2) A dividend, in respect of which tax deduction is not handled by the issuer, shall be paid between the fifth trading day after the determining day for the payment and the thirtieth day after the determining day of the payment.
- g. Despite the aforesaid, the Clearing House will not handle a dividend payment if it has been notified by TASE that the dividend payment will cause the company seeking to distribute the dividend to be in breach of the TASE Rules and the Regulations thereunder ("the TASE Rules") and to violate a prospectus undertaking made by the company pursuant to the TASE Rules.
 

The Clearing House will notify the members and the Nominee Company that it will not be handling such dividend payment, and the Nominee Company will inform the company accordingly.
- h. The date for the payment of interest on Government bonds shall be on the fifth day after the determining date for the payment, except if differently provided in the conditions of the Government bond or if the Board of Directors prescribed differently.

4A. **Tax deduction at the source from payments made in respect of securities of companies to which U.S. tax laws apply and which registered in the name of a nominee company in Israel (hereafter in this section: "U.S. securities")**

- 1) The provisions of this section shall apply to the securities of companies, to which



the tax laws of the United States apply which are registered in the name of a nominee company in Israel.

The Clearing House shall provide the services specified below only to members who are qualified intermediaries (QI), according to certification from the U.S. tax authorities (IRS), and who delivered to the Clearing House a declaration, as formulated in Appendix Twenty-Seven, with its attachments, as well as to a member who is a U.S. entity that delivered Form W-9 to the Clearing House.

The member will inform the Clearing House of any change that will occur in his status.

- 2) Members shall deliver to the Clearing House all the information and documents required by tax authorities in the United States in connection with the services that are extended to the members through the Clearing House.
- 3) The services extended by the Clearing House to a non-withholding QI in connection with U.S. securities shall only be for clients who are not U.S. citizens and not U.S. residents (U.S. person), and who are not subject to deduction at source according to the provisions of the FATCA.

A said member shall sign an undertaking, as formulated in Appendix Twenty-eight.

Notwithstanding the aforesaid, a non-withholding QI may receive services in respect of U.S. securities for clients that are U.S. citizens or U.S. residents (U.S. person), subject to the fulfillment of the following conditions:

- a. The member signed a declaration in the format provided in Appendix Twenty-eight(A), pursuant to which he shall assume primary responsibility for the reporting and the deduction of the tax at source (assume primary Form 1099 reporting and backup withholding responsibility).
  - b. The member delivered to the Clearing House an appropriate Form W-8IMY.
- 4)
    - a. The issuing company shall bear the responsibility for deduction of the required amounts and for reporting to the IRS in accordance with U.S. tax laws.
    - b. As a condition for listing U.S. securities with the Clearing House, the issuing company shall deliver to the Clearing House a writ of indemnification, as formulated in Appendix Twenty-eight "A".
  - 5) The Clearing House shall transmit Form W8-IMY to the nominee company, in whose name U.S. securities are registered, as is required by the Clearing House being a QI.
  - 6)
    - a) No later than five business days before each payment date, each member to whose credit U.S. securities are listed with the Clearing House on the determining day shall deliver a QI withholding statement in the format that is attached as Appendix Twenty-eight "B". The statement will include the breakdown of the rates of U.S. tax that must be deducted in respect of the total actual balance registered to his credit on the determining day, in accordance with the U.S. tax liability that applies to his clients.
    - b) A member who is a U.S. entity will deliver to the Clearing House, not later

than 5 business days before each payment date, a declaration in which he undertakes to deduct the U.S. tax for its clients and transfer it to the U.S. tax authorities (IRS).

- 7) The Clearing House shall transmit to the company, through the nominee company, a summary of the rates at which tax must be deducted in respect of the entire quantity registered with the Clearing House to the credit of all the members, as formulated in the attached Appendix Twenty-eight "C"
- 8)
  - a. The payment shall be made by the company, as said in Chapter Nine of Part Two of the By-Laws, less the amount that the company must deduct in accordance with the information specified in the notice of the Clearing House said in sub-paragraph 7) above. The company shall transfer this amount to the IRS.
  - b. No later than 12:00 noon of the last trading day before the day of payment, the company shall deliver to the Clearing House – through the nominee company – a declaration, as formulated in the attached Appendix Twenty-eight "D".
  - c. The Clearing House shall make the payment only after it concluded that the particulars in the declaration are in agreement with the calculations made by the Clearing House according to the data that it transmitted to the company, as said in sub-paragraph 7) above. If the declaration was not received by the Clearing House, or if the Clearing House found that the particulars in the declaration are not in agreement with the calculations made by the Clearing House, then the Clearing House shall not make the payment and it shall so inform the nominee company and the members.
- 9) Until January 15 of each year the company shall transmit Forms 1042S for the preceding year to the Clearing House, for-each type of payment, including specification of the tax rate, in relation to both withholding QI members and non-withholding QI members.

#### **Bonus shares**

- a. Notice of the distribution of bonus shares and of the record date for the distribution shall be received at the Exchange at least five trading days before the record date.
- b. On the date of the allocation, the nominee company shall credit the Clearing House with the quantity of shares due according to the quantity registered to the credit of the Clearing House with the nominee company on the record date, less the quantity for which notices had been submitted, which waived receipt of the bonus shares through the Clearing House.

The quantity of bonus shares credited to the Clearing House shall be divided between the members' accounts, so that every member entitled to bonus shares is credited by the Clearing House with a quantity of bonus shares in accordance with the actual balance of the security that was registered to its credit at the Clearing House on the record date.

- b. The date of the allocation of bonus shares shall be on business day after the record

date.

4B. **Handling of partnership payments pursuant to Sections 1446(a)-1446(f) of the IRC (U.S. Internal Revenue Code)**

1. A partnership seeking to register its securities in the Clearing House will deliver to the Clearing House a statement concerning the applicability of Regulation 1446 to the partnership. In the statement, the partnership will specify one of the following two options:
  - a. The partnership is recognized by the U.S. tax authorities as a company (has “checked the box”) and is therefore not subject to Regulation 1446;
  - b. The partnership does not conduct business and does not engage in commerce in the United States and is therefore not subject to Regulation 1446;
  - c. The partnership conducts business or engages in commerce in the United States and is therefore subject to Regulation 1446.

The partnership will report to the Clearing House of any change in its status immediately upon its occurrence.

2.
  - a. A partnership that has not declared that it is recognized by the U.S. tax authorities as a company will deliver a statement pursuant to section 1. Above, every calendar quarter, in proximity to the end of the quarter.
  - b. Additionally, a partnership that has provided a statement, as described in section 1.b., seeking to execute a payment through the Clearing House, will deliver a statement pursuant to section 1.b. at least four trading days prior to the date of record for the payment.
  - c. A partnership that has not delivered a statement pursuant to subsection a. or b. above, on the dates prescribed therein, shall be deemed to have declared that it is subject to Regulation 1446.
  - d. A statement by the partnership that is delivered by way of an immediate report of the partnership shall be deemed to have been delivered to the Clearing House on the publication date.
3. The Clearing House will not handle payments that are subject to Regulation 1446.

5. **Other corporate events, (such as mergers, splits, capital amalgamations and capital reductions)**

- a. The acts connected to corporate events, for which no special provisions are prescribed in this Chapter, shall be carried out as specified in section 5. above, mutatis mutandis.
- b. Unless otherwise prescribed, the time for an allocation of shares that derives from a corporate event shall be on the business day after the record date.
- c. Notwithstanding the provisions of the above sub-paragraph b., in the event of a company split in which –

- 1) a condition for the registration of the new split company is the issue of additional shares by a public issue or by way of rights, the date for the share allocation shall not be later than thirty days after the record date;
- 2) all or some of the share holders in the split company are liable to tax, the date for the share allocation shall be between the twelfth and the eighteenth day after the record date.

6. **Rights**

- a.
  - 1) Letters of rights shall be deposited with the nominee company after the record date, but not later than one trading day before the day on which the rights are traded.
  - 2) On the day after the record date the nominee company shall credit the Clearing House with the quantity of rights due to it on the basis of the quantity registered to its credit at the nominee company on the record date, less the quantity in respect of which waivers to receive the rights through the Clearing House were submitted; the quantity of rights, which were credited to the Clearing House, shall be divided among the members' accounts, so that each member entitled to rights is credited by the Clearing House with the quantity of rights according to the actual balance of securities entitled to the rights, which were registered to its credit at the Clearing House on the record date.
  - 3) A member shall not be able to withdraw rights from its securities account at the Clearing House, but it may sell them or transfer them to another member or to one of its other sub-accounts with the Clearing House.
- b. On the record date each Exchange member shall send notices to the clients entered on its books for the rights on the record date. In the notice the member shall specify the ways of action available to the client in respect of the rights registered to his credit –
  - 1) to exercise the rights;
  - 2) to sell the rights;
  - 3) not to exercise and not to sell the rights.

In its notice, the Exchange member shall state how it shall act if no instructions are received from the client by the last date set by it.”

- c. If a company informed the Stock Exchange that it offers securities by way of rights in accordance with the Securities Regulations (Manner of Offering Securities) (Amendment) 5768-2008 (hereafter: "the Regulations") in a way in which the rights will not be offered to foreign holders, then the provisions below in this sub-paragraph shall apply, instead of the provisions of sub-paragraph 7.b. above:
  - 1) The Exchange member shall send a notice to the clients that on the record date are recorded on its books for the rights, in which it shall inform them that – in accordance with the prospectus of the rights offer (hereafter: the prospectus) – foreign holders, as defined in the member's notification to its

clients shall include a reference to the definition of foreign holders in the prospectus.

- 2) The Stock Exchange member shall state in the notice that –
- a) if, according to the records kept by it for purposes of its clients' tax liability – to the extent that the member keeps such records – the client is defined as being subject to the tax laws of the foreign state and if the client does not inform the member until three business days before the day on which the rights are traded that he is not a foreign holder, then the member will treat him like a foreign holder who is entitled only to monetary compensation, as prescribed in the prospectus;
- if a client notified the member as aforesaid that he is not a foreign holder, then the member shall treat him as said in sub-paragraph b) below;
- b) if, according to the records kept by the member for purposes of the clients' tax liability – to the extent that the member keeps such records – the client is not defined as being subject to the tax laws of the foreign state, and also if the member does not keep aforesaid records, then – all subject to the client not informing the member until three business days before the day on which the rights are traded that he is a foreign holder – the client shall be able to choose between following three ways of action in respect of the rights recorded to his credit:
- (1) to exercise the rights, and thereby the client shall be deemed to have declared that he is not a foreign holder;
  - (2) to sell the rights, and thereby the client shall be deemed to have declared that he is not a foreign holder;
  - (3) not to sell and not to exercise the rights and thereby the client shall be deemed to have declared that he is not a foreign holder;
- In its notice the Stock Exchange member shall state that – if no notification at all is received from the client until the last date prescribed in its rules – the client shall be deemed to have declared that he is not a foreign holder. In addition, the Stock Exchange member shall determine in its procedures how it shall act if no instructions are received from the client.
- c) The Stock Exchange member shall state in its notice that its classification of the client as a foreign holder is based on the records kept by it for purposes other than those prescribed in the Regulations, and therefore every client is requested to check whether he is defined as a foreign holder in accordance with the prospectus.

If a client holds that his classification as a foreign holder or as one who is not a foreign holder differs from that determined by the member according to its records, then he shall so inform the member.

- 3) Three business days before the day on which the rights are traded the member shall transfer to the Clearing House member that is the coordinator for the issue, as defined in the prospectus (hereafter: "the coordinator"), in an off-Exchange transaction (without monetary clearing), the quantity of rights allocated to it in respect of its clients that are foreign holders, and that according to its records and according to the notices that it received from its clients, as said in sub-paragraph 2) above.
  - 4) On the trading day on which the rights are traded, the coordinator shall sell on the Stock Exchange the rights transmitted to it by the members as specified in sub-paragraph 3) above and transmit the consideration for the sale to the issuing company.
  - 5) On the day on which the rights are exercised, as prescribed in the prospectus, the coordinator shall transmit to the Clearing House the amount of compensation due to each member in respect of the quantity of rights that the member had transferred to the coordinator as said in sub-paragraph 3) above, and the Clearing House shall credit the amount received from the coordinator for each member to its account.
  - 6) A member shall not have any right to sell or transfer the rights allocated to its clients, except in off-Exchange transactions (without monetary clearing) with the coordinator, and that up to the day on which the rights are traded.
- d.
- 1) If a client holds rights after the day on which they are traded, then it shall inform the Exchange member whether or not he will exercise them; if the client has not given the member notice as aforesaid, then his rights will not be exercised.
  - 2) For the purposes of sub-paragraph 1), if a client held rights on the record date for the rights and gave notice that he intends to exercise the rights, as said in sub-paragraph b.1., and if he did not change his notice, then he shall be treated as if he had instructed the member, after the day on which the rights were traded, to exercise the rights.
- e.
- 1) A member who wishes to exercise rights on the last day for exercising the rights shall submit to the Clearing House, separately for each of its sub-accounts, a written request to exercise the rights, formulated as shown in Appendix 15 of the By-Laws, in respect of the quantity of rights registered to his credit in that sub-account. Said requests may be submitted to the Clearing House starting on the last trading day before the last day for exercising the rights, until 12:00 noon on the trading day that is the last day for exercising the rights.  
  
The monetary credit and debit shall be made as of the value of the last day for exercising the rights
  - 2) If a member does not submit a written request to exercise the rights, then the Clearing House shall treat it as if it had requested not to exercise the rights, and the rights shall lapse.

- 3) If a request to exercise rights relates to a quantity of rights greater than the actual balance registered to the member's credit in the sub-account to which the request refers, then it shall not be carried out at all and it shall be returned to the member who sent it with a statement of the reason therefore.
  - 4) When a member submits a request for the exercise of rights, then it is responsible to all the consequences of any error included in its request to exercise the rights.
  - 5) If the Clearing House received a notice that the last day for exercising the rights has been postponed, then all the requests that the Clearing House received according to the above section 7.e.1) shall be canceled.
- f. The Clearing House shall debit members for the monetary consideration due from them in consideration of the exercise of the rights and it shall credit the bank account of the nominee company with the monetary consideration due in respect of the exercise of rights by the members.
  - g. The nominee company shall credit the Clearing House with the quantity of securities that stems from the exercise of the rights. This quantity shall be divided between the members, so that each member is credited by the Clearing House in accordance with the quantity of rights used by it.
  - h. When rights can be used currently, then the provisions of Chapter Ten of this Part of the By-Laws shall apply, mutatis mutandis, to the extent that they apply to the process of converting of a convertible security.

7. **Final redemption and partial redemption of a fund of debentures**

- a. On the day of payment for the final redemption of a debentures fund, the Clearing House shall debit the bank account of the nominee company in the amount of the payment due on the basis of the quantity of debentures credited to the Clearing House at the end of the day that preceded the day of payment, less the amounts that stem from notices that waived receiving the amount of redemption through the Clearing House.

This amount shall be divided between the members, so that each member is credited by the Clearing House in according to the actual balance of debentures registered to its credit at the Clearing House at the end of the day that preceded the day of payment.

On the day of payment, the account of the nominee company shall be credited and the accounts of the members shall be debited with the quantity of debentures that were redeemed.

- b. On the day after the record date for a partial redemption of a fund of debentures, the account of the nominee company shall be credited and the securities accounts of the members shall be debited with the quantity of redeemed debentures that were redeemed in the partial redemption.

On the day of payment for the partial redemption of a fund of debentures, the Clearing House shall debit the bank account of the nominee company in the amount of the payment due on the basis of the securities credited to the nominee

company on the record date, less the amounts that stem from notices that waived receiving the amount of redemption through the Clearing House. This amount shall be divided between the members, so that each member entitled to payment is credited by the Clearing House in accordance with the quantity of debenture certificates for which he was debited on the record date.

The provisions of this sub-paragraph b. shall not apply, if trading in the company's debentures on the Stock Exchange was pending in consequence of the appointment of a temporary receiver, receiver, temporary liquidator or liquidator.

The provisions of this paragraph 8. shall apply on High-tech fund units as well.

8. **Voluntary early redemption of a fund of debentures**

- a. A notice of the early redemption of debentures shall be delivered to the Exchange by the issuer no later than thirty days before the date of early redemption, if the debentures are convertible debentures, and no later than twenty one days before the date of early redemption, if the debentures are debentures that are not convertible. The notice shall state the last day on which the holders of the debentures shall have the right to give notice of their desire to have the debentures which they hold redeemed.
- b. When notice of a date of early redemption has been given in respect of convertible debentures, then requests for their conversion shall not be accepted at the Clearing House beginning with the twelfth day before the redemption date and until the date of the early redemption.
- c. Until six trading days before the date of the early redemption members shall submit to the Clearing House written requests as formulated in Appendix Fifteen "B", separately for each sub-account, specifying the quantity in respect of which they request early redemption.

NCHMs shall transmit this request through the member that clears for them.

A request for redemption that relates to a quantity of debentures in excess of the actually balance registered to the member's credit in the sub-account to which the request refers shall not be carried out and it shall be returned to the member with a statement of the reason therefore.

- d. The Clearing House shall – within two trading days after the time set in the above sub-paragraph c. – give notice to the nominee company for what total quantity requests for early redemption have been submitted.
- e. The nominee company shall – within two trading days after it received the notice from the Clearing House – inform the issuer of the total quantity, in respect of which requests for early redemption were submitted.
- f. At the time of the early redemption the Clearing House shall debit the bank account of the nominee company for the amount of the payment due in accordance with the quantity, in respect of which requests for early redemption were submitted.

This amount shall be divided between the members, so that each member is



credited by the Clearing House in accordance with the quantity of debentures, as stated in the member's request to the Clearing House. At this time the account of the nominee company shall be credited and the members' accounts shall be debited with the quantity of debentures that was redeemed.

The provisions of this paragraph 9. shall apply on High-tech fund units as well.

9. **Partial redemption for which payment was not made and partial redemption of backed debentures**

In this section –

**"partial redemption of backed debentures"** –

reduction of the capital amount of a backed debenture, in respect of which all the following conditions hold true;

- the issuer announced that, because an issuer of a backing asset failed to meet an obligation, the proportional part of the capital amount of the backed debenture that is backed by that asset has been subtracted;
- the conditions of the backed debenture state that, if the issuer of the backed debenture is credited with any amount for the part subtracted from the capital of the backed debenture, that money shall be distributed to those entitled to the unpaid balance of the debt;

**"unpaid balance of the debt"** –

a balance of debt in respect of a payment and the payment was not made, or a balance of debt in respect of the partial redemption of a backed debenture.

- a. If payment was not made for a partial redemption the due date of which passed, or if partial redemption was made in respect of a backed debenture, then the following acts shall be carried out at the Clearing House on the first trading day after the original day of payment, which the issuer had set for the partial redemption or on the first trading day after the determining date set by the issuer of the backed debenture for the partial redemption of the backed debenture, as the case may be:
  - 1) the Clearing House shall enter the debt balances that had not been paid separately and it shall identify them by a special number and by a name that states that the balance relates debt balance that was not paid on a certain date;
  - 2) the members' balances at the Clearing House shall be credited with the unpaid debt balance in a quantity identical with the quantity of debentures that was debited against them on the day after the record date;
  - 3) the balance of the Clearing House with the nominee company shall be credited with the total of the unpaid debt balances that are held by the members.
- b. The Clearing House shall allow off Exchange transfers and transactions of unpaid debt balances between members and between sub-accounts of each member, but shall not allow withdrawals of unpaid debt balances.

- c. If the issuer announces a payment for unpaid debt balances, then the Clearing House shall make the payments in accordance with the members' balances in its records at the end of the day before the day of the payment.

Notwithstanding the aforesaid, if the payment also includes the payment of interest, the issuer shall set the payment date up to twelve days after the record date for the payment; the Clearing House shall make the payments in accordance with the members' balances in its records.

- d. If a person entitled to an unpaid debt balance requests that certification of his holdings therein be issued, in order for the nominee company to issue a power of attorney in his name, then he shall do so in accordance with section 12. below, *mutatis mutandis*.
- e. If and when arrangements in respect of the issuer's debentures are lawfully approved in a manner that equalizes the rights of persons entitled to unpaid debt balances and the rights of persons entitled to the balance of the debentures of the same series for which the day of redemption has not yet arrived, then the members and the balance of the Clearing House with the nominee company shall be debited for the balances of unpaid debt, and the members and the balance of the Clearing House with the nominee company shall be credited with the debentures that are the subject of the arrangement, in accordance with the certifications that will be received.

10. **Forced sale under section 337 of the Companies Law 5759-1999**

- a. The payments for a forced sale shall be made through the nominee company of the company, the shares of which were sold in a forced sale.
- b. Two trading days before the time for the transfer of the consideration to the Clearing House, the nominee company shall deliver to the Clearing House notice of the time, when the consideration for the shares that are to be sold in a forced sale will be transferred.

The notice shall include the monetary consideration payable for each share, the total consideration to be paid and the quantity of shares registered to the credit of the purchaser in the forced sale (hereafter: "the purchaser") with each of the members.

- c. When the aforesaid consideration is transferred, the Clearing House shall debit the bank account of the nominee company with the amount of consideration due on the basis of the quantity registered to the credit of the Clearing House at the nominee company on the day on which the consideration is transferred, less the quantity registered with members to the purchaser's credit.

The amount of the said consideration shall be divided between the members, so that each member entitled to payment is credited by the Clearing House with a payment according to the actual balance of shares registered to its credit at the Clearing House on the day for transfer of the consideration from the forced sale, less the actual balance registered with it to the purchaser's credit.

The Clearing House shall debit the members for the quantity of shares for which they were credited with payment, and it shall credit the nominee company with that quantity of shares.

- d. On the trading day after the day on which the consideration was transferred as aforesaid, the purchaser shall submit to each Clearing House member, with whom shares that were the subject of the full purchase order are registered, a request to withdraw the entire quantity registered to its credit with that member.

When a said request has been submitted to a member, the member shall submit to the Clearing House a withdrawal order, as formulated in Appendix Seven "B" to the By-Laws. The purchaser's request that was submitted to the member as aforesaid shall be attached to the withdrawal order.

The provisions of section 5.b. in Chapter Three of this Part of the By-Laws shall apply, mutatis mutandis, to the said withdrawal order.

#### 11. **A financial institution's contingent convertible (CoCo) debenture**

In this section –

“A contingent convertible debenture of a financial institution” –

A debenture issued by a banking corporation or by an insurer, whose terms and conditions – in accordance with the requirements of the Supervisor of Banks or in accordance with the requirements of the Commissioner of the Capital Market, Insurance and Savings, as appropriate – include the circumstances in which the banking corporation or the insurer, as appropriate, is required to conduct a full or partial conversion of the debentures.

“The converted principal balance” – the balance of principal of a contingent convertible debentures series for which an order has been received from the banking corporation or the insurer for its conversion.

- a. If a banking corporation or an insurer has given notice that a full or partial conversion of the principal of a contingent convertible debenture is to be performed, and it is provided in the debenture's terms and conditions that the banking corporation or the insurer, as appropriate, may pay for the converted principal balance in the future, then – on the set conversion date – the Clearing House shall act as follows:
- 1) It shall identify the converted principal balance with a special symbol and it shall record it separately in both its own records and in those of the members as an entitling principal balance (“an entitling principal balance”).
  - 2) It shall delete from both its own records and from those of the members the principal balance of the contingent convertible debentures, wholly or partially, as it was instructed by the banking corporation or the insurer, in accordance with the members' balances on the record date and shall credit each member with the entitling principal balance in the amount of the principal of the contingent convertible debentures that was converted from its aforementioned balances.

In this subsection a. –

“record date” – the day preceding the conversion date.

- b. The Clearing House shall allow off-exchange transfers and transactions between the members and between every member’s sub-accounts of the entitling principal balance, but the withdrawal of the entitling principal balance shall not be allowed.
- c. If a banking corporation or an insurer has given notice of payment of the entitling principal balance, the Clearing House shall make the payment, in full or in part, pursuant to the aforesaid notice, in accordance with the members’ balances in the records at the end of the day preceding the payment date, and it shall update the entitling principal balance in accordance with the notice of the banking corporation or the insurer, as appropriate.
- d. If a banking corporation or an insurer has given notice that a full or partial conversion of the principal of a contingent convertible debenture is to be performed and it is not provided in the debenture’s terms and conditions that the banking corporation or an insurer may pay for the converted principal balance in the future, then – on the set conversion date – the Clearing House shall delete from both its own records and from those of the members the principal balance of the contingent convertible debentures, as it was instructed by the banking corporation or the insurer, as appropriate, in accordance with the members’ balances on the day that preceded the conversion date, in the case of a partial conversion, and in accordance with the balances on the conversion date, in the case of a full conversion.

**12A. Voting rights and the issue of proxies – securities of foreign companies**

- a. In this section –
  - "**securities**" – the securities of a foreign company;
  - "**entitled person**" – a person to whose credit a security is registered with an Exchange member;
  - "**the determining day**" – the day set by the foreign company as the determining day for voting at a General Meeting.
- b.
  - 1) If an entitled person wishes to vote, he shall apply to the Clearing House member through which he acts, that it certify that the quantity in respect of which he wishes to vote is registered to his credit with the member (hereafter: "certification of ownership") or that it obtain a proxy in his name, stating the quantity in respect of which he wants the proxy or the certification of ownership, in accordance with the alternative chosen by the foreign company as said in sub-paragraph d. below. If the entitled person acts through an NCHM, then the entitled person shall address his request to the NCHM, which shall forward the request to its MPMC.
  - 2) The member, to whose credit an actual balance of the security is recorded at the Clearing House, shall give the certification of ownership to the entitled person or apply to the Clearing House for a proxy, as the case may be.

- 3) When a said certification of ownership has been given to the entitled person, he shall send it to the issuer with the documents required for voting at the General Meeting.
  - 4) Nominee companies shall not use the voting rights in respect of the securities registered in their names.
- c. When a security is registered at the Clearing House, the foreign company shall inform the Clearing House which of the alternatives described below it chooses.
- The alternative shall be chosen according to the professional opinion that the foreign company received, and it shall accord with legal requirements incumbent on it on the matter of calling General Meetings.
- d. The alternatives are as follows:
- 1) **Getting the balances recorded to the members' credit at the Clearing House**
    - (a) When the time for a General Meeting of securities holders has been set, the foreign company shall request from the Clearing House the actual balance of the security that is recorded to the credit of each Clearing House member on the determining day, and a proxy from the Clearing House. The request shall be as is formulated in Appendix Eighteen "B" (hereafter: "the application"), which is attached to the By-Laws, and it shall include the foreign company's undertaking to keep confidential the data that will be delivered to it by the Clearing House. Getting the said application from the foreign company is a condition for the delivery of the data by the Clearing House.
    - (b) When the application has been received by the Clearing House, the Clearing House shall give the foreign company a list that includes the names of the members, together with the actual balance of the security registered with the Clearing House to the credit of each member, as well as a proxy for Clearing House members and their clients to vote in the name and in place of the Clearing House at the General Meeting, all as formulated in the attached Appendix Eighteen "C".

The Clearing House shall deliver the proxy and the said list within two trading days after the determining day, and that subject to the application having been received by the Clearing House before the determining day. If the Clearing House receives the application after the determining day, then the Clearing House shall deliver the said list within two trading days after the application was received by the Clearing House.
    - (c) It is the responsibility of the foreign company to check, in respect of each Clearing House member, that the total quantity for which it received certifications of ownership from entitled persons to whose credit securities are registered with that member does not exceed the actual balance of that security that is registered with the Clearing House to that member's credit.

2) **Certification of balances of a security by the Clearing House**

- (a) When the date for a General Meeting of holders of a security has been set, the foreign company shall deliver to the Clearing House, immediately after the determining day, a request that it certify balances, formulated as said in Appendix Eighteen "D", which is attached to the By-Laws. To the request shall be attached a list that includes the names of the Clearing House members, and next to the name of each member shall appear the quantity for which certifications of ownership were delivered to the issuer by entitled persons registered with that member.
- (b) The Clearing House shall check in respect of each member that the quantity that appears on the said list does not exceed the actual balance of the security registered with the Clearing House to that member's credit on the record day. If the Clearing House finds that the actual quantity of the security registered with the Clearing House to the Clearing House member's credit on the record day was smaller than the quantity on the list, then the application shall be returned to the foreign company with that fact stated. If the Clearing House finds that the actual quantity of the security registered with the Clearing House to the Clearing House member's credit on the record day was equal to or greater than the quantity that appears on the list delivered by the foreign company, then the Clearing House shall certify that fact on the application said in the above sub-paragraph (a).
- (c) If the security is registered in the name of a nominee company in Israel, then the foreign company may ask the nominee company that it apply to the Clearing House. In this case the application attached to the By-Laws as Appendix Eighteen "D" shall be signed by the nominee company, and the provisions of this sub-paragraph 2) shall apply.

3) **Issue of proxies by the nominee company**

Only a foreign company, the securities of which are registered in the name of a nominee company in Israel and cleared at the Clearing House, may choose the following alternative:

- (a) When the date of a General Meeting of holders of a security has been set, the entitled person shall apply for a proxy to the member through which he acts, stating the quantity in respect of which the proxy is requested.

If the entitled person acts through an NCHM, then the entitled person shall address his request to the NCHM, which shall forward the request to its MPMC.

- (b) The member shall apply to the Clearing House, as formulated in Appendix Eighteen "E" (hereafter in this section: "the member's application"), in order for it to certify that, on the determining day, an actual balance of securities at least equal to the quantity for which the

proxy was requested was registered to its credit in the sub-account to which its request refers.

- (c) The Clearing House shall check the actual balance of the security registered to the member's credit on the determining day in the sub-account to which the member's request refers, and if the actual balance – less previous valid certifications that were issued to the member – is equal to or greater than the quantity for which the proxy was requested, then the Clearing House shall apply to the nominee company, as formulated in the attached Appendix Eighteen "F", that it issue the proxy requested by the entitled person. If the actual balance of the security registered to the member's credit on the determining day in the sub-account to which the member's request refers is smaller than the quantity, in respect of which the member's application was submitted, then it shall not be acted on at all and it shall be returned to the member that submitted it with a statement of the reason therefor.

The Clearing House shall apply to the nominee company within two trading days after the determining day, if the request was received by the Clearing House before the determining day. If the Clearing House received the member's request after the determining day, then the Clearing House shall apply to the nominee company within two trading days after it received the member's application.

- (d) The nominee company shall send the proxy requested by the entitled person to the foreign company. The proxy shall be formulated as in Appendix Eighteen "G", which is attached to the By-Laws. A separate proxy shall be issued for each entitled person. A copy of the proxy shall be sent to the entitled person through the Clearing House, which shall transmit it to the member, and the member shall transmit it to the entitled person or to the NCHM, which shall forward it to the entitled person.
- (e) An application to certify a balance shall be submitted to the Clearing House not later than at 4:00 PM of any trading day. The Clearing House does not guarantee that it will deal with applications submitted to it less than 72 hours before the time set for the Meeting.

13. **Handling certifications of exemption from tax deduction**

- a. Dividend and interest payments in cash shall be paid by the issuers and shall be transmitted to the members through the Clearing House, without deducting tax at the source.
- b. Notwithstanding the provisions of the above sub-paragraph 13.a., in cases in which deduction at the source in respect of a payment is carried out by the issuer, the Clearing House shall act in accordance with the following:
- 1) Certifications of exemption from tax deduction at the source in respect of the payment shall be transmitted by the members to the Clearing House not later than five trading days before the day of the payment.

The certifications shall be submitted in a closed envelope, and in them the particulars of the exemption shall be stated. Particulars that will be prescribed by the Clearing House from time to time shall be stated on the outside of the envelope.

- 2) The Clearing House shall transmit the certifications in the closed envelopes all together to the nominee company, together with an accompanying letter that specifies the quantity of securities exempt of tax deduction at the source.
  - 3) A separate envelope shall be submitted for each sub-account of a member.
- c. If a request for exemption from tax deduction at the source relates to a quantity of securities in excess of the actual quantity registered to the member's credit in the sub-account to which the request refers on the record date – after the quantity of securities for which requests for exemption from tax deduction at the source or waiver notices under section 14 below that already were submitted has been subtracted – then it shall not be acted on at all and it shall be returned to the member that submitted it with a statement of the reason therefor.
  - d. The Clearing House will handle the certifications of exemption from deduction of Israel tax at the source in respect of the securities of a company incorporated abroad, which are deposited with nominee companies, subject to the company having an Income Tax file in Israel for the deduction of the Israel tax.

14. **Waiver of payment or other right due in respect of a security deposited with the Clearing House**

- a. If a client is not interested in receiving through the Clearing House a cash dividend, interest or any other right (hereafter: "right") to which he is entitled in respect of a security registered to his credit with an Exchange member, then he shall give a written notice that he waives the right to the member through which he acts. If the client acts through an NCHM, then the client shall inform the NCHM of the waiver and the NCHM shall so inform the MPMC through which it acts.
- b. In consequence of the client's notification the member shall send a written notice to the Clearing House and to the nominee company, stating the number of the sub-account to which the notice refers, the quantity of the security and the type of right to which the waiver refers and the Clearing House shall not credit the member with the right in respect of the quantity stated in the member's notice. Notice that the credit was not made shall be sent to the nominee company by the Clearing House.
- c.
  - 1) A waiver notice that refers to a cash dividend or to interest shall be submitted to the Clearing House no later than two trading days before the day of payment;
  - 2) If a waiver notice refers to any other right, then it shall be submitted to the Clearing House up to the record date for that right.
- d. A waiver notice that refers to a quantity of securities in excess of the actual balance entered on the record date to the credit of the member in the sub-account



to which the notice relates, after deduction of the quantity of securities in respect of which waiver notices were submitted, shall not be carried out at all and shall be returned to the member that sent it with a statement of the reason therefore.

- e. Waiver notices shall be made for each right separately.

15. **Canceled**

16. **Payment by way of distributing a security**

a. **Payment by way of distributing a security that is registered with the Clearing House**

The following shall apply to payments to persons who hold a security listed with the Clearing House (hereafter in this sub-paragraph: "the entitling security") by way of distributing another security that is listed with the Clearing House (hereafter in this sub-paragraph: "the security for distribution"):

- 1) Notification of the payment and of the record date for the distribution shall be received by the Stock Exchange at least five trading days before the record date.
- 2) The payment date shall be as follows:
  - a. a payment that is liable to tax deduction at the source shall – if the tax deduction is carried out by the issuer – be performed between the twelfth and the eighteenth day after the record date for the payment;
  - b. a payment that is not liable to tax deduction at the source, as well as a payment liable to tax deduction at the source for which the tax deduction is not carried out by the issuer, shall be made beginning with the second trading day after the record date for the payment and not later than on the eighteenth day after the record date for the payment.
- 3) Up to one trading day before the payment date the issuer shall deposit to his credit with a Stock Exchange member the quantity of the security for distribution, less the quantity in respect of which notices were submitted that waive receipt of the security for distribution through the Clearing House, and – in the case of a tax deduction at the source that is carried out by the issuer – less the quantity of the security for distribution that was deducted at the source as tax, with the addition of the quantity for which there are certifications of exemption from tax deduction at the source.
- 4) On the payment date the quantity of the security for distribution, which was credited to the member's account as said in sub-paragraph 3) above, shall be divided among the accounts of the members, so that each member to whose credit an entitling security is registered will be credited by the Clearing House with a quantity of the security for distribution according to the actual balance of entitling securities that were registered to his credit with the Clearing House on the record date, and in the case in which tax deduction at the source was carried out by the issuer – less the quantity of the security for distribution that was deducted at the source as tax and with the addition of

the quantity derived from certifications of exemption from tax deduction at the source.

b. **Payment by way of distributing a security that is not registered with the Clearing House**

- 1) The Clearing House does not carry out payments by distributing securities that are not registered with the Clearing House.
- 2) If an issuer wishes to carry out a payment to holders of a security that is registered with the Clearing House (hereafter in this sub-paragraph: "entitling security") by way of distributing another security that is not listed with the Clearing House, then he may request of the Clearing House that it inform him of the names of the Clearing House members to whose credit are registered actual balances of the entitling security, and also of the actual balance of the said security registered to the credit of each of the said members, in order to make the payment not through the Clearing House.

The request shall be formulated as in Appendix Fifteen "C", which is attached to the By-Laws (hereafter in this sub-paragraph: "the request"). In the request shall be stated the day set by the issuer as record date for the payment (hereafter in this sub-paragraph: "the record date") and it shall include the issuer's undertaking to maintain the confidentiality of the information that the Clearing House communicate to him.

- 3) When the request has been received by the Clearing House, the Clearing House shall give the issuer a list that specifies the names of those Clearing House members, to whose credit actual balances of the entitling security are registered with the Clearing House on the record date, as well as the actual balances of the said security to the credit of each of the said members.

The Clearing House shall deliver the said list to the issuer within two trading days after the record date, and that subject to the request having been received by the Clearing House before the record date. If the request was received by the Clearing House after the record date, the Clearing House shall deliver the list to the issuer within two trading days after the request was received by the Clearing House.

17. **Payment not through the Clearing House**

- 1) An issuer or a trustee for bonds (hereafter – "the applicant") who wishes to make a payment to holders of a security registered with the Clearing House (hereafter in this sub-paragraph: "entitling security") not through the Clearing House may request the Clearing House to give him the names of the Clearing House members, to whose credit an actual balance of entitling securities is registered, as well as the actual balance of the said security registered to the credit of each of the said members, in order to make the payment not through the Clearing House.

The request shall be as formulated in Appendix Fifteen "D" that is attached to the by-laws (hereafter in this sub-paragraph: "the request"). In the request shall be stated the date set by the applicant as the record date for the payment (hereafter in this sub-paragraph: "the record date"), and it shall include the applicant's

undertaking to maintain the confidentiality of the data that the Clearing House will give him.

If the entitling security is a bond and the payment that the applicant intends to make is a redemption of the principal of a bond, the applicant shall undertake to notify the Clearing House, on the date of making the payment, of the quantity of the bond redeemed.

In accordance with the applicant's notification, the Clearing House will debit the members' accounts by the quantity redeemed.

- 2) When the request has been received by the Clearing House, the Clearing House shall give the applicant a list that specifies the names of the Clearing House members to whose credit stood an actual balance of the entitling security on the record date and also the actual balance of the said security registered to the credit of each of the said members.

The Clearing House shall deliver the said list to the applicant within two trading days after the record date and that subject to the request having been received by the Clearing House before the record date. If the request is received by the Clearing House after the record date, the Clearing House shall deliver the list to the applicant within two trading days after the day on which the request was received by the Clearing House.

## **CHAPTER TEN- CONVERTIBLE SECURITIES**

1. A client who wishes to convert or to exercise a security entered to his credit shall make a request to the member through which he acts. The request shall be submitted to the member in writing and it may be given by means of facsimile or electronic mail. The request may also be submitted by telephone or by some other medium, if allowance for that was made in the contract between the member and the client, provided the member documented receipt of the request. If the client acts through an NCHM, then the request shall be made to the NCHM and it shall transmit it to the MPMC through which it acts.
2.
  - a. The member shall submit a conversion request to the Clearing House according to the form attached to the By-Laws as Appendix 15. In the conversion request the member shall request that the Clearing House debit the convertible security against the sub-account to which the request refers, that it debit it with the amount payable for the conversion – if any is payable – and that in consideration therefor it credit the sub-account to which the request refers with the security that stems from the conversion, and it shall certify that the credit is conditional so that – if the security that stems from the conversion is not allocated – the Clearing House will have the right to debit it for the security that stems from the conversion.
  - b. A conversion request shall be received by the Clearing House until 12:00 noon, only on trading days.
  - c. A request to convert a security in a quantity greater than the actual balance of that convertible security entered to the member's credit in the sub-account to which the request refers shall not be carried out at all and it shall be returned to the member that sent it.
  - d. A request for the conversion of a security, trading of which was pending in consequence of the appointment of a temporary receiver, receiver, temporary liquidator or liquidator, shall not be carried out at all and shall be returned to the member who sent it.
3. When the Clearing House has received a conversion request, it shall act as follows:
  - a. the Clearing House shall transmit to the nominee company, and to the member a report that conditionally certifies the compliance with the conversion request, as specified below;
  - b. the Clearing House shall debit the member for the convertible security and credit the nominee company accordingly;
  - c. the Clearing House shall credit the member with the security that stems from the conversion and debit the nominee company accordingly;
  - d. the Clearing House shall debit the member for the payment connected to the conversion request and credit the bank account of the nominee company accordingly;
  - e. when a purchase option or a purchase debenture is converted, then the following rules shall apply:
    - 1) the Clearing House shall transmit a report that certifies that the request was

carried out conditionally to the nominee company of the convertible security, to the member and to the member through whom the trustee for the security that stems from the conversion operates

- 2) the Clearing House shall debit the member for the convertible security and credit the nominee company accordingly;
  - 3) the Clearing House shall credit the member with the security that stems from the conversion and accordingly debit the member through which the custodian for the security that stems from the conversion acts;
  - 4) the Clearing House shall debit the member for the payment connected to the conversion and accordingly credit the member through which the custodian for the security that stems from the conversion acts.
4. No later than 12 noon of the first trading day after receipt of a request for conversion of a convertible security –
- a. the nominee company shall send the certificate of the convertible security or the letter of allocation in its respect to the issuer, together with a conversion request signed by it;
  - b. the nominee company shall debit the issuer and credit the Clearing House with the security that stems from the conversion;
  - c. if conversion of the security is accompanied by a payment, then the nominee company shall credit the issuer with the payment.
5. Until 12 noon of the first business day after the day, on which the Clearing House transmitted to the member the report that conditionally certifies compliance with the request for conversion, the member shall inform the Clearing House of any discrepancy between the conversion request and the report sent by the Clearing House.

If the member gave a said notice, the Clearing House shall make the necessary adjustments within one trading day after receipt of the notice, and it shall send a corrected conditional certification of the conversion request to the member and to the nominee company. If no aforesaid notice was given by the member, then the member shall be responsible for all the consequences of any error in the particulars included in the certification of the conversion request.

The provisions of this section shall also apply, *mutatis mutandis*, to a member that submitted a request for the conversion of a security of the category of purchase options or purchase debentures.

6. a. No later than two trading days after any date on which a conversion request was submitted, the issuer shall deliver a letter of allocation to the nominee company, specifying the shares allocated in its name (hereafter: "letter of allocation");
- b. the entries in the nominee company, the Clearing House and the members' account (all together hereafter: "the entries") said in paragraphs 3, 4 and 5 above shall be conditional until they become final and absolute or until they are canceled as specified in sub-paragraph c.
- c. 1) When the letter of allocation is received, the nominee company shall check whether the letter of allocation corresponds to the entries. If the nominee

company finds that there is any discrepancy between the letter of allocation and the entries, then it shall give notice thereof to the Clearing House without delay. If the Clearing House received a said notice, then it shall make the necessary adjustments and give notice thereof to the member.

When the necessary adjustments have been made, the entries shall become final and absolute.

- 2) If the nominee company did not receive the letter of allocation, then the nominee company shall so inform the Clearing House until the end of five trading days after the date of the allocation and the Clearing House shall cancel the entries and it shall so inform the members.
  - 3) If the Clearing House did not receive any notice from the nominee company by the end of five trading days after the date of the allocation, then the entries shall become final and absolute at the end of that period.
  - d. Exchange members shall not allow their clients to sell securities, in respect of which entries are conditional.
7. The member who submits a conversion request is responsible for the consequences of any error in the particulars included in the conversion request.
8. a. Until 12 noon of the last day of conversion before final redemption or until 12 noon of the last day of conversion before the record date of a partial redemption, as the case may be, members shall submit – separately for each of their sub-accounts – conversion requests in respect of the balance of convertible debentures entered to their credit in that sub-account and which they request to have converted.

The balance of convertible debentures up for redemption and entered to its credit at the Clearing House, for which the member had not make a conversion request until the aforesaid time, shall be redeemed.

- b. Twenty one days before the conversion date that occurs before final redemption or before the record date of a partial redemption of convertible debentures, as the case may be, Exchange members shall send notices to the clients who appear on their books on that day as holders of the convertible debentures. In the notice the member shall specify the ways of action open to the client in respect of the convertible debentures entered to his credit:
- 1) to convert the debentures;
  - 2) to redeem the debentures;
  - 3) to sell the debentures up for redemption before the redemption date.

The Exchange member shall state in its notice how it will act if no instructions at all are received from the client until the final date set in its procedures.

In its procedures the Exchange member shall prescribe a final date for the delivery of instructions from a client who bought the convertible debentures after the Exchange member sent its aforesaid notice to its clients and until the last conversion date before the redemption, and it shall state how it will act in respect of clients who gave no aforesaid instructions.

9. a. 1) A member who wishes to exercise warrants on the last day for exercising those warrants shall submit to the Clearing House, separately for each of his sub-accounts, a request to convert the balance of warrants that is recorded to his credit in that account and that he wishes to convert.

Said requests may be submitted to the Clearing House starting on the last trading day before the last day for exercising the warrants and until 12:00 noon on the trading day that is the last day for exercising the warrants.

The balance of warrants recorded to his credit, in respect of which the member did not submit a request for conversion up to the aforesaid time, shall not be exercised, but shall lapse.

- 2) If the Clearing House received a notice that the last day for exercising the warrants has been postponed, then all the requests that the Clearing House received according to the above sub-paragraph 1) shall be canceled.

- b. 1) Twenty-one days before the last exercise date Exchange members shall send notices to the clients who appear on their books on that day as holders of the warrants. In the notices the Exchange members shall specify the ways of action open to the clients in respect of the warrants entered to their credit:

- a) to exercise the warrants;
- b) to sell the warrants on the last day on which they are traded;
- c) not to sell and not to exercise the warrants, allowing them to lapse.

In its notice, the Exchange member shall state how it shall act if no instructions are received from the client by the last date set by it.

- 2) If a client holds warrants after the last day on which they are traded, then he shall give notice to the Exchange member whether he will or will not exercise them; if the client does not give an aforesaid notice to the Exchange member, then the warrants he holds will not be exercised, but will lapse.
- 3) For the purposes of sub-paragraph 2), if a client held warrants before the last day on which they were traded and if he gave notice that he wants to exercise the warrants as said in sub-paragraph 1), and if he did not change his notice, then he shall be treated as if he had given the Exchange member notice after the last day on which the warrants were traded to exercise the warrants.

10. If a fractional security results from conversion after an act of exercising, then the Clearing House will credit such fraction to the member

**CHAPTER ELEVEN - CREATION AND REDEMPTION OF  
EXCHANGE TRADED FUND (hereafter: "ETF") UNITS**

1. **Definitions and interpretation**

- a. The terms in this Chapter shall be interpreted within their meaning in the Joint Investment Trusts Law 5754-1994 (hereafter: "the Law"), in the Stock Exchange Rules and in regulations thereunder, except when it is explicitly stated otherwise.
- b. The provisions of this Chapter shall apply solely to ETFs.

2. **Representative member**

- a. A Fund Manager shall appoint a representative member for every ETF under its management. A custodial member cannot be appointed as a representative member.

The representative member shall inform the Clearing House, by use of the form attached to the By-Laws as Appendix Eighteen "H", of the name of the ETF for which it was appointed representative member. A copy of the notice shall be sent by the representative member to the Fund Manager.

- b. A Fund Manager is entitled to replace the representative member, on condition that the ETF shall always be represented by a representative member. A notice of the replacement of a representative member shall be delivered to the Clearing House by use of the form attached to the By-Laws as Appendix Eighteen "I", signed by the replaced representative member and the replacing representative member. The Clearing House shall update the change, as specified in the notice, on the trading day after the day on which the notice was received.
- c. Contact between the Clearing House and the Fund Manager shall be through the representative member. The representative member's acts, including its knowledge and intentions, shall obligate and entitle the Fund Manager, as the case may be.
- d. A representative member shall inform the Clearing House on each trading day, within two hours after trading on the Exchange was concluded, of the following data:
  - 1) the creation price per unit;
  - 2) the redemption price per unit.
  - 3) the fair value of the unit
- e. A representative member shall inform the Clearing House by use of the form attached to the By-Laws as Appendix Eighteen "H" of the By-Laws of the hour set for the acceptance of orders for the creation of units and of orders for the redemption of units in the ETF, and of any change thereof.
- f. A representative member shall inform the Clearing House by use of the form attached to the By-Laws as Appendix Eighteen "H" of the By-Laws of the dates on which the ETF may not offer units or redeem them.



- g. A representative member shall inform the Clearing House by use of the form attached to the By-Laws as Appendix Eighteen "H" of the By-Laws of whether the ETF is an unrestricted foreign securities fund.
- h. A representative member shall inform the Clearing House by use of the form attached as Appendix Eighteen "H" of the By-Laws what is the minimum number of units for which a creation order can be submitted; if a maximum number is set for which a creation order may be submitted, this data shall also be included on the aforesaid form.
- i. If the clearing House elects to obtain the data detailed in sub-paragraphs e. through h. above other than from the representative member, the representative member shall be exempt from having to deliver the aforesaid data to the Clearing House, so long as it has not been sent a notice to the contrary by the Clearing House.
- j. A representative member shall inform the Clearing House by 9 AM of each trading day what is the maximum number of units which the ETF may create on that trading day. The notice shall be delivered after the representative member has checked that the maximum number of units does not exceed the balance registered on the account of the member with whom its account is kept. If no such notice has been delivered to the Clearing House or if the representative member has given notice that the maximum number of units that the ETF may create on that trading day is zero, it will not be possible to submit orders to the Clearing House for the creation of units in the ETF on that day.

Moreover, the representative member shall inform the Clearing House by 9 AM of each trading day of the total creations/redemptions performed through it by the market maker, on the previous trading day. If the market maker also acts through another Clearing House member, the representative member shall inform the Clearing House, separately, of the total creations/redemptions performed through the other Clearing House member by the market maker, on the previous trading day.

**3. Transmission of orders for the creation of units and for the redemption of units in a ETF**

- a. A member shall transmit to the Clearing House orders for the creation of units (hereafter: "orders to create") and orders for the redemption of units (hereafter: "orders to redeem"). Orders to create and orders to redeem shall be transmitted by the member no later than at the designated time.  
  
A custodial member may not submit such orders to create or such orders to redeem
- b.
  - 1) A member shall transmit to the Clearing House – separately for each of its sub-accounts at the Clearing House (hereafter: "sub-account") – orders to create for his clients in that sub-account', and to redeem for his clients in the same sub-account.
  - 2) Orders to create and orders to redeem shall be submitted separately, without any set-off between orders to create and orders to redeem.

- 3) Until the designated time, the member may change or cancel an order to create or an order to redeem, which he had transmitted to the Clearing House on that day.
- c. Immediately after the designated time, the Clearing House shall transmit to the representative member the total of orders to create and the total of orders to redeem that had been transmitted to it by each of the members.

Furthermore, and without derogating from the aforesaid, the Clearing House may transmit to the representative member – at any time before the designated time and for its information only – a report of the total number of orders to create and the total number of orders to redeem that had been transmitted to it until that time by each member.

#### **4. Clearing the orders to create and the orders to redeem**

- a.
  - 1) Monetary clearing in respect of the creation and redemption of ETF units shall be carried out at the creation price and at the redemption price that were communicated to the Clearing House by the representative member, as specified in section 2.d. above.
  - 2) Monetary clearing in respect of units of an unrestricted foreign securities ETF shall be carried out at the last unit price or at the last redemption price, as the case may be, that was known at the clearing date.

Notwithstanding the aforesaid, if the representative member has communicated to the Clearing House a unit price or a redemption price that is different from the prices at which the aforesaid monetary clearing was carried out, the Clearing House shall update the unit price and the redemption price on the next trading day after the day on which the representative member's notice was received by the Clearing House, and it shall perform the necessary monetary debits and credits on the members' accounts.

- 3) If an error occurred in the creation price or in the redemption price and if the representative member so informed the Clearing House within thirty days after the date on which the error occurred, the Clearing House shall update the creation price or the redemption price, as the case may be, on the trading day after the day on which the notice was received by the Clearing House and it shall perform in the members' accounts the monetary debits and credits that must be made in consequence of the error.

The representative member's notice shall be delivered by means of the form attached to the By-Laws as Appendix Eighteen "J".

- b. Orders to create and orders to redeem fund units shall be cleared as specified below:
  - 1) Orders to create and orders to redeem, which the Clearing House received on any day up to the designated hour that had been communicated to the Clearing House in respect of that ETF, as said in section 2.e. above, shall be cleared by the Clearing House in the first clearing round (within the meaning of that term in Chapter Five of this Part of the By-Laws) on the

first business day after the day on which the orders to create or orders to redeem, as the case may be, were received by the Clearing House.

- 2) The Clearing House shall execute an order to redeem only if redeemable units in a quantity sufficient for clearing the order are registered in the sub-account to which the order refers.

For this purpose, “**redeemable units**” – the quantity of units registered in the sub-account to which the order to redeem refers at the end of the day on which the order is received at the Clearing House, less the quantity of units for which selling orders were received during that day.

If the Clearing House received an order to redeem, which refers to a quantity of units greater than the quantity of redeemable units, the order shall be deemed an order that refers only to the quantity of redeemable units and shall be executed by the Clearing House accordingly. The order to redeem that refers to the remaining quantity that was not redeemed will be cancelled and will not be forwarded for additional clearing.

When the Clearing House has cleared as aforesaid, it shall so inform the member that submitted the order and the member that represents the fund.

- 3) If orders to create are submitted to the Clearing House in an amount that exceeds the maximum number of units that the Fund is authorized to create on that trading day, as communicated by the representative member as stated in section 2.f. above, the Clearing House shall perform a partial execution of the orders to create based on the acceptance rate ratio.

For this purpose, “the acceptance rate ratio” – the ratio between the maximum number of units that the Fund is authorized to create on that trading day and the total number of units ordered, as referred to above.

- c. Monetary clearing that derives from orders to create or from orders to redeem shall be carried out according to the provisions of Chapter Six of this Part of the By-Laws.

If the full monetary consideration for an order to create or an order to redeem has not been paid, the said order shall not be carried out at all and it shall be returned to the member who requested the creation or the redemption, as the case may be. When the Clearing House has returned an order to create or an order to redeem as aforesaid, it shall so inform the representative member.

## **5. Cessation of creation of units and their redemption due to an exceptional event**

If a representative member becomes aware of an event that prevents the ETF for which he is the representative member from creating units or from redeeming them, and the event is expected to take place within at least five business days, the representative member shall inform the Clearing House, without delay, of the event – orally and in writing. If the notification is received by the Clearing House after members have begun to transmit to the Clearing House orders to create and orders to redeem and before the designated time, the procedure of accepting orders to create and of orders to redeem, as the case may be, and of transmitting them to the representative members shall be stopped. The orders transmitted until that time shall be cancelled.

If the aforesaid notification is received after the designated time but before the clearing time, the Clearing House Manager may – subject to technical limitations and to obtaining approval from the Israel Securities Authority – order the cancellation of all the orders to create and the orders to redeem received by the Clearing House up to the designated time. If such an order is given by the Clearing House Manager has so ordered, no clearing shall be carried out of the orders to create and the orders to redeem canceled as aforesaid.

**6. Notification of changes**

The Clearing House shall update the change in the particulars of the fund, on the trading day after the day on which the notice regarding the change was received.

## **CHAPTER TWELVE- OPEN MUTUAL FUNDS**

### **1. Definitions and interpretation**

- a. The terms in this Chapter shall be interpreted within their meaning in the Joint Investment Trusts Law 5754-1994 (hereafter: "the Law"), in the Stock Exchange Rules and in regulations thereunder, except when it is explicitly stated otherwise.
- b. The provisions of this Chapter shall apply solely to open mutual funds.

### **2. Representative member**

- a. Every Fund Manager shall appoint a representative member. A custodial member cannot be appointed as a representative member.  
  
The representative member shall inform the Clearing House, by use of the form attached to the By-Laws as Appendix Nineteen "A", of the names of the Funds for which it was appointed representative member.
- b. A Fund Manager is entitled to replace the representative member, on condition that the Fund shall always be represented by a representative member. A notice of the replacement of a representative member shall be delivered to the Clearing House by use of the form attached to the By-Laws as Appendix Nineteen "B", signed by the replaced representative member and the replacing representative member. The Clearing House shall update the change, as specified in the notice, on the trading day after the day on which the notice was received.
- c. Contact between the Clearing House and the Fund Manager shall be through the representative member. The representative member's acts, including its knowledge and intentions, shall obligate and entitle the Fund Manager, as the case may be.
- d. Reporting duties of the representative member:
  - 1) The representative member shall inform the Clearing House on each trading day, within two hours after trading of all securities on the Exchange was concluded, of the unit price and the redemption price per unit.
  - 2) The representative member shall deliver to the Clearing House by use of the form attached to the By-Laws as Appendix Nineteen "C" of the By-Laws the following details:
    - (a) name of the fund;
    - (b) manager of the Fund;
    - (c) offering period of the units;
    - (d) the dates on which the fund is prohibited from offering or redeeming units;
    - (e) whether the Fund is an unrestricted foreign securities fund;
    - (f) the rate of the addition;  
  
The rate of addition shall be set as a proportion of the monetary consideration for all the units ordered by a member;
    - (g) the hour set for the acceptance of orders for the creation of units and of

orders for the redemption of units in the Fund;

- (h) the minimum number and the maximum number of units for which orders to create can be submitted, if such were determined;
- (i) whether any limit has been set on the number of units which the Fund may create and what is the maximum number of units which the Fund may create;
- (j) where the fund is a fixed dates fund (including conservative money market fund) - which is the fixed date on which orders for the creation of units and for the redemption of units may be submitted;
- (k) if an additional member is permitted to receive reports on the activity in the fund – the name of the member;
- (l) the currency in which the Fund units will be cleared;
- (m) the Fund's policy for the distribution of profits.

In the event of a change in any of the details, the representative member will report this to the Clearing House using the form that is attached as Appendix Nineteen "C". The report will also include the effective date of the change.

- e. If the clearing House elects to obtain the data detailed in sub-paragraph d. above other than from the representative member, the representative member shall be exempt from having to deliver the aforesaid data to the Clearing House, so long as it has not been sent a notice to the contrary by the Clearing House.

### **3. Transmission of orders for the creation of units and for the redemption of units in a Fund**

- a. A member shall transmit to the Clearing House orders for the creation of units (hereafter: "orders to create") and orders for the redemption of units (hereafter: "orders to redeem"). Orders to create and orders to redeem shall be transmitted by the member no later than at the designated time.

A custodial member, which is not an Exchange member, may not transmit orders to create or orders to redeem.

- b.
  - 1) A member shall transmit to the Clearing House – separately for each of its sub-accounts at the Clearing House – orders to create for his clients in that sub-account', and to redeem for his clients in the same sub-account.
  - 2) Orders to create and orders to redeem shall be submitted separately, without any set-off between orders to create and orders to redeem.
  - 3) Until the designated time, the member may change or cancel an order to create or an order to redeem, which he had transmitted to the Clearing House on that day.
- c. Immediately after the designated time, the Clearing House shall transmit to the representative member the total of orders to create and the total of orders to redeem that had been transmitted to it by each of the members.

Furthermore and without derogating from the aforesaid the Clearing House may transmit to the representative member – at any time before the designated time and for his information only – a report of the total number of orders to create and the total number of orders to redeem that had been transmitted to it until that time by each member.

It is hereby clarified that orders to create and orders to redeem shall be cleared as specified in section 4 below, according to the rules prescribed therein.

- d. **CANCELED**
- e. **CANCELED**
- f. **Transmitting orders for the creation and redemption of units in a conservative money market fund**

The provisions of the above sections 3.a. to 3.c. shall apply to the transmission of orders for the creation or redemption units in a conservative money market fund; however –

if the determining day for the submission of orders for the creation or redemption of units in a conservative money market fund falls on a day that is not a trading day on TASE, it shall not be possible to submit orders for the creation or redemption of units in a conservative money market fund on that day. It will be possible to submit orders only for the redemption of units on the first trading day after that day.

**4. Registration and clearing in respect of the creation of units and in respect of the redemption of units**

- a. In this section –
  - "**unit price**" – the price of a unit as defined in section 42(a) of the Law, plus the rate of the addition;
  - "**redemption price**" – as defined in section 42(a) of the Law.
- b.
  - 1) Monetary clearing in respect of units in the Fund shall be carried out at the unit price and at the redemption price that were communicated to the Clearing House by the representative member, as specified in section 2.d. above.
  - 2) Monetary clearing in respect of units of an unrestricted foreign securities fund shall be carried out at the last unit price or at the last redemption price, as the case may be, that was known at the clearing date.

Notwithstanding the aforesaid, if the representative member has communicated to the Clearing House a unit price or a redemption price that is different from the prices at which the aforesaid monetary clearing was carried out, the Clearing House shall update the unit price and the redemption price on the next trading day after the day on which the representative member's notice was received by the Clearing House, and it shall perform the necessary monetary debits and credits on the members' accounts.

- 3) If an error occurred in the unit price or in the redemption price and if the representative member so informed the Clearing House within thirty days after the date on which the error occurred, the Clearing House shall update the unit price and the redemption price on the trading day after the day on which the notice was received by the Clearing House and it shall perform in the members' accounts the monetary debits and credits that must be made in consequence of the error.

The representative member's notice shall be delivered by means of the form attached to the By-Laws as Appendix Nineteen "F", and the source of the error shall be specified therein.

- c. Subject to the provisions of sub-paragraph d. below, orders to create and orders to redeem Fund units shall be cleared as specified below:

- 1) Orders to create and orders to redeem in a Fund cleared in Israel currency, which the Clearing House received on any day up to the designated hour that had been communicated to the Clearing House in respect of that Fund, as said in section 2.f. above, shall be cleared by the Clearing House in the first clearing round (within the meaning of that term in Chapter Five of this Part of the By-Laws) on the first business day after the day on which the orders to create or orders to redeem, as the case may be, were received by the Clearing House.
- 2) Orders to create and orders to redeem in a Fund cleared in foreign currency, which the Clearing House received on any day up to the designated hour that had been communicated to the Clearing House in respect of that Fund, as said in section 2.f. above, shall be cleared by the Clearing House in the first clearing round (within the meaning of that term in Chapter Five of this Part of the By-Laws) on the first business day on which the Bank of Israel performs foreign currency clearing after the day on which the orders to create or orders to redeem, as the case may be, were received by the Clearing House,
- 3) The Clearing House shall clear an order to redeem fund units only if units in a quantity sufficient for clearing the order are in the sub-account to which the order refers.

If the Clearing House received an order to redeem, which refers to a quantity of units greater than the quantity of units registered in the sub-account to which the order refers, the order shall be deemed an order that refers only to the quantity of units registered in that sub-account (hereafter: "registered quantity of units") and the Clearing House shall accordingly clear the registered quantity of units under this order.

When the Clearing House has cleared as aforesaid, it shall so inform the member that submitted the order and the member that represents the Fund.

- d. Monetary clearing that derives from orders to create or from orders to redeem in a Fund shall be carried out according to the provisions of Chapter Six of this Part of the By-Laws.



If the full monetary consideration for an order to create or an order to redeem has not been paid, the said order shall not be carried out at all and it shall be returned to the member who requested the creation or the redemption, as the case may be. When the Clearing House has returned an order to create or an order to redeem as aforesaid, it shall so inform the representative member.

- e. After the clearing specified in sub-paragraphs c. and d. above has been completed, the Clearing House shall record the results of the clearing and it shall update the record of the total number of units to the credit of each member in each sub-account in which orders to create and orders to redeem were carried out. The Clearing House shall give notice to the member and to the representative member of the updated records (hereafter: "Clearing House records").
- f. 1) Until the end of the business day on which the clearing was carried out (hereafter: "clearing day") as aforesaid, the representative member shall certify to the Clearing House that the Fund Manager carried out all the orders to create and all the orders to redeem as recorded by the Clearing House, as said in sub-paragraph e. above (hereafter: "certification that the Clearing House records are correct"). A representative member who until the end of the clearing day did not give the Clearing House a different notice in writing shall be deemed to have given the Clearing House certification that the Clearing House records are correct, as aforesaid.
- 2) If the representative member informed the Clearing House before the end of the clearing day that the records of the Clearing House do not agree with the records in the Fund's books (hereafter: "disagreement notice"), the representative member shall perform the necessary acts, so that the records in the fund's books and the Clearing House records will be in agreement, and that until the end of the first trading day after the clearing day.
- The Clearing House may, at its discretion, clear the acts that are required as aforesaid even before the time set therefor in sub-paragraph c. above, if the representative member so requested.
- 3) The representative member shall transmit a copy of the disagreement notice, as referred to in sub-paragraph f.2. above, to the Israel Securities Authority at the time at which he transmits it to the Clearing House.
- g. If the prospectus of a Fund prescribes a limit on the number of units of the Fund, and if the number of units ordered on a trading day exceeds the number of units offered on that day by that Fund, the Clearing House will calculate the rate at which orders for units will be accepted, based on the orders to create and the orders to redeem that were given it, as referred to in section 3.c. above. In such an instance, orders to create in that Fund shall be cleared in accordance with that rate.

If, when the Clearing House cleared the orders to create according to the acceptance rate calculated by it, as aforesaid, and if – in consequence of the partial implementation of orders to redeem, as referred to in sub-paragraph c.3. above) – the number of units in the Fund exceeds the limit prescribed in the prospectus, the Clearing House will recalculate the rate of acceptance and will again perform the clearing of the orders to redeem based on the new rate of acceptance determined

by it as aforesaid.

- h. The clearing of orders to create and of orders to redeem is carried out by the Clearing House, as specified in this Chapter Twelve and in Chapter Six in this Part of the By-Laws according to the provisions prescribed therein. The Clearing House is not responsible in any manner whatsoever for the creation or redemption of units in a Fund or for paying the consideration for units, and the responsibilities of the Clearing House are limited to performance of the acts specified in the By-Law Chapters that are mentioned above.

**5. a. Cancellation of a client's registration in a Fund Manager's Register of unit holders and registration of the units in the member's name (hereafter: "deposit")**

If a client requested that units registered in the client's name in the fund's Register of unit holders be registered to his credit with a member, the following provisions shall apply:

- 1) the client's request shall be submitted to the member in writing and documents in witness of his ownership of the units shall be attached to it (all these hereafter: "the request").
- 2) The member shall transmit the request to the representative member within three trading days after he received the request from the client. An NCHM shall transit the request through the member that clears for it.  
The member shall attach a certification to the request, stating that it examined the request and that it was lawfully signed by the client.
- 3) The representative member shall transmit the request to the Fund Manager.
- 4) When the request has been received by the Fund Manager, the Fund Manager shall act as follows:
  - a) examine whether the attached documents in witness of the client's ownership of the units are genuine and whether the said documents match the entries in the Fund's Register of unit holders;
  - b) after it is satisfied that the said documents are genuine and that the said particulars match, delete the client's particulars from the Fund's Register of unit holders and register the member as owner of the units;
  - c) send certification of the change to the Israel Securities Authority over MAGNA;
  - d) transmit a true copy of the original from the up-to-date Register of unit holders, as well as a copy of the report it submitted to the Israel Securities Authority over MAGNA to the representative member (hereafter: "Fund Manager's report") and instruct the representative member to submit a deposit request to the Clearing House.
- 5) The representative member shall submit a deposit request to the Clearing House, formulated as shown in Appendix Nineteen to the By-Laws, in accordance with the quantity stated in the Fund Manager's report, together

with a copy of the report the Fund Manager submitted to the Israel Securities Authority over MAGNA.

- 6) When the deposit request is received as stated in section 5) above, the Clearing House shall register the units to the member's credit, as specified in the deposit request, on condition that it concluded that the data in the deposit request match those in the Fund Manager's report of the change, which it transmitted to the Israel Securities Authority over MAGNA.

b. **Canceling the registration of units in the member's name (hereafter: "withdrawal") and registering a client in the Fund Manager's Register of unit holders**

The withdrawal of units registered to a client's credit with a member and registration of the said units in the client's name in the Fund's Register of unit holders shall not be permitted.

**6. Cessation of an offer of units and their redemption due to an exceptional event**

- a. If a representative member becomes aware of an event that prevents the fund for which he is the representative member from creating units or from redeeming them, and the event is expected to take place within at least five business days, the representative member shall inform the Clearing House, without delay, of the event - orally and in writing. If the notification is received by the Clearing House after members have begun to transmit to the Clearing House orders to create and orders to redeem and before the designated time, the procedure of accepting orders to create and orders to redeem, as the case may be, and of transmitting them to the representative members shall be stopped. The orders transmitted until that time shall be canceled.
- b. If the aforesaid notification is received after the designated time but before the clearing time, the Clearing House Manager may - subject to technical limitations and to obtaining approval from the Israel Securities Authority - order the cancelation of all the orders to create and the orders to redeem received by the Clearing House up to the designated time. If such an order is given by the Clearing House Manager, no clearing shall be carried out of the orders to create and the orders to redeem canceled as aforesaid.

**7. Realization of rights attached to Units**

- a. Representative members shall give the Clearing House written notice of the Fund Manager's intention to distribute dividends in cash or in bonus units. The notification shall include particulars of the date on which the dividend shall be distributed, of its rate and of the record date for the distribution, as specified below.
- b. Members shall credit their clients for every payment of cash dividends and for bonus units, which they received in respect of the units to which their clients are entitled.
- c. The payment of a dividend in cash or by bonus units shall be carried out according to the total of units registered on the record date in the Clearing House records to the member's credit.

d. **Cash dividend**

- 1) Written notice that a cash dividend is to be paid shall be transmitted to the Clearing House by the representative member at least four days before the record date.
- 2) The time of payment for the distribution of a cash dividend of a fund shall be no earlier than the second trading day after the record date and not later than the eighteenth trading day after the record date.
- 3) A written notice of the rate of the dividend distributed to every unit in a Fund shall be delivered to the Clearing House by the representative member not later than 12 noon on the trading day before the day of payment.
- 4) The representative member shall transmit to the Clearing House the money for distribution to the members not later than 11 AM on the day of payment, and the Clearing House shall credit the accounts of the members accordingly.

e. **Bonus units**

- 1) A written notice that bonus unit will be distributed shall be communicated to the Clearing House by the representative member at least four trading days before the record date.
- 2) On the record date, the representative member shall deliver to the Clearing House certification of the total number of bonus shares to which each member is entitled (hereafter: "bonus units certification").
- 3) The Clearing House shall enter the bonus units to the credit of the members on the first trading day after the record date according to the bonus units certification.

f. **Merger of funds**

The representative member shall inform the Clearing House, by use of the form attached to the By-Laws as Appendix Nineteen "D", by 2 PM on any trading day (or by 12 noon on the intermediate days of Passover and Succoth), of a merger of mutual trust funds and of the number of units in the fund created in consequence of the merger, to which each holder of a unit in each of the merging funds is entitled.

g. **Split of funds**

The representative member shall inform the Clearing House, by use of the form attached to the By-Laws as Appendix Nineteen "E", by 2 PM on any trading day (or by 12 noon on the intermediate days of Passover and Succoth), of the split of a fund and of the number of units in the funds created in consequence of the split, to which each holder of a unit in the splitting fund is entitled.

h. **Liquidation of a Fund**

The representative member shall give the Clearing House written notice of the liquidation of a Fund, by use of the form attached to the By-Laws as Appendix Nineteen "C".

In the notice, the representative member shall state the date on which the Fund shall be liquidated, and the payment that shall be transferred to any person who holds a unit in the Fund at the time of its liquidation.

8. **Control and reporting**

- a. On each business day the Clearing House shall send to the Fund Manager – through the representative member – a breakdown of all the units registered to the credit of each member in each of its sub-accounts at the Clearing House.
- b. Not later than the first business day after the day on which the Clearing House sent the breakdown referred to in sub-paragraph a. above, the representative member must transmit certification from the Fund Manager to the Clearing House, according to which the total number of units reported by the Clearing House as said in sub-paragraph a. above matches the total numbers of units to which each of the members is entitled according to the entries in the Fund's books.

A representative member that did not deliver a different written notice to the Clearing House by the end of the aforesaid business day shall be deemed to have delivered certification from the Fund Manager to the Clearing House, according to which the total number of units – as reported by the Clearing House, as stated in sub-paragraph a. above – conforms to the total number of units to which each of the members is entitled according to the entries in the Fund's books.

9. **Notifications of changes**

The Clearing House shall update the change in the particulars of the Fund on the trading day after the day on which the notice regarding the change was received.

**Mutual Hedge Fund (hereafter: MHF)**

10. **General**

- a. MHFs shall be subject to the provisions of paragraphs 10. through 14. below. This, in addition to the provisions of paragraphs 1., 2a. through 2.c., 4.c. through 4.h., 5., 6., 7.a. through 7.d. and 7.h., 8. and 9., which shall apply with the necessary
- b. A custodian member, which is not an Exchange member, may not transmit orders to create units or orders to redeem units.
- c. Orders to create cannot be offset against orders to redeem.

**11. Reporting duties of the representative member**

- b. The representative member will deliver to the Clearing House, using the form attached as appendix Nineteen "C-A" to the By-Laws, the following details:
- 1) name of the fund;
  - 2) offering period of the units;
  - 3) the dates on which the fund is prohibited from offering or redeeming units;
  - 4) whether the fund is an unrestricted foreign securities fund;
  - 5) whether there is a rate of addition;
  - 6) the fixed date on which orders to create may be submitted;
  - 7) the fixed date on which orders to redeem may be submitted;
  - 8) the designated time for the receipt of orders to create and orders to redeem;
  - 9) the minimum number and the maximum number of units for which an order to create may be submitted, if such were determined;
  - 10) if an additional member is permitted to receive reports on the activity in the fund – the name of the member.
  - 11) the currency in which the fund units will be settled.
  - 12) the fund's policy for the distribution of payments
- b. In the event of a change in any of the details specified in sub-paragraph a. above, the representative member will report this to the Clearing House using the form that is attached as Appendix Nineteen "C-A". The report will also include the effective date of the change;
- c. If the clearing House elects to obtain the data detailed in sub-paragraph a. above other than from the representative member, the representative member shall be exempt from having to deliver the aforesaid data to the Clearing House, so long as it has not been sent a notice to the contrary by the Clearing House.

**12. Orders for the creation of units**

- a. Orders to create may be submitted to the Clearing House on the date set by the fund manager as the date on which orders to create may be submitted (hereafter – "the Fixed Creation Date"), not later than the designated time. However, if that date is not a trading day, or where the terms of the fund define that day as a day on which orders to create may not be submitted, the Fixed Creation Date will be brought forward to the last trading day preceding the original Fixed Creation Date.
- b. an order to create will specify a monetary amount, which shall be represented in units with a value of 100 shekel cents or 100 U.S. dollar cents per unit, depending on the currency in which the consideration is denominated (such unit shall be referred to as an – "Order Unit").
- c. A member shall submit to the Clearing House, separately for each of his sub-accounts at the Clearing House, creation orders on behalf of his clients in that sub-account.

- d. Up to the designated time, the member may change or cancel orders to create that he had submitted to the Clearing House.

**13. Clearing of orders to create**

- a. On the first clearing day following the Fixed Creation Date, the Clearing House will debit the member that submitted the order to create in an amount equal to the amount specified in all of the orders to create submitted by him, and will credit this amount to the account of the representative member.
- b. Concurrently with the debiting of the member that submitted the order to create by the aforesaid amount, the Clearing House will note in his account the number of the order units credited to him.
- c. The representative member will inform the Clearing House, within three trading days of the Fixed Creation Date, the price per MHF unit, as well as the quantity of MHF units that would be allotted against each order unit (hereinafter – “the units’ ratio”).
- d. On the first clearing day after the day on which the representative member provides the data as set out in subsection c. above, the Clearing House shall perform the following actions:

Record to the credit of the members the MHF units in accordance with the units’ ratio and at the same time will cancel the record of the order units that were credited to them.

- 1) The Clearing House will deliver a notice to the members and to the representative member on the updated records (hereafter: “the Clearing House’s records”).
- 2) The Clearing House will mark all MHF units created on a given date with a separate identification number in order to distinguish them from MHF units created on other dates.
- 4) If the representative member informs the Clearing House within three trading days of informing the Clearing House of the units’ ratio, as described in subsection c. above, of an error in the units’ ratio, on the trading day following the receipt of the notice at the Clearing House, and provided that there has been no change in the members’ balances, the Clearing House shall update the Clearing House records in accordance with the notice of the representative member.

**14. Redemption of MHF units**

- a. An order to redeem a THR unit (hereafter – “redemption order”) may be submitted to the Clearing House on the date set by the fund manager as the date on which redemption orders may be submitted (hereafter – “the Fixed Redemption Date”), not later than the designated time. However, if such day is not a trading day, the Fixed Redemption Date will be brought forward to the last trading day preceding the original Fixed Redemption Date.

- b. In the order, the member will note the number of units that he wishes to redeem.
- c. Until the designated time, the member may modify or cancel redemption orders that he had submitted to the Clearing House.
- d. Shortly after the designated time, the Clearing House will deliver to the representative member all of the redemption orders that had been submitted to the Clearing House by each of the members.
- e. Prior to the end of two hours from the end of trading on the Fixed Creation Date, the representative member will inform the Clearing House of the gross redemption price (prior to deduction of success fees) and the net redemption price (after deduction of success fees). However, if the MHF is an unrestricted foreign securities fund, the representative member will provide the aforesaid redemption prices at the end of the first trading day following the Fixed Creation Date.
- f. The representative member will inform the Clearing House within three trading days of the Fixed Creation Date, of the amount receivable in respect of each of the redemption orders (hereafter – “the redemption amount”).
- g. On the first clearing day after receiving the representative member’s notice on the redemption amount, as set out in subsection f. above, the Clearing House will debit the account of the representative member by the redemption amount and credit the same amount to the account of the member that had submitted the redemption order.

**15. Elimination of success fees and consolidation of the units’ ratio**

- a. In this section:
  - “Elimination of success fees” – withdrawal of the success fees out of the fund assets by the fund manager;
  - “Consolidation of MHF units” - setting of a new units’ ratio for MHF units with respect to which success fees have been eliminated for the purpose of their consolidation with units that were created on other dates.
- b. If the fund manager has announced the elimination of success fees or the consolidation of MHF units, the representative member will provide the new units’ ratio set for each MHF unit, based on its creation date. The notice of the representative member shall be provided using the form that is attached as Appendix Nineteen “G”.
- c. On the first clearing day following the date on which the representative member submits the information specified in subsection b. above, the Clearing House will make the necessary changes in the Clearing House records.



**CHAPTER THIRTEEN- CLEARING SECURITIES NOT LISTED**  
**FOR TRADING ON THE EXCHANGE (NLT)\***

1. The Manager of the Clearing House shall approve the provision of clearing services for securities that are not listed for trading on the Exchange (hereafter: "NLT"), subject to the condition that the clearing services will not require special operational arrangements, and that the Clearing House is capable of providing the said services.

The Manager's decision not to provide clearing services as aforesaid may be appealed before the Board of Directors.

The Manager of the Clearing House may decide, in special instances, that the Clearing House shall not provide clearing services for securities as aforesaid, or shall condition the provision of the services on additional terms and conditions.

2. The provisions of the By-Laws shall apply to the registration of NLT in the Clearing House and to the clearing of NLT, mutatis mutandis and with adjustments to conditions prescribed in this chapter.
3. The provisions of the By-Laws that apply to the clearing of off-Exchange transactions shall apply to the clearing of NLT transactions, mutatis mutandis and with the adjustments and the conditions prescribed in this chapter.
4. a. An NLT issuer, who wants to receive clearing services from the Clearing House for the NLT that he issued shall address to the Clearing House an application that includes the following particulars (hereafter: application):
  1. the name of the NLT;
  2. the quantity of the NLT that the issuer requests be listed at the Clearing House for trading;
  3. the name of the nominee company in the name of which the NLT will be allocated;
  4. the conditions of the NLT, including the rights attached to the NLT and the conditions for realization of those rights.
  5. an undertaking to observe the By-Laws
- b. If under the trust deed a trustee was appointed for the NLT holders, the trustee shall certify by his signature on the application that the data communicated by the issuer and included in the application correctly reflect the conditions of the NLT, as determined in the trust deed, and that he knows that the Clearing House will provide clearing services only in accordance with the data included in the application.  
 The application to the Clearing House shall be according to the formulation attached to the By-Laws as Appendix Twenty.
5. a. A limited partnership that applies to receive clearing services from the Clearing

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\* This Chapter was added in December 2001  
 The letter of allocation shall be in the formulation attached to the By-Laws

House, for NLT participation units issued by it, shall submit an application to the Clearing House according to the formulation attached to the By-Laws as Appendix Twenty "C".

- b. In the event of the limited partnership requesting that the Clearing House report the value of the participation units to the Clearing House members, according to the value calculated by the partnership, the partnership shall send the information in the manner instructed by the Clearing House. Once the value of the participation units has been received by the Clearing House, it shall send it to the members.
6. After certification was received from the Manager of the Clearing House that the Clearing House will provide clearing services for the NLT, the NLT shall be listed at the Clearing House. To the listing of the NLT at the Clearing House shall apply, *mutatis mutandis*, Section 3 in Chapter Three of this Part , as well as these adjustments:
    - a. section 3.b.3) shall not apply to a body corporate that is not obligated to report under the Securities Law 5728-1968;
    - b. instead of the certification from the Stock Exchange, that is required according to section 3.b.5), the issuer of the NLT shall deliver the aforesaid certification from the Manager of the Clearing House to the nominee company.
  7. The Clearing House shall provide clearing services only for the quantity of NLT that is listed with the Clearing House according to the said application that was approved and only in accordance with the data included in the application.
  8. The issuer shall report to the Clearing House all the information connected to the NLT or to the issuer, which requires the Clearing House to take action in connection with the NLT.

The Clearing House shall provide clearing services on condition that the issuer delivers to the Clearing House reports as required for the performance of the clearing, and on condition that the reports reach the Clearing House in accordance with the timetables prescribed in the By-Laws.

9. The Clearing House shall perform clearing acts stemming from a clearing order that relates to NLT, subject to the following:
  - a. a request to clear securities, which stems from a clearing order with NLT, and which refers to an actual quantity of securities to the credit of a member who wishes to transfer or sell the NLT, which is greater than the balance in the subaccount to which the application refers, shall not be carried out at all and shall be returned to the member who wishes to transfer or sell the NLT, stating the reason therefor.

The Clearing House shall also notify the other party to the clearing order that was not carried out, that it was not carried out, without stating the reason therefor.
  - b. A clearing order that relates to NLT, for which the full amount of the consideration was not cleared on the date on which it was supposed to be carried out shall not be carried out at all.

If a clearing order was not carried out as aforesaid, the Clearing House shall

inform the members who were party to the clearing order.

10. **Clearing NLT that were issued under Regulation S**

a. In this section –

"**Reg. S**" – Regulation S, which was enacted by the United States Securities and Exchange Commission by virtue of the American Securities Act of 1933 (hereafter: American securities law), as it will be from time to time;

"**Reg. S securities**" – securities to which, according to the issuer's notification, the restrictions of Reg. S apply;

"**Reg. S. NLT**" – Reg. S securities that are not listed for trading on the Stock Exchange.

b. In addition to the provisions in this Chapter, the following provisions shall apply to the listing of NLT securities with the Clearing House and to clearing them:

1) The issuer of a Reg. S security shall attach the following documents to his application for listing the NLT, as said in section 4.a. above:

(a) an application to list the Reg. S NLT, which shall include:

- a declaration by the issuer, according to which it is forbidden to transfer the securities otherwise than in accordance with the securities laws of the United States and of Israel, and that it will not be possible to transfer the securities without the advance approval of the issuer, as long as all the restrictions and conditions prescribed by Reg. S have not been removed;
- a declaration by the issuer that the Clearing House will not be required to clear the Reg. S NLT, as long as the issuer's approval, as specified in sub-paragraph 3) below, has not been received;
- a request by the issuer that the securities be marked Reg. S NLT;
- a declaration by the issuer that it understands that, if it requests removal of the mark, it will not be entitled to request that the securities again be marked; further it shall not be entitled to request that other securities of the same Reg. S. NLT series be so marked.

The application shall be as formulated in Appendix Twenty "A", which is attached to the By-Laws;

(b) the professional opinion of an advocate qualified to practice in the United States, addressed to the Clearing House and stating that it is not obligatory to list the Reg. S NLT under the American securities law, that there is nothing to preclude offering the Reg. S NLT in Israel and that there is nothing to hinder the Clearing House from clearing them.

2) When the Reg. S NLT are listed at the Clearing House, the securities shall be marked in a manner that will be prescribed by the Clearing House, and that up to the time when the conditions ripen that will allow removal of the

mark, as said below.

The issuer may submit to the Clearing House an opinion by an advocate qualified to practice in the United States, which is addressed to the Clearing House, states that the securities, which the issuer had ordered to be marked Reg. S NLT, are "unrestricted", within the meaning of that term in American securities law, and requests that the said mark be removed from the securities.

When the mark has been removed from the Reg. S NLT as aforesaid, the issuer shall not be entitled to request that other securities of the same series be marked Reg. S NLT.

- 3) To the request for a clearing act, as part of which Reg. S NLT are to be transferred between two members, shall be attached the issuer's approval of the clearing act, in which the issuer shall declare that performing the clearing act does not constitute a violation of Israeli securities law and / or does not constitute a violation of American securities law, and that it received from the Clearing House members involved in the transaction all the necessary certifications that performance of the clearing act does not constitute a violation of Israeli securities law and / or does not constitute a violation of American securities law.

The issuer shall also declare that it agrees that – in order to perform the clearing act – the Clearing House depend on the exhibits specified above and on the exhibits specified in the application to list the Reg. S NLT that it submitted as said in sub-paragraph 1) (a) above, and that no independent examination whatsoever shall be required.

The issuer's approval shall be as formulated in Appendix Twenty "B", which is attached to the By-Laws.

If the approval by the issuer is not attached to the request to clear the Reg. S NLT, then the request shall not be carried out and it shall be returned to the member that asked to transfer the Reg/ S NLT, together with a statement of the reason therefor.

- 4) On the certificate or letter of allocation of a Reg. S. NLT, which the issuer will deliver to the nominee company, shall be imprinted the Legend on the restricted transferability of the securities that is required according to Reg. S.

11. It is hereby clarified that, for the purpose of providing the clearing services as referred to in this chapter, the Clearing House relies on the information furnished by the issuer. The Clearing House shall not be responsible for mistakes, errors or defects in the information content sent to it by the issuer or for any act of commission or omission taken as a result thereof.

**CHAPTER THIRTEEN “A” – PROVISION OF CLEARING SERVICES  
FOR ALTERNATIVE INVESTMENT PRODUCTS**

1. **Definitions and Interpretation**

- a. The stated in this chapter shall apply solely to alternative investment products (AIP).
- b. Chapter Three to Part Two of the By-Laws shall not apply to the provision of clearing services pursuant to this chapter. The remaining provisions of the By-Laws shall apply to the provision of clearing services pursuant to this chapter, with the necessary modifications and adjustments.
- c. 1. The terms in this Chapter shall be interpreted within their meaning in the By-Laws, except when it is explicitly stated otherwise.

2. In this chapter –

<b>Terms</b>	<b>Definitions</b>
“Alternative investment product” or “AIP”	- A security offered by an AIP issuer
“AIP issuer” or “issuer”	- A limited partnership established for the purpose of joint investment management in one or more investment tracks.
“Monetary clearing member”	- A Clearing House member through which the AIP issuer operates for the purpose of executing the monetary debits and credits arising from the actions that are set forth in this chapter.
“Administrator”	- An entity appointed by an AIP issuer to serve as a services provider of an AIP issuer.
“Tax preruling”	- As defined in Section 158B of the Income Tax Ordinance (New Version), 1961.

2. **Services for alternative investment products**

The Manager of the Clearing House will approve the provision of services as described in this chapter subject to the condition that the said clearing services will not require special operational arrangements, and that the Clearing House is capable of providing the said services.

Without prejudice to the aforesaid, the Manager of the Clearing House may decide, in special instances, that the Clearing House shall not provide clearing services pursuant to this chapter, or to discontinue such services, or condition the provision of the services on additional terms.

The Manager's decision not to provide clearing services as aforesaid may be appealed before the Board of Directors.

3. An API issuer who wants to receive services pursuant to this chapter will submit an application to the Clearing House for the receipt of services for AIP in the format that is attached to the By-Laws as Appendix Twenty “D” (hereinafter: “the application”).

4. The application will contain the following details:
  - a. Name of the registered administrator and if an administrator has not been appointed, a declaration that the issuer maintains an appropriate technical array that enables him to act through the Clearing House;
  - b. Name of the monetary clearing member;
  - c. Details of the AIP and the attaching rights;
  - d. A copy of the tax ruling or pre-ruling received by the AIP issuer;
  - e. The periods during which subscriptions may be made for the issuance of AIP as well as the periods during which orders may be given for the redemption of AIP, noting for each of the periods the first day and the last day on which a subscription order or a redemption order may be submitted for AIP, as the case may be (each of the aforesaid periods shall be hereafter referred to as – **“subscription period”** or **“redemption period”**, as appropriate);
  - f. The currency in which the consideration is denominated and the currency in which the unit price is denominated;
  - g. An undertaking by the issuer and the administrator to immediately report to the Clearing House any detail pertaining to the AIP or the issuer that require an action to be taken by the Clearing House in connection with the provision of services pursuant to this chapter;
  - h. An undertaking by the issuer and the administrator to comply with the By-Laws of the Clearing House;
  - i. A declaration by the issuer that the administrator is authorized to represent him and to make undertakings in his name to the Clearing House for all intents and purposes;
  - j. The application will be signed both by the issuer and by the administrator if engaged by the AIP issuer.
  - k. If the issuer is a partnership, a statement by the issuer concerning the applicability of Regulation 1446 to the partnership.
5. After receiving the Clearing House Manager’s approval for the provision of clearing services for the AIP by the Clearing House, the AIP will be listed on the Clearing House and the Clearing House will issue a notice to the members and the issuer that contains the details of the AIP.
6. **Subscription for the issuance of AIP**
  - a. A subscription for the issuance of AIP (**hereinafter – “subscription order”**) may be submitted to the Clearing House on the date set by the fund manager as the date on which subscription orders may be submitted, not later than 4 pm, and on the intermediate days of the Sukkot or Passover holidays, not later than 1 pm on said date (hereinafter: “the set date for subscription orders”). However, if the set date for subscription orders is not a trading day or is a day on which the terms of the fund do not permit subscription orders, the set date for subscription orders will be brought forward to the last trading day preceding the original set date for subscription orders. Such order will be submitted using the form that is attached to the By-Laws as

Appendix Twenty “E”. A member will submit a subscription order for each client separately.

- b. In a subscription order, the applicant will specify the amount that he would like to invest in the API. The amount will be represented in units, with the value of each unit being 100 NIS cents (agorot) or 100 USD cents, depending on the currency in which the consideration is denominated as set out in section 4.f. above (such unit shall be referred to as – “**subscription unit**”).
- c. Until the set date for subscription, the member may modify or cancel subscription orders that he had submitted to the Clearing House.
- d. Shortly after the set date for subscription orders, the Clearing House will deliver to the issuer all of the subscription orders that had been submitted to the Clearing House.

Without prejudice to the aforesaid, the Clearing House may deliver to the issuer, at any time prior to the set date for subscription orders, and for information purposes, a report on the subscription orders that it has received.

- e. If by the end of two hours of the set date for subscription orders, the issuer does not instruct the Clearing House not to execute a subscription order, the Clearing House shall clear the subscription order as set out in section 7 below. If the issuer instructs the Clearing House not to execute a subscription order, the subscription order shall be returned to the submitting member, noting the reason therefor

#### 7. Clearing of a subscription order

- a. On the first clearing day following the set date for subscription orders, the Clearing House will debit the ordering member in an amount equal to the amount specified in all of the subscription orders submitted by him, and will credit this amount to the account of the monetary clearing member.
- b. Concurrently with the debiting of the ordering member by the aforesaid amount, the Clearing House will note in his Clearing House account the number of the subscription units credited to him.

#### 8. Allotment of the AIP units and their listing

- a. Within ten days of the clearing of the subscription orders as set out in section 7 above, the AIP issuer will inform the Clearing House of the price of the AIP unit as well as the quantity of AIP units that would be allotted against each subscription unit (hereinafter – “**the units’ ratio**”).
- b. On the first clearing day after the day on which the issuer provides the data as set out in subsection a. above, the Clearing House shall perform the following actions:
  - 1) Record to the credit of the members the AIP units in accordance with the units’ ratio and at the same time will cancel the record of the subscription units that were credited to them.
  - 2) The Clearing House will deliver a notice to the members and to the issuer on the updated records (hereinafter: “**the Clearing House’s records**”).
  - 3) The Clearing house will mark all of the AIP units created on a specific date with

a separate identification number, this in order to distinguish them from AIP units created on other dates.

- 4) By the end of the business day on which the Clearing House's records were made, (hereinafter: "**the recording date**"), the issuer will confirm to the Clearing House that he has allotted the AIP units, as recorded by the Clearing House, pursuant to subsection b.1) above (hereinafter: "**confirmation of accuracy of the Clearing House's records**"). An issuer that fails to deliver to the Clearing House by the end of the recording date, as aforesaid, another notice shall be deemed as having delivered to the Clearing House a confirmation of accuracy of the Clearing House's records.
- 5) If the issuer informs the Clearing House prior to the end of the recording date, of a discrepancy between the Clearing House's records and the records in his books, the necessary actions will be taken to ensure that the records in the books of the issuer conform with the Clearing House's records, this by the end of the first trading day following the recording date.
- 6) The performance of the stated in this section b. by the Clearing House is conditional upon the delivery of the data by the AIP issuer, as set out in section 8.a. above.
- 7) If the issuer informs the Clearing House, within three trading days of delivering to the Clearing House the units' ratio, as described in subsection a. above, of an error in the units' ratio, the Clearing House, provided that there has been no changes in the members' balances, will update the Clearing House's records in accordance with the issuer's notification, this on the trading day following the date of receipt of the notification at the Clearing House.

#### 9. **AIP redemption order and its clearing**

- a. An order to redeem an AIP unit (hereafter – "redemption order") that has been allotted as described in section 8 above, may be submitted to the Clearing House on the date that has been set by the fund manager as the day on which redemption orders may be submitted, not later than 4 pm, and on the intermediate days of the Sukkot or Passover holidays, not later than 1 pm on said date (hereinafter: "the set date for redemption orders"). However, if the set date for redemption orders is not a trading day or is a day on which the terms of the fund do not permit redemption orders, the set date for redemption orders will be brought forward to the last trading day preceding the original set date for redemption orders. Such order will be submitted using the form that is attached to the By-Laws as Appendix Twenty "F". A member will submit a redemption order for each client separately.
- b. In the order, the member will note the number of units that he wishes to redeem.
- c. Until set date for redemption orders, as set out in section a. above, the member may modify or cancel redemption orders that he had submitted to the Clearing House.

In the event that a redemption order is received at the Clearing House that relates to a quantity of AIP units that exceeds the quantity of units that is recorded in the subaccount to which the order relates, it will not be executed, but will be returned to the requesting member.



- d. Shortly after the set date for redemption orders, the Clearing House will deliver to the issuer all of the redemption orders that had been submitted to the Clearing House.

Without prejudice to the aforesaid, the Clearing House may deliver to the issuer, at any time prior to the set date for redemption orders, and for information purposes only, a report on the redemption orders that it has received.

- e. By the end of 15 days of the date on which the redemption notices were submitted to the issuer, as set out in section d., the issuer will inform the Clearing House of the amount of redemption that will be received for each of the redemption orders (hereinafter – **“the redemption amount”**). If the issuer fails to inform the Clearing House of the redemption amount by the aforesaid date or informs the Clearing House that he does not intend to execute the redemption order, the order will be returned to the submitting member, noting the reason therefor.
- f. On the first clearing day after receiving the issuer’s notice on the redemption amount, as set out in subsection e. above, the Clearing House will debit the account of the monetary clearing member by the redemption amount and credit the same amount to the account of the member that submitted the redemption order.
- g. At the same time, the Clearing House will update the record of the AIP units in the account of the member that submitted the redemption order.
- h. The Clearing House will deliver to the members and the issuer a notice of the updated records (hereinafter – **“the Clearing House’s records”**).

By the end of the business day on which the Clearing House’s records were made, (hereinafter: **“the recording date”**), the issuer will confirm to the Clearing House that the Clearing House’s records are accurate (hereinafter: **“confirmation of accuracy of the Clearing House’s records”**). An issuer that fails to deliver to the Clearing House by the end of the recording date, as aforesaid, another written notice shall be deemed as having delivered to the Clearing House a confirmation of accuracy of the Clearing House’s records.

#### 10. **Adjustment of balances by the issuer**

- a. If the issuer has, for any reason whatsoever, updated in his books the quantity of AIP units that is recorded in his books to the credit of any client, he shall deliver a notice thereof to the Clearing House.
- b. Upon receiving such notice, the Clearing House will update the records of the members accordingly and deliver a notice of the updated Clearing House’s records to the members and the issuer.
- c. By the end of the business day on which the Clearing House’s records were made (hereinafter – **“the recording date”**), the issuer will confirm to the Clearing House that the Clearing House’s records are accurate, as set out in subsection b. above. An issuer that fails to deliver to the Clearing House by the end of the recording date, as aforesaid, another written notice shall be deemed as having delivered to the Clearing House a confirmation of accuracy of the Clearing House’s records.
- d. If the issuer informs the Clearing House prior to the end of the recording date, of a discrepancy between the Clearing House’s records and the records in the books of

the issuer (hereinafter – **discrepancy notice**”), the necessary actions will be taken to ensure that the records in the books of the issuer conform with the Clearing House’s records, this by the end of the first trading day following the recording date.

11. **Monetary clearing member**

- a. An AIP issuer will engage the services of a monetary clearing member. Notice of the appointment of a monetary clearing member will be delivered to the Clearing House using the form that is attached as Appendix Twenty “G” to the By-Laws.
- b. An AIP issuer may replace his monetary clearing member. Notice of the replacement of a monetary clearing member will be delivered to the Clearing House using the form that is attached as Appendix Twenty “H” to the By-Laws. The Clearing House will enter the change, as stated in the notice, on the trading day immediately following the date of receipt of the notice.

12. **Administrator**

- a. Any entity requesting to be included in the list of administrators (hereinafter – **“registered administrator”**) will submit to the Clearing House an application to be registered as a registered administrator.
- b. The application will be submitted to the Clearing House using the form that is attached as Appendix Twenty “I” to the B-Laws. In the application, the applicant will declare that he maintains a technical array that enables him to represent the AIP issuer and to act in his name and in its stead in the Clearing House, and will undertake to comply with the By-Laws.
- c. The Clearing House may reject an entity’s application to be registered as a registered administrator and may condition such application.
- d. The Clearing House may at any time, at its sole discretion, cancel the registration of a registered administrator.
- e. An AIP issuer may replace the registered administrator operating on his behalf. Notice of the replacement of the administrator will be delivered to the Clearing House using the form that is attached as Appendix Twenty “J” to the By-Laws. The Clearing House will enter the change, as stated in the notice, on the trading day immediately following the date of receipt of the notice.

13. **The Clearing House’s records**

It is hereby clarified that the Clearing House’s records are based on the information received from the issuer and are designed to reflect the records as they appear in the books of the issuer. The issuer bears the responsibility for any discrepancy between the Clearing House’s records and the records made by the issuer.

14. **Termination of the services**

- a. **By the issuer**
  - 1) An issuer that wishes to discontinue the receipt of services pursuant to the stated in this chapter will deliver a notice to this effect to the Manager of the Clearing House. In his notice, the issuer will specify the date on which he would like to discontinue the receipt of the services, provided that the notice is delivered to the

Clearing House at least 14 trading days prior to the date on which the issuer requests to discontinue the receipt of services.

- 2) Upon receiving the issuer's notice, the Clearing House will inform the issuer of the final date of provision of services by the Clearing House (hereinafter – "**the services' termination date**"). Such notice will also be delivered to the Clearing House members.
- 3) on the services' termination date, the Clearing House will deliver to each of the Clearing House members a report that specifies the quantity of AIP recorded to his credit as of that date. A copy of said reports will also be delivered to the issuer.
- 4) After sending the aforesaid reports, the Clearing House will cancel the records of the AIP units appearing in the members' accounts.

b. **By the Clearing House**

- 1) The Clearing House may at any time announce its wish to discontinue the provision of the services to the issuer pursuant to this chapter, without providing a reason therefor.
- 2) Having decided to discontinue the provision of the services as above, the Clearing House will inform the issuer and the Clearing House members of its decision. In its notice, the Clearing House will specify the final date of provision of services by the Clearing House (hereinafter – "**the services' termination date**"), provided that at least 30 trading days separate the date of issue of the notice by the Clearing House and the services' termination date.
- 3) On the services' termination date, the Clearing House will deliver to each of the Clearing House members a report that specifies the quantity of AIP recorded to his credit as of that date. A copy of said reports will also be delivered to the issuer.
- 4) After sending the aforesaid reports, the Clearing House will cancel the records of the AIP units appearing in the members' accounts.

## **CHAPTER FOURTEEN - CLEARING DCS**

1. The provisions of this chapter shall apply to the clearing of DCS, and that in addition to the provisions of the other By-Laws, which shall apply mutatis mutandis.
2. With regard to the provision of clearing services through the DTC, the Clearing House is subject to the rules determined by the DTC from time to time.

Any payment, including a fine or a pecuniary sanction, charged of the Clearing House by the DTC will be debited by the Clearing House to the member.

3. DCS held in the account which the Clearing House keeps in its name with the DTC, shall be entered in the register of the company's securities' holders in the name of the company that acts on behalf of the DTC, which is the nominee company in respect of those DCS.
4. DCS deposited in the account of the Clearing House with the DTC shall be registered at the Clearing House to the member's credit and shall be treated like any other security registered at the Clearing House to the member's credit.
5. The Manager of the Clearing House shall approve the provision of clearing services in accordance with the provisions of this chapter, subject to the condition that the said clearing services will not require special operational arrangements, and that the Clearing House is capable of providing the said services.

Without prejudice to the aforesaid, the Manager of the Clearing House may decide, in special instances, that the Clearing House shall not provide clearing services pursuant to this chapter, or shall condition the provision of the services on additional terms and conditions.

A decision by the Manager of the Clearing House not to provide services pursuant to this chapter, or to discontinue the provision of such clearing services, may be appealed to the Board.

### **Deposit and withdrawal**

6. The deposit of DCS to the Clearing House's account with the DTC (hereafter: "RF transaction") shall be carried out in the manner specified below:

- a. A request to execute an RF transaction will be formulated as shown in Appendices Twenty-One or Twenty-One "A" of the By-Laws.

The clearance of an RF transaction by the Clearing House is conditional on there being full conformity between the request submitted and the deposit made by the DTC member to his credit in the account of the Clearing House with DTC (hereafter: "corresponding RF deposit").

Where a corresponding RF deposit is not available, clearance of the RF will be denied.

If by the end of the fourth trading day after the day on which the request is submitted for execution of an RF transaction there is no corresponding RF deposit, the request will be returned to the requesting member, noting the reason for this.

- b. If DCS were deposited to a member's credit in the Clearing House account with the DTC, but no request for a corresponding RF transaction was received by the Clearing House or, alternatively, the member to which the DCS deposit has been credited did not submit a reclaim order in the format that is attached to the By-Laws as Appendix Twenty-Two "B", by the end of the fourth trading day following the day on which the aforesaid deposit was executed, the Clearing House will return the DCS to the DTC member who had deposited them in its account, and will notify the member thereof.
- c. The Clearing House may deny the execution if an RF transaction in the two trading days preceding the record date and on the actual record date, to the credit of any party.

If the Clearing House decided as aforesaid, it shall so inform the members.

7. Withdrawals of DCS from the Clearing House's account with the DTC and their transfer to another DTC member (hereafter: "DF transaction") shall be carried out in the manner specified below:

- a. The Clearing House will execute a DF transaction only against an account of a DTC member that has been defined beforehand by the Clearing House as an account in which DSC withdrawn from the Clearing Houses account with the DTC may be deposited at the member's instruction (hereafter: "DF qualified account"). For this purpose, the member will deliver to the Clearing House a list comprising the numbers of the DF qualified accounts, this in the format that is attached to the By-Laws as Appendix Twenty-Two "A".

- b. A request for the execution of a DF transaction will be submitted in the format that is attached to the By-Laws as Appendix Twenty-Two.

A request for the execution of a DF transaction that does not specify a DF qualified account will not be executed by the Clearing House and will be returned to the member, noting the reason.

- c. A request for the execution of a DF transaction in respect of a quantity of securities that exceeds the actual balance recorded to the credit of the requesting member will be denied and returned to the member, noting the reason.
- d. A request for the execution of a DF transaction in respect of a quantity of securities that exceeds the balance recorded to the credit of the Clearing House in its account with the DTC will be denied and returned to the requesting member, noting the reason.
- e. The Clearing House may deny the execution of a DF transaction during the period commencing on the record date for entitlement to a payment and ending on the date of payment in Israel or on the date of payment in the United States, whichever is later.

If the Clearing House decided as aforesaid, it shall so inform the members.

**Corporate Events**

8. a. Monies that are received as a result of a corporate event in respect of DCS deposited in the Clearing House's account with the DTC will be transferred by the Clearing House to an Israeli bank account of the Clearing House. The Clearing House will transfer the payments to the members in accordance with the actual balances that are recorded to their credit in the Clearing House, this within one business day of the crediting of the payment to the Clearing House's Israeli bank account. If such day is not a value day for clearing in the currency in which the payment was received, the Clearing House will transfer the corporate payments to the members on the first business day thereafter that is also a value day for clearing in the currency in which the payment was received.
  - b. Notwithstanding the aforesaid, in the case of a special dollar payment within the meaning of this term in paragraph 2A. of Chapter Nine, the Clearing House shall perform the payment by means of crediting the bank account referred to in sub-paragraph 2A.2) of Chapter Nine, within one business day from the day on which the Clearing House's U.S. bank account was credited. The payment referred to in this sub-paragraph shall be subject to the provisions of paragraph 2A. of Chapter Nine, mutatis mutandis.
9. In instances, in which the member's response to a notice on payments by companies is needed (hereafter: "response"), the member shall send the response to the Clearing House up to and no later than the time set by the Clearing House for the response to that notice. The Clearing House will deliver the member's response to the DTC.
10. a. Cash dividends in respect of DCS issued by a company incorporated in Israel (hereafter in this paragraph 10: "Israeli DCS") kept in the account of the Clearing House at the DTC shall be paid in Israel, through the Clearing House, in accordance with the provisions of the agreement between the Clearing House and the DTC, the text of which is attached to the By-Laws as Appendix 23 (hereafter: "the dividend agreement"), on condition that the issuer signed the supplement to the dividend agreement, the text of which is attached to the By-Laws as Appendix 24, and that the issuer's transfer agent in the United States signed the supplement to the dividend agreement, the text of which is attached to the By-Laws as Appendix 25.

The Clearing House will not hold in its account with the DTC and will not provide clearing services pursuant to this chapter for Israeli DCS unless it has signed the supplement to the agreement between the Clearing House and the DTC, which is attached to the By-Law as Appendix 24.
  - b. The following provisions shall apply to Israeli DCS kept by the Clearing House at DTC, on which dividends are paid in Israel, as said in sub-paragraph a. above:
    - 1) The Clearing House may postpone the payment date, if for technical reasons it is not possible to make the credit / debit on the payment date
    - 2) The Clearing House shall notify DTC not to pay the dividend to the Clearing

House through its account with DTC in respect of a quantity of Israeli DCS deposited in the Clearing House's account at the DTC on the record date.

- 3)
  - a. The issuer must credit the Clearing House's account with a commercial bank, in the payment amount, by no later than 09:30 on the payment date.
  - b. Notwithstanding the aforesaid, if the payment is made in foreign currency, the issuer must credit the Clearing House's account with a commercial bank no later than two business days before the payment date.
  - c. If the issuer does not perform his aforesaid obligation, the Clearing House will not make the payments and shall give notice thereof to the members.
  - d. Notwithstanding the aforesaid, if by 12:00 noon on the payment date the issuer has deposited in the Clearing House's account with a commercial bank the monies to make the payment, and provided that the payment date is a trading day, the Clearing House may make the payment on that day. If the Clearing House makes the payment on the payment date, as aforesaid, it shall give notice thereof to the members. If the Clearing House does not make the payment on the payment date, as aforesaid, the payment shall be made on the first business day thereafter.
- 4) Payments in foreign currency shall only be made in currencies in respect of which approval has been received from the Bank of Israel to perform the clearing.
- 5) In addition, payment of a dividend in Israel on Israeli DCS shall also be governed by the provisions of paragraphs 4, 13 and 14 of Chapter Nine of Part Two of the By-Laws, mutatis mutandis, and with the following adjustment:
 

In paragraph 4.d. The Clearing House's bank account will take the place of the nominee company's bank account.
- c. The payment of a dividend for Israeli DCS deposited in the Clearing House shall be subject to the provisions of paragraphs Chapter 9 of this Part of the By-Laws.

## **Rights**

11. An offering by way of rights in respect of DCS shall be subject to the provisions of paragraph 7 to Chapter Nine of this Part of the By-Laws, mutatis mutandis, and with the adjustments specified in paragraphs 12 and 13 below:
12. With regard to an offering by way of rights in respect of DCS that are deposited in the Clearing House's account with the DTC (in whole or in part), the following provisions shall apply:
  - a. For the quantity of DCS that is not registered in the name of a nominee company in Israel, the company shall appoint a nominee company in Israel and allocate to it all the rights that will be allocated in respect of the DCS deposited in the Clearing House's account with the DTC, as well as all the securities that will be received from the exercise of said rights. The securities allocated s aforesaid will deposited in the Clearing

House in accordance with the provisions of Chapter Three of this Part of the By-Laws.

- b. For the purpose of the stated in sub-paragraph a. above, the company shall instruct its transfer agent to allocate to the nominee company in Israel all the rights in respect of the DCS that are held in the account of the Clearing House with DTC.

The company's request shall also be addressed to the Clearing House.

The Clearing House shall authorize the transfer agent to act according to the company's aforesaid instructions.

The company's instruction to the transfer agent shall be in the format that is attached as Appendix 25 "A" to the By-Laws, and shall include the company's undertaking to indemnify, as specified in the said Appendix 25 "A".

- c. When the company's request said in sub-paragraph b. above has been received by the Clearing House, the Clearing House shall notify DTC that it waives receipt of the rights that are in its account with DTC.

The notification of the Clearing House shall be in the format that is attached to the By-Laws as Appendix 25 "B" and shall include the undertaking of the Clearing House to indemnify, as specified in the said Appendix 25 "B" or in a similar format, as shall be determined between the Clearing House and DTC.

- d. When DTC has received the Clearing House's waiver notification, as stated in sub-paragraph c. above, DTC shall inform the transfer agent that it waives receipt of the rights in respect of the quantity deposited in the Clearing House's account with DTC, and DTC shall also instruct the transfer agent to deal with those rights as the Clearing House will instruct it.

The notification of DTC to the transfer agent shall be in the format that is attached to the By-Laws as Appendix 25 "B", or in a similar format, as shall be determined by DTC.

- e. The arrangement described in this paragraph 12 is enabled by the understandings that are in place between the Clearing House and DTC and will continue to apply as long as the aforesaid understandings are in effect.

- f. If in its offering the company determined that there shall not be a trading day for the rights –

- 1) The times in the rights offering shall be prescribed by the company in accordance with the following:

- (a) the last date for delivery of the clients' orders to the Stock Exchange members shall be the business day between the eighteenth business day after the day of allocation and the twenty-sixth business day after the day of allocation.
- (b) the last date for the delivery by Clearing House members of requests to utilize rights shall be at 12:00 noon of the second trading day after the date set by the company as the last date for the delivery of client's orders to Stock Exchange members, as said in sub-paragraph 12.f.1)(a) above (hereafter: "last date for delivery of requests to utilize").



- 2) (a) On the day of allocation the nominee company shall credit the Clearing House with the entire quantity of rights due to it on the basis of the quantity that stands to its credit on the record date in its account at the nominee company and in the account in the name of the Clearing House with DTC. The quantity of rights credited to the Clearing House shall be distributed to the accounts of the members, so that each member will be credited with number of rights that accords with the number of securities entitled to the rights that was registered to his credit at the Clearing House on the record date for the rights.
- (b) Members shall not be able to withdraw rights from their accounts with the Clearing House or to transfer them to other members.
- (c) If a client wishes to have rights entered to his credit in the issuer's register to be entered to his credit with a Stock Exchange member, he shall do that by means of a deposit after the record date for the rights, but not later than three trading days before the last date for delivery of requests to utilize.

The provisions of section 5.c. in Chapter Three of Part Two of the By-Laws shall apply to such deposit. To the request by a client to make the deposit shall be attached a written order addressed to the Stock Exchange member, instructing him what to do with the rights that will be registered to his credit as aforesaid, and that in accordance with the possibilities specified in section 12.f.3) below.

- 3) Stock Exchange members shall send a notice to the clients on their books on the record date for the rights, informing them that – in accordance with the conditions of the rights offering – there will be no day for trading rights. In the notice the members shall specify the ways of action that are available for the clients in respect of the rights entered to their credit and request that they instruct them –
  - (a) to utilize all or some of the rights;
  - (b) not to utilize the rights.

If the rights offering included the possibility of utilizing rights that were not utilized by other clients (hereafter: "surplus rights"), the Stock Exchange members' notices shall also specify that possibility.

The Stock Exchange members shall state that, if no instructions at all are received from a client until the last date for the delivery of requests to utilize, which was set as said in sub-paragraph 12f.1)(a) above, that will be taken to mean that the client declared that he is not interested in utilizing the rights registered to his credit, that he declared that he is aware of the fact that his holding in the company will be diluted and that there it is not possible for him to receive any consideration for the rights, since there is no trading in the rights and it is not possible to transfer them to others.

- 4) (a) Not later than on the last date for the delivery of requests to utilize

each Clearing House member shall submit a written request to utilize rights – separately for each of his sub-accounts, according to the formulation attached to the By-Laws as Appendix Fifteen, and that for the quantity of rights that stands to his credit in each sub-account with the Clearing House. If the rights offering includes the possibility of utilizing surplus rights, the member shall submit his application for utilization of the said rights according to the formulation attached to the By-Laws as Appendix Fifteen "A". The request shall also state the quantity of surplus rights that the member's clients asked to utilize, as well as the member's declaration that all the clients who asked to utilize surplus rights concurrently asked to utilize all the rights allocated to them in the rights offering.

- (b) If a member does not submit an aforesaid request to utilize, the Clearing House shall take that to mean that the member declared that he is not interested in utilizing the rights registered to his credit and the rights shall lapse.
- (c) Not later than at 12:00 noon on the last date for the delivery of requests to utilize, the Clearing House shall transmit an order to the nominee company, addressed to the company, for the utilization of the total quantity of rights that the members of the Clearing House wish to utilize.

If the rights offering includes the possibility of utilizing surplus rights, the Clearing House shall transmit – in addition to the aforesaid order – an order for utilization of the total quantity of surplus rights that the members of the Clearing House have asked to utilize.

The said order shall be transmitted by the nominee company to the company not later than 12:00 noon of the trading day following the day on which it received the order from the Clearing House, as aforesaid.

- (d) If a request to utilize rights refers to a quantity of rights greater than the quantity registered to the member's credit in the sub-account to which the request refers, it shall be denied and returned to the sending member.

If a request to utilize surplus rights refers to a quantity of surplus rights greater than the quantity of surplus rights that the member is entitled to request to utilize in accordance with the conditions of the rights offering in the sub-account to which the request refers, it shall be denied and returned to the sending member.

- (e) A member who submits a request to utilize rights is responsible for all the consequences that stem from any error that is included in the utilization request.
- 5) (a) In this sub-paragraph, "trading day" – a day on which trading takes place both in Tel Aviv and in the United States.

Not later than five trading days after the day on which the nominee company transmitted the Clearing House's order, as described in the above sub-paragraph 12.f.4)(C), to the company, the company shall credit the Clearing House, through the nominee company, with the quantity of DCS that stems from utilization of the rights by those who are entitled thereto, and – if the rights offering included the possibility of utilizing surplus rights – also the quantity of DCS that stems from utilization of the surplus rights by those entitled thereto. Alternatively, and subject to the provisions of sub-paragraph 12.f.7) below, the company may credit the Clearing House with the quantity of DTC to which it is entitled through its account with the DTC.

- (b) Concurrently with crediting the Clearing House with the quantity of DCS, as specified in the above sub-paragraph 12.f.5)(a), the company shall give a notice to the Clearing House through the nominee company, specifying the quantity of surplus rights to which the clients who asked to utilize surplus rights were actually entitled and the quantity of DCS that was credited to the Clearing House in consideration of the surplus rights.
  - (c) The quantity of DCS that was credited to the Clearing House shall be distributed among the members' accounts, so that each member will be credited with the quantity to which he is entitled.
- 6) On the day on which a member was credited with the quantity of DCS to which he is entitled, the Clearing House shall debit the member for the monetary consideration due to utilization of rights that he actually utilized, and it shall credit the amount due for the members' utilization of the rights to the bank account of the nominee company.
  - 7) If the securities obtained by utilizing rights through the Clearing House are options or convertible debentures, those securities shall be registered in the name of the nominee company to the credit of the Clearing House. When a member wishes to exercise the options or to convert the convertible debentures that were deposited in the account of the Clearing House as aforesaid, then it shall be done in accordance with the provisions in Chapter Ten of this Part of the By-Laws.
- 13. a. Without prejudice to the stated in paragraph 12 above, a company that has all of its DCS deposited at DTC and that wishes to carry out an offering by way of rights and has determined in its offering that no rights trading day will take place is entitled, subject to the Clearing House's approval, to carry out an offering by way of rights through the Clearing House's account with the DTC.
  - b. The company will apply to the Clearing House using the format that is attached to the By-Laws as Appendix Twenty "D" with a request to carry out the offering by way of rights through the Clearing House's account with the DTC. The application will include the anticipated allotment date of the rights, the last date for submitting to the DTC a request to utilize rights, details of the right at DTC, the payment required for the utilization of the right, reference to the possibility of

utilization of surplus rights, and a declaration by the company that no rights trading day will take place. In addition, the company will undertake to coordinate with the Clearing House any change in the terms of the offering by way of rights.

- c. Having received such application, if the Clearing House finds that the execution of the offering by way of rights through the Clearing House's account with the DTC does not involve special operational arrangements, the Clearing House shall approve the company's application and the following provisions shall apply:
- 1) Within one trading day of the day on which the Clearing House's account with the DTC is credited with the quantity of rights to which it is entitled, as recorded in its account, the Clearing House shall notify each member of the quantity to which the member is entitled according to its records. The Clearing House will also notify the members of the last date for submitting a request to utilize rights to the Clearing House.
  - 2) The member will submit to the Clearing House, separately for each of his sub-accounts, a written request to utilize rights according to the formulation attached to the By-Laws as Appendix Fifteen "A", and that for the quantity of rights that stands to his credit in each sub-account with the Clearing House. If the rights offering includes the possibility of utilizing surplus rights, the member shall also state the quantity of surplus rights that the member's clients asked to utilize, as well as the member's declaration that all the clients who asked to utilize surplus rights concurrently asked to utilize all the rights allocated to them in the rights offering.
  - 3) If a member does not submit an aforesaid request to utilize, the Clearing House shall take that to mean that the member declared that he is not interested in utilizing the rights registered to his credit.
  - 4) The member will deposit into a bank account maintained by the Clearing House with a commercial bank in the United States, the details of which will be provided to the members, the consideration in U.S. dollars for the utilization of the rights, including the utilization of the surplus rights requested by the member. Confirmation of the transfer of the monetary consideration will be attached to the request to utilize rights, as mentioned in sub-paragraph 2) above. If such confirmation is not attached, the Clearing House will not accept the request to utilize rights.
  - 5) A request to utilize rights, as above, will be submitted to the Clearing House not later than the date prescribed by the Clearing House as the last date for delivery of requests to utilize rights.
  - 6) Once the Clearing House verifies that the monetary consideration has been deposited into the account mentioned in sub-paragraph 4 above, the Clearing House will transfer the request to utilize to DTC. If the full amount of the aforesaid monetary consideration has not been deposited, the request will be denied and returned to the sending member.
  - 7) A request to utilize rights or a request to utilize surplus rights at a quantity that is greater than the quantity that the member is entitled to utilize

pursuant to the terms of the offering by way of rights shall be denied and returned to the sending member.

- 8) The Clearing House will credit the members the DCS resulting from the utilization of the rights not later than one trading day of the date on which those securities were credited to the Clearing House's account with the DTC.
- 9) Where the offering by way of rights includes a possibility of utilizing surplus rights, the Clearing House shall examine the percentage of surplus rights allotted to it and the actual quantity to which each of the members that has requested to utilize surplus rights is entitled. On this basis, it will also credit the member the quantity of DCS resulting from the utilization of the surplus rights.

If the member's request to utilize surplus rights is not met in full, he shall be reimbursed for the monetary consideration that he had paid for the unutilized portion of the surplus rights, this within one trading day of the day on which such monetary consideration is credited to the Clearing House.

- 10) In this paragraph c., "trading day" – a day on which trading takes place both in Tel Aviv and in the United States.

#### **14. Deduction at source of Israeli tax on the DCS of a foreign company**

- a. Members shall be liable to tax deduction at source in connection with monies received from clearing services for a foreign DSC (hereafter: "the payment"), which are held by them at the Clearing House, as if they had received the payment directly from the DTC. A member shall undertake to act in accordance with the provisions of the Income Tax Ordinance (New Version), 5721-1961 and the regulations promulgated thereunder. Thus, for instance, a member shall be liable to tax deduction at source for an interest or dividend payment received from a foreign DSC or from the consideration received from the sale of foreign DSC, pursuant to Section 164 of the Income Tax Ordinance and the Income Tax Regulations (Deduction from Interest, Dividend and Certain Gains), 5766-2005 or the Income Tax Regulations (Deduction from Proceeds, Payment or Capital Gain on the Sale of a Security, on the Sale of a Unit in a Mutual Fund or on a Forward Transaction), 5763-2002, respectively, which were promulgated thereunder.
- b. Members shall transmit to the Clearing House an undertaking to deduct tax at source in respect of clearing services for a foreign company, in the format that is attached to the By-Laws as Appendix Twenty-Six.

A copy of this undertaking shall be transmitted to the Tax Authority, should this be required.

#### **15. DCS of a company that is subject to the U.S. tax laws**

The DCS issued by a company that is subject to the U.S. tax laws shall be governed by the provisions of paragraph 4.a of Chapter Nine to Part Two of the By-Laws.

**CHAPTER FIFTEEN- CLEARING FOREIGN DCS-REPEALED**

## **CHAPTER FIFTEEN “A” - CLEARING ECS**

1. a. The Clearing House shall keep ECS in an account managed in its name at Euroclear and shall provide them with services in accordance with the provisions of this Chapter.
  - b. The provisions of this Chapter shall apply to the clearing of ESC, with this being in addition to the provisions of the other applicable By-Laws, mutatis mutandis.
  - c. The Manager of the Clearing House may decide that the Clearing House shall not provide clearing services for securities in accordance with this Chapter, if, in his opinion, clearing the securities involves compliance with special operating arrangements.
  - d. In all matters relating to the provision of clearing services through Euroclear, the Clearing House is subject to the rules prescribed by Euroclear from time to time. Should Euroclear charge any fee to the Clearing House, including a penalty or a monetary sanction as a result of an action or an omission by a member, the Clearing House will charge such amount to the member.
2. Regarding ECS, a company that acts on behalf of Euroclear and in whose name said securities are registered in the securities' register is a nominee company.
  3. An ECS deposited in the Clearing House's account at Euroclear will be registered with the Clearing House to the credit of the member for whom the ECS was deposited and shall be treated in an identical fashion to every other security registered with the Clearing House to the credit of the member.
  4. a. The deposit of ECS to the credit of a member's account with the Clearing House (hereafter: “an RF transaction”) shall be carried out in the manner specified below:

A member wishing to deposit ECS in the Clearing House's account at Euroclear shall submit a request to the Clearing House to perform an RF transaction, formulated as shown in the attached Appendix Twenty-One "C". Such request may only be submitted on trading days.

After receiving the request, the Clearing House shall perform the following actions:

- 1) Submit to the Euroclear clearing system (hereafter in this Chapter: “the Clearing System”) the order required for the deposit to be made in its account.

For this purpose – if the request of the member is received at the Clearing House before 12:00 on any trading day, the Clearing House will submit its order to the Clearing System on the same day. If the member's request is received at the Clearing House after 12:00 on any trading day, the Clearing House will submit its order to the Clearing System by and not later than the first trading day immediately following the day on which the member's request was received at the Clearing House.

- 2) Verify that an instruction for the deposit of ECS in the Clearing House's account at Euroclear is held in the Euroclear clearing system (hereafter: "the Clearing System") and that such instruction matches the member's request (hereafter in this paragraph 4: "a Matching Contra Instruction").
  - 3) After verifying that its account at Euroclear has actually been credited with the full amount of the ECS for which the request for the execution of an RF transaction was submitted, the Clearing House shall credit the member's account with this amount.
  - 4) To the extent possible, the account of the member will be credited, as stated in subsection 3) above, in the second clearing round on the day on which the account of the Clearing House is credited, and if the account of the Clearing House is credited on a day that is not a trading day, the account of the member will be credited on the first trading day immediately following the day on which the account of the Clearing House was credited.
  - 5) If no Matching Contra Instruction is found by the date specified in the Clearing System's rules, the RF transaction shall not be executed, and the request shall be returned to the member, stating the reason therefor.
- b. If, due to an RF transaction as aforesaid, the Clearing House shall be charged by Euroclear with any payment arising from a tax payment associated with the execution of the transaction, the member to whose credit the ECS was deposited shall be liable for the payment.
  - c. The Clearing House may refrain from performing RF transactions during the period that begins immediately before the record date of any right and that ends on the date of the right's receipt.

Should the Clearing House decide as aforesaid, it shall inform the members of such."

5. a. The withdrawal of an ECS from the Clearing House's account at Euro clear (hereafter in this paragraph 5: "a DF transaction") shall be performed in the manner set forth below:

The member shall notify the Clearing House in advance to which Euroclear members to transfer the ECS that he wishes to withdraw in the framework of the DF transaction. To such end, the member shall send the Clearing House member a list including the numbers of the accounts with each one of the Euroclear members to which he wishes to transfer the ECS, in the form of wording annexed to the By-Laws as Appendix Twenty-Two "C". A member's request to execute a DF transaction that does not include one of the accounts detailed in the list sent by the member as aforesaid shall be rejected by the Clearing House.

A member wishing to withdraw ECS from the Clearing House's account at Euroclear shall submit a request to the Clearing House to perform a DF transaction, formulated as shown in the attached Appendix Twenty-Two "B". Such request may only be submitted on trading days.



After receiving the request, the Clearing House shall perform the following actions:

- 1) On the first trading day following the date on which the member's request is received at the Clearing House, the Clearing House will debit the member's account with the Clearing House with the amount for the request for the execution of a DF transaction was submitted.
  - 2) By and not later than the date on which the Clearing House debits the member's account as referred to in subsection 1) above, the Clearing House shall submit to the Clearing System the instruction requiring the withdrawal of the amount from its account at Euroclear and the deposit of said amount in the account of the other participant, in accordance with the member's instruction.
  - 3) If no Matching Contra Instruction is found in the Clearing System by the date specified in the Clearing System's rules, the DF transaction shall not be executed, and the account of the member will be credited with the same amount of ECS that was debited to the account, as described in subsection 1), and the request shall be returned to the member with a statement of the reason therefor.
- b. A request to perform a DF transaction, which refers to an amount greater than the actual balance registered to the requesting member's credit in the subaccount to which the request relates, shall not be performed at all and shall be returned to the requesting member, stating the reason therefor.
  - c. A request to perform a DF transaction, which refers to an amount greater than the amount deposited to the Clearing House's credit in its account at Euroclear, shall not be performed at all and shall be returned to the requesting member, stating the reason therefor.
  - d. The Clearing House may refrain from performing a DF transaction during the period that begins on the record date for entitlement to payment or benefits and ends on the Israeli payment date or the overseas payment date, whichever is the later  
Should the Clearing House decide as aforesaid, it shall inform the members of such.
6.
    - a. The Clearing House shall make payments by companies in respect of ECS that is deposited in the Clearing House's account at Euroclear (hereafter: "ECS payments"), which will be paid in U.S. dollars. Such ECS payments will be made by the Clearing House by crediting the account at Euroclear that the member has defined with the Clearing House as the account designated for ECS payments. A member that does not have an account with Euroclear will provide to the Clearing House the Euroclear account information of another member of the Clearing House through which the member wishes to receive such payments.
    - b. The Clearing House shall credit the members in accordance with the actual balance is registered to their credit with the Clearing House, within one business

day of the day on which the amount of the payment is credited to the account of the Clearing House at Euroclear.

“Business day” for the purposes of this subsection b. is – a day on which trading is held on TASE and is also a business day in Euroclear.

- c. The clearing House may, at its discretion, make ECS payments that are made in a foreign currency other than the U.S. dollar.

The provision of such services is conditional upon the ability of the Clearing House to provide the service, and provided that the service does not involve special operational arrangements.

Should the Clearing House provide services of payment in a foreign currency other than the U.S. dollar, the payment will be made by the Clearing House in the manner prescribed in subsections a. and b. above.

- d. Notwithstanding the stated in subsection a., the Clearing House may make ECS payments in U.S. dollars in the following manner:

The Clearing House will transmit the amount of payment that is received in its Euroclear account to a bank account of the Clearing House in Israel, within one business day of the day on which the bank account of the Clearing House in Israel was credited with the payment. The Clearing House shall credit the payment to the members in accordance with the actual balance that is registered to their credit with the Clearing House. If that day is not a value day for clearing in U.S. dollars, then the Clearing House shall transmit the payment to its members on the first following business day, which also is a value day for clearing in U.S. dollars.

7. The Clearing House shall forward notices sent to it by Euroclear, in connection with company events, to the members.

- 7A. a. The Clearing House shall provide voting services at general meetings of companies whose securities are held in the Clearing House’s account at Euroclear (ECS), in situations where voting has to be performed by the person to whose credit the ECS are recorded at Euroclear. Such services shall be provided solely at the request of the Company.

- b. A company that wishes to avail itself of the aforesaid voting services shall submit to the Clearing House a request to attend to the voting, immediately after publication of the notice to the public regarding the general meeting. Said request shall give details of the date of the meeting, the record date for participating at the meeting, the last date for giving voting instructions at the general meeting for the Euroclear systems, and the last date for giving voting instructions to the Clearing House for participation at the meeting.

The request for the receipt of voting services at a general meeting shall be in accordance with the text attached as Appendix Sixteen of the By-Laws.

- c. The company shall inform the Clearing House members that the voting at the general meeting as aforesaid is to be performed through the Clearing House. It shall also inform them of the last date for submitting a voting instruction to the Clearing House for participation at the meeting.

- d. A Clearing House member that wants the Clearing House to vote on behalf of the securities recorded to its credit at the Clearing House shall deliver to the Clearing House voting instructions in accordance with the text attached as Appendix Seventeen by 12:00 noon on the trading day prior to the day that is the last date for giving voting instructions on the Euroclear systems. If that day is not a trading day, the Clearing House member will deliver voting instructions to the Clearing House by the last trading day prior to the final date for giving voting instructions on the Euroclear systems.

The Clearing House is not obligated to attend to voting instructions that are received after the aforementioned time.

- e. A voting instruction will specify the quantity of securities for which voting is sought and will address each of the topics that are on the agenda. For each such topic, the member will specify – for, against or abstention.

A voting instruction that does specify the direction of voting, as above, for each of the topics that are on the agenda will be rejected by the Clearing House and returned to submitting member, noting the reason for doing so.

A voting instruction specifying a quantity of securities that exceeds the actual balance of the securities recorded to the credit of the member in the subaccount to which the instruction relates on the record date, after deduction of the quantity of securities for which voting instructions have already been given, will not be executed in any manner and shall be returned to the member noting the reason for doing so.

- f. Euroclear may set rules and restrictions for a specific general meeting. If such rules and restrictions have been set, the Clearing House shall inform the member thereof. In such instance, the member undertakes to comply with those rules and restrictions.

8. a. Members shall be liable to tax deduction at source in connection with monies received from clearing services for an ESC of a foreign company (hereafter: "the payment"), which are held by them at the Clearing House, as if they had received the payment directly from Euroclear. A member shall undertake to act in accordance with the provisions of the Income Tax Ordinance (New Version), 5721-1961 and the regulations promulgated thereunder. Thus, for instance, a member shall be liable to tax deduction at source for a dividend payment or from amounts equivalent to the real capital gain arising from the sale of ECS of a foreign company, pursuant to Section 164 of the Income Tax Ordinance and the Income Tax Regulations (Deduction from Interest, Dividend and Certain Gains), 5766-2005 or the Income Tax Regulations (Deduction from Proceeds, Payment or Capital Gain on the Sale of a Security, on the Sale of a Unit in a Mutual Fund or on a Forward Transaction), 5763-2002, respectively, which were promulgated thereunder.
- b. Members shall transmit to the Clearing House an undertaking to deduct tax at source in respect of clearing services for a foreign company, formulated as shown in Appendix Twenty-Six. A copy of this undertaking shall be transmitted to the Tax Authority, should this be required.

**CHAPTER SIXTEEN- DERIVATIVE (MAOF) CLEARING HOUSE**  
**COLLATERAL ACCOUNTS AND CLEARING HOUSE COLLATERAL**  
**ACCOUNTS**

**1. Derivative (MAOF) Clearing House collateral accounts**

The following terms shall have the meaning said here, unless a different meaning is expressly stated:

**"main Derivative (MAOF) collateral account"**, dedicated by the Derivative (MAOF) Clearing House to each member who is a member of the Derivative (MAOF) Clearing House – an account (including all its sub-accounts) kept at the Clearing House in the name of the Derivative (MAOF) Clearing House, intended for the deposit of securities by the member who is a Derivative (MAOF) Clearing House member, as collateral for the benefit of the Derivative (MAOF) Clearing House;

**"collateral accounts at Bank of Israel"** - each one of the following:

- a. an account (and all its sub-accounts), and the reserve accounts linked thereto (and all their sub-accounts), which are managed in the name of the Derivative (MAOF) Clearing House in the "Zahav" system, which operates at Bank of Israel, and which were intended for the deposit of monies by the Derivative (MAOF) Clearing House members, including the member, that are used as collateral for the Clearing House.
- b. an account (and all its sub-accounts) that are managed in the name of the Derivative (MAOF) Clearing House in the bookkeeping system of Bank of Israel, which are intended for the deposit of monies transferred from any of the accounts mentioned in sub-paragraph a. above or for the deposit of monies by the Derivative (MAOF) Clearing House members, including the member, that are used as collateral for the Derivative (MAOF) Clearing House;
- c. another account at Bank of Israel or in a payments system managed by any of Bank of Israel's employees or a bank account, which is intended for the deposit of monies transferred from any of the accounts mentioned in sub-paragraphs a. or b. above, for the purpose of realizing the pledged and charged assets or for any other purpose.

**2. Main Derivative (MAOF) collateral accounts**

- a. The Derivative (MAOF) Clearing House shall open a number of accounts in its name at the Clearing House, in the number of members of the Derivative (MAOF) Clearing House, and it shall dedicate one account to each member, to be used as the main Derivative (MAOF) collateral account in which the member shall deposit the securities given by it as collateral to the benefit of the Derivative (MAOF) Clearing House.
- b. The member, to whom an account is dedicated, shall submit to the Clearing House a request that it transfer securities to the Main Derivative (MAOF) collateral account, using the application form for the transfer of securities to the main Derivative (MAOF) collateral account, which is attached to the By-Laws as Appendix Twenty-nine.

- c. The Clearing House shall carry out any request to transfer securities from a main Derivative (MAOF) collateral account to any other account only after it has obtained approval from the Derivative (MAOF) Clearing House, by means of an application form for the transfer of securities from a main Derivative (MAOF) collateral account, which is attached to the By-Laws as Appendix Thirty.

### **3. Monies to be paid as income**

Monies paid as income from securities deposited in a main Derivative (MAOF) collateral account that is dedicated to a member, or monies derived from any other monetary right that stems from the said securities, including the monetary consideration derived from selling or exercising them, shall be deposited by the Clearing House in the collateral accounts at Bank of Israel, all as directed by the Derivative (MAOF) Clearing House to the Clearing House, from time to time.

4. All debits of the Clearing House in respect of a main Derivative (MAOF) collateral account and of the securities deposited in it shall be borne by the member to whom the account is dedicated.

### **5. Clearing House collateral account**

- a. A request to transfer securities to a Clearing House collateral account, within its meaning in Chapter Three "A" of Part One of the By-Laws shall be submitted to the Clearing House by the member to whom the account is dedicated, using a request form for the transfer of securities to the Clearing House collateral account, which is attached to the By-Laws as Appendix Thirty-one.
  - b. A request to deposit monies in the collateral accounts at Bank of Israel, within the meaning thereof in Chapter Three-1 of Part One of the By-Laws shall be submitted to the Clearing House by the member, through a request for the deposit of collateral monies form, annexed as Appendix Thirty-One "A" to the By-Laws.  

If the request is submitted by an NBM, the NBM shall annex thereto written authorization of the leading member for financial clearing in the form of wording annexed hereto as Appendix Fourteen "C" of the By-Laws, to debit our monetary account with the amount the NBM wishes to deposit.
  - c. If the member requests to transfer securities from the Clearing House collateral account to any other account, he shall submit a request to the Clearing House, using the request form for the transfer of securities from a Clearing House collateral account, which is attached to the By-Laws as Appendix Thirty-two.
  - d. If the member wishes to withdraw monies from a monetary bank account, or from the collateral accounts at Bank of Israel, it shall submit a request to the Clearing House on the form for the withdrawal of collateral monies, which as annexed as Appendix Thirty Two "A" to the By-Laws.
6. The member's request as provided in sub-paragraphs 6.b and 6.d above will be carried out by the Clearing House in a bilateral clearing through the "Zahav" system.
  7. All the Clearing House's debits in respect of the Clearing House collateral account and the securities deposited in it shall be borne by the member to whom the account is dedicated.

**CHAPTER SEVENTEEN – REGISTERING GOVERNMENT BONDS AT  
THE CLEARING HOUSE AND THEIR REPURCHASE BY THE  
MINISTRY OF FINANCE**

**Registration of Government Bonds**

1. a. The provisions of this Chapter shall apply to the registration of Government bonds in addition to the provisions of the other By-Laws that apply, mutatis mutandis, and subject to provision that paragraphs 3 and 4 in Chapter Three of Part Two of the By-Laws not apply.
- b. The member shall sign a Letter of Authorization as formulated in Appendix Forty-three to the By-Laws, which authorizes the Clearing House to enter all the debits against the member's monetary account, as specified in paragraphs 2 and 3 below, according to the instructions of the Ministry of Finance..
2. If the Clearing House received from the Ministry of Finance an order to deposit Government Bonds, as formulated in Appendix Thirty-Three to the By-Laws, until 2:00 PM on any trading day and until 11:00 AM on any day that is not a trading day (hereafter: the day of the order), then the Clearing House shall do the following:
  - a. On the day of the order the Clearing House shall debit the member's account with the Bank of Israel for the full amount of consideration that he owes for the Government Bonds specified in the order, credit that amount to the account of the Ministry of Finance with the Bank of Israel and register the Government Bonds to the member's credit with the Clearing House.
  - b. The monetary debit of a NBM (non-bank member) shall be by means of debiting the account with the Bank of Israel of the MPMC (member that performs monetary clearing) for the NBM.
  - c. The Clearing House shall transmit the monetary debit to the system by means of a bi-lateral clearing order, as specified in Chapter Six of Part Two of the By-Laws.
  - d. If the bi-lateral payment order was not cleared at the RTGS system within two hours after it was received by the RTGS system, then the order shall be canceled by the system and the Clearing House shall cancel the registration of the Government bonds in the member's account.
3. If a deposit order said in paragraph 2 is received after the time prescribed in paragraph 2 above, it shall be treated as if it had been received on the first business day thereafter, and that day shall be deemed the date of the order.
4. Canceled.
5. If a client wishes to withdraw Government Bonds that are registered in his name with a member and to register them in his own name in the Register kept as specified in section 9 of the State Loan Law 5739-1979 (hereafter: "withdrawal"), then the following provisions shall apply:
  - a. the client's request shall be submitted to the member in writing and it shall be accompanied by a letter of transfer (the "request"). If the client operates through

- an NCHM (not a Clearing House member), then the said request shall be delivered to the NCHM and it shall transmit it to the MPMC that clears for it;
- b. the member shall transmit the request to the Ministry of Finance together with a withdrawal order, formulated as said in Appendix Thirty-Four to the By-Laws.
  - c. a request to withdraw a quantity of Government Bonds greater than the balance registered to the member's credit in the sub-account to which the request refers shall not be acted upon at all and shall be returned to the member who transmitted it, with an explanation of the reason therefor. The Clearing House shall transmit a copy of any withdrawal request that was not carried out to the Ministry of Finance.

#### **Repurchase by the Ministry of Finance**

6. If the Clearing House received a clearing order from the Ministry of Finance in respect of a cash repurchase, as formulated in Appendix Forty-four to the By-Laws (hereafter: "the order"), not later than 1:00 PM – and not later than 10:00 AM on Fridays, holiday eves, the intermediate days of Passover and Succoth – (hereafter: "the day of receipt"), then the Clearing House shall perform the following acts:
  - a) debit the quantity of Government bonds specified in the order against the member's sub-account and credit that quantity to the sub-account of the Bank of Israel that is dedicated to the activity of the Ministry of Finance (hereinafter: "Ministry of Finance sub-account").
  - b) debit the consideration that the Ministry of Finance owes in respect of the Government bonds specified in the order against the Ministry of Finance account with the Bank of Israel and credit this amount to the selling member's monetary account.  
  
The monetary credit of a NCHM shall be carried out by crediting the account with the Bank of Israel of the member that performs monetary clearing for the NCHM.
  - c) The Clearing House shall transfer the monetary debit to the RTGS system by means of a bilateral clearing order, as specified in Chapter Six of Part Two of the By-Laws.
  - d) If the bilateral payment order was not cleared by the RTGS system by the latest time for clearing, as defined in Part Two, Chapter Six, paragraph 6.b.1) of the By-Laws, then the order shall be canceled by the RTGS system and the Clearing House shall cancel the registration of the Government bonds in the Ministry of Finance sub-account.
7. If the Clearing House received a clearing order from the Ministry of Finance in respect of a swap, as formulated in Appendix Forty-five to the By-Laws (hereafter: "the order"), not later than 1:00 PM – and not later than 10:00 AM on Fridays, holiday eves, the intermediate days of Passover and Succoth – (hereafter: "the day of receipt"), then the Clearing House shall perform the following acts:
  - a) debit the quantity of Government bonds specified in the order against the member's sub-account and credit that quantity to the Ministry of Finance sub-account;

- b) when the quantity of Government bonds said in sub-paragraph a) has been credited to the Ministry of Finance sub-account, then until the end of the day of receipt the Ministry of Finance shall send the Clearing House a deposit order, as formulated in Appendix Forty-six to the By-Laws (hereafter: "deposit order");  
when the Clearing House has received the deposit order, then the Clearing House shall credit the quantity of Government bonds specified in the deposit order to the member's sub-account.
  - c) If a deposit order specified in sub-paragraph b) above was not received by the Clearing House until the end of the day of receipt, then the Clearing House shall not credit the member's sub-account and it shall cancel the act specified in sub-paragraph a) above.
8. Repurchase transactions with the Ministry of Finance shall be cleared according to clearing orders that the Clearing House will receive from the Ministry of Finance alone, without receiving any certification from the member that is the other party to the transaction. The said clearing shall be carried out on condition that the member that is the other party to the transaction gave the Clearing House a Letter of Authorization, as formulated in Appendix Forty-three of the By-Laws, which authorizes the Clearing House to enter all the debits in the member's sub-accounts, as said in paragraphs 6 and 7 above, according to instructions that the Clearing House will receive from the Ministry of Finance and without any need for specific authorizations by the member for each aforesaid individual transaction.
  9. A repurchase order said in paragraphs 6 and 7 above, which was received after 1:00 PM on any trading day, or after 10:00 AM on Fridays, holiday eves and the intermediate days of Passover and Succoth, shall be treated as if it had been received on the first business day thereafter, and that day shall be deemed the day of receipt.
  10. On the first business day after the day of receipt the Minister of Finance shall send the Clearing House a request to withdraw the Government bonds that were acquired as said in paragraphs 6 or 7 above from the Ministry of Finance sub-account.
  11. A repurchase order in a quantity that exceeds the quantity registered to the member's credit in the sub-account to which the order refers shall not be carried out at all and it shall be returned to the Ministry of Finance with a statement of the reason therefor. The Clearing House shall send the member, to which the repurchase order referred, a notice that the order was not carried out, stating the reason therefor.



## **CHAPTER EIGHTEEN – ISSUANCE CLEARING SERVICES**

1. The Clearing House shall provide issuance clearing services as set out in this chapter.
2. An entity, including the issuing company, seeking to receive issuance clearing services from the Clearing House (hereafter: “Registered Customer”), will submit to the Clearing House an application for registration as a Registered Customer. “Issuance” for this purpose – including a private placement.

The application shall be in the format that is attached to the By-Laws as Appendix Thirty-four “A”. In the application, the Registered Customer will declare that it maintains an appropriate technical system enabling the receipt of the service from the Clearing House and will undertake to comply with the By-Laws.

3.
  - a. The Clearing House may reject the application of a person for registration as a Registered Customer and may make it conditional.
  - b. The Clearing House may at any time, at its sole discretion, revoke the registration of a Registered Customer.
4. A Registered Customer that wishes to receive issuance clearing services from the Clearing House will submit to the Clearing House an application in the format that is attached to the By-Laws as Appendix Thirty-four “B” (hereafter: “Issuance Notification”). The Issuance Notification will contain the following details:
  - a. Identity of the person submitting the application (the Company or anyone appointed on its behalf to handle the issuance clearing).
  - b. Details of the issuance that the Clearing House requires for operating the service, including the name of issuer, composition of the issuance unit.
  - c. The date on which the Clearing House will charge the issuance consideration of the members (hereafter – “the Consideration Charge Date”).
  - d. Name of the nominee company in the name of which the securities will be allotted.
  - e. Details of the bank account into which the issuance consideration is to be transferred.
  - f. A liability by the Registered Customer to immediately report to the Clearing House any detail pertaining to the issuance or to the issuing company and requiring action by the Clearing House in connection with the clearing of the issuance, including the postponing or cancellation of the issuance.
  - g. A liability by the Registered Customer to notify the members of TASE and the nominee company that the issuance clearing will be carried out through the Clearing House. An undertaking to notify the members of TASE is not required by a Registered Customer that has elected to receive the service as specified in section 8 below.
5. The Issuance Notification will be delivered to the Clearing House by 2 pm on the last trading day preceding the Consideration Charge Date.

6. In case that the Consideration Charge Date or the details of the bank account into which the consideration is to be transferred are not known on the submission date of the Issuance Notification, the Registered Customer will complete the details missing from the Issuance Notification as early as possible after they have been set, by 2 pm of the last trading day preceding the Consideration Charge Date.

7. a. By 9 am of the Consideration Charge Date, the Registered Customer will deliver to the Clearing House, in the manner that shall be determined by the Clearing House, a notification specifying the amount that the Clearing House is to charge to each TASE member, as well as the quantity of securities to which each TASE member shall be entitled (hereafter: "Charging Order").

Where a Charging Order as above is received at the Clearing House, the Clearing House will send a notification to each TASE member, specifying the amount that is to be charged to the member and the quantity of securities to which the member shall be entitled pursuant to such Charging Order. A notification as above that is designated for a NCHM will be delivered by the Clearing House to the member that clears for the NCHM.

b. By the time stated in subsection a. above, the Registered Customer will deliver a notification to each TASE member, specifying the amount to be charged to it by the Clearing House (hereafter: "the Charge Amount"), as well as the quantity of securities that will be credited to it following the issuance in accordance with the Charging Order.

c. By 10:30 am on the day of being informed of the Charge Amount, the Clearing House member will provide a written authorization to the Clearing House to charge the Charge Amount to it. Alternatively, the member will notify the Clearing House by the aforementioned time that it may not charge the Charge Amount to it.

d. A Clearing House member that does not notify the Clearing House by 10:30 am that it should not be charged the Charge Amount, as aforesaid, will be deemed to have expressed its objection to the charging of the Charge Amount to its monetary account, in accordance with the Order of the Registered Coordinator.

e. Where a TASE member notifies the Clearing House that it should not be charged the Charge Amount by the aforesaid time, or has not provided any notification, the Clearing House will notify the Registered Customer to this effect and will suspend the handling of the issuance clearing, until the Registered Coordinator sends the Clearing House an updated Charging Order. Such updated Charging Order shall be subject to the stated in subsections a. to c. above, *mutatis mutandis*.

f. If an updated Charging Order is received by the Clearing House, and written authorizations permitting the Clearing House to charge the updated Charge Amount are not received from all Clearing House members by the end of 30 minutes of the time of receipt of the aforesaid updated Charging Order by the Clearing House, the Clearing House, will notify the Registered Customer to this effect and will discontinue the handling of the issuance clearing.

g. The charging of the Charge Amount to the member will be performed by way of mutual clearing orders through the "Zahav" system, as stated in Chapter Six of



members, and the Registered Customer will refund the Charge Amounts to the members.

It is hereby clarified that the refund of the monies, as above, will be made by the Registered Customer directly to the members, and not through the Clearing House. It is hereby clarified that the Clearing House does not bear any responsibility for the refund of the monies by the Registered Customer.

- b. The allotment of the securities that are offered in the issuance and their registration in the Clearing House will be subject to that stated in Chapter Three of Part Two of the By-Laws.

**CHAPTER NINETEEN- PROVIDING CLEARING SERVICES FOR  
TRANSACTIONS, OTHER THAN REPO TRANSACTIONS THAT  
ARECARRIED OUT ON THE MTS SYSTEM**

1. The provisions of this Chapter, as well as the provisions of Chapter Five (including all the provisions of the By-Laws that apply by its virtue) shall apply to the clearing of transactions, other than Repo transactions, that are carried out on the MTS system (all the aforesaid provisions and Chapters shall hereafter be called "this Chapter").
2. In this Chapter –
  - "**clearing agreement**" – an agreement signed between a PD and a member, according to which the member will provide clearing services for the PD on all matters connected to clearing transactions contracted on the MTS system,
  - "**member that clears for a PD**" – a member who contracted a clearing agreement with a PD;
  - "**proper notice**" – a notice sent by MTS and received by the Clearing House, in a manner agreed between the Clearing House and MTS, which includes particulars about a transaction with MTS certificates contracted on the MTS system, in a format agreed between the Clearing House and MTS;
  - "**clearing day**" – each of the following days: Monday, Tuesday, Wednesday and Thursday, other than –
    - a. the holidays specified here and their eves: New Year, Yom Kippur, Succoth, Simchat Torah, Passover, the seventh day of Passover, Shavuot and Independence Day;
    - b. the Ninth of Av and Purim;
    - c. days on which trading does not take place on the MTS system;
    - d. any day in respect of which the Clearing House announced in advance that clearing services will not be provided;
  - "**cut-off time for receipt of notices**" – the cut-off time for the receipt of notices by the Clearing House on the clearing day, in respect of transactions carried out on that clearing day on the MTS system, as will be agreed from time to time between the Clearing House and MTS.
3.
  - a. Within the framework of the MTS contract, the Clearing House was appointed by MTS to provide clearing services in Israel to members in respect of transactions in MTS certificates that will be carried out on the MTS system, all according to the conditions specified in this Chapter (hereafter, in this Chapter: "clearing services").
  - b. The Clearing House will provide clearing services as said above to members during the period of effect of the MTS contract and as long as that period has not come to an end and the MTS contract has not been canceled.
  - c. The MTS contract regulates the relationship between the Clearing House and

MTS; accordingly any third party whatsoever, including – but without derogating from the generality of the aforesaid – any member or PD whatsoever, shall have no right, remedy or grounds for action against the Clearing House or against any person who acts on behalf of the Clearing House (that is, officers, managers and persons employed by it) under the MTS contract or under any statute on any matter connected to the MTS contract.

- d. In order to remove any doubt it is here clearly stated that the Clearing House and MTS have at all times the right to cancel or change the MTS contract or the clearing services provided thereunder, including – but without derogating from the generality of the aforesaid – to expand or to reduce the extent of the services or their content, all without obtaining the consent of any third party whatsoever, including – but without derogating from the generality of the aforesaid – without obtaining the consent of any member or PD.
4.
    - a. The Clearing House shall deliver a copy of the MTS contract to every member interested in it, subject to the member's signature of an undertaking to maintain confidentiality, as formulated in Appendix Thirty-seven of the By-Laws.
    - b. If a member who contracted a clearing agreement with a PD, as specified in paragraph 5.C. below, then it may give a copy of the MTS contract to the PD who is interested in it, subject to the PD signing an undertaking to maintain confidentiality, as formulated in Appendix Thirty-eight of the By-Laws.
  5. A member, other than a custodial member, may provide clearing services to a PD, on condition that all the following conditions have been fulfilled:
    - a. The equity of the member that provides clearing services for a PD shall not be less than the equity required according to the provisions of Chapter Two in Part One of the By-Laws.
    - b. The member has the means and the professional manpower that enable it to provide clearing services for a PD.
    - c. The member and the PD contracted a clearing agreement, which inter alia includes the provisions specified in paragraph 8 below, and the PD signed a letter of undertaking toward the Clearing House, as formulated in Appendix Thirty-Nine of the By-Laws.
  6. a member that contracts a clearing agreement with a PD, is responsible toward the Clearing House that the clearing agreement has been signed by the PD and that it includes all the provisions that are specified in paragraph 8 below, and also that the PD signed a letter of undertaking toward the Clearing House, as formulated in Appendix Thirty-Nine of the By-Laws.
  7.
    - a.
      - 1) A member who provides clearing services for a PD shall perform for the PD all the acts required in connection with clearing all the transactions contracted on the MTS system and to which the PD is a party, and the PD shall for all intents and purposes be deemed a client of the member on all matters connected to the By-Laws.
      - 2) Without derogating from the generality of the provisions of paragraph 7.a.1) above, and in order to remove any doubt it is hereby clearly stated that all

the provisions of this Chapter shall apply to the member also in respect of the transactions contracted on the MTS system, which the member carries out for a PD to which the member provides clearing services, and that, irrespective of whether the PD performs the transactions for itself or for others, and those transactions shall, for all intents and purposes, be deemed transactions carried for a client of the member.

- b.
  - 1) If a PD is an NCHM, then it must contract a clearing agreement with the same member with which it contracted a clearing agreement under Chapter One in Part Two of the By-Laws.
  - 2) If a PD that is an NMP must contract a clearing agreement with the same member with which it contracted a clearing agreement under Chapter Nineteen "A" in Part Two of the By-Laws.
8. A clearing agreement shall include, inter alia, the following provisions:
  - a. a declaration by the PD that it knows and agrees that the MTS contract regulates relations between the Clearing House and MTS and that accordingly no third party whatsoever, including – but without derogating from the generality of the aforesaid – any member or PD, shall not have any right, remedy or grounds for action against the Clearing House or against any person who acts on behalf of the Clearing House (that is, officers, managers and the persons employed by it) under the MTS contract or under any statute on any matter connected to the MTS contract;
  - b. a declaration by the PD that it agrees to all the provisions in the By-Laws to the extent that they relate to its activity, as they will be from time to time, and that it undertakes to act in accordance with the By-Laws, as they will be from time to time, on all matters that relate to its activity;
  - c. a declaration by the PD that it releases the Clearing House and the Stock Exchange, as well as the persons who act on behalf of the Clearing House, from every responsibility or liability, as specified in paragraph 20 below;
  - d. a declaration by the PD that it knows and agrees that Israel Law (and it alone) shall apply to all matters connected to the provision of clearing services by the Clearing House, including – but without derogating from the generality of the aforesaid – to all matters connected to the By-Laws, to the contracts contracted between the Clearing House and its members, as specified in paragraph 12 below, to every clearing agreement between a member and a PD and to every undertaking by a PD toward the Clearing House;
  - e. a declaration by the PD that it knows and agrees that the Courts in Israel shall have sole jurisdiction on any matter connected to controversies about the provision of clearing services by the Clearing House, including – but without derogating from the generality of the aforesaid – all matters connected to the By-Laws, to the contracts contracted between the Clearing House and its members, as specified in paragraph 12 below, to every clearing agreement between a member and a PD and to every undertaking by a PD toward the Clearing House;
  - f. a declaration by the PD that it knows and agrees that the Clearing House will

deliver to MTS information and particulars on all matters connected to the PD and to transactions contracted on the MTS system, and also that the Clearing House will cooperate with the various authorities, in Israel and abroad, and will deliver to them information and particulars, as will be required, on all matters connected to the PD and to transactions contracted on the MTS system;

- g. a declaration by the PD that it knows that the Clearing House would not have consented to the contracting of a clearing agreement between the PD and a member, if not for the PD's declarations and undertakings, as specified above in this paragraph 8;
  - h. a declaration by the PD that it knows that its declarations and undertakings, as specified above in this paragraph 8, are to the benefit of the Clearing House and that they vest in the Clearing House – as the beneficiary – the right to demand the fulfillment of the said declarations and undertakings or of any part of them, and furthermore, that the said declarations and undertakings will not be subject to change or cancellation, except by way of terminating the clearing agreement, as specified in paragraph 11 below and subject to its conditions.
9. A member shall inform the Clearing House of contracting a clearing agreement with a PD at least two (2) clearing days before the clearing agreement goes into effect, and it shall deliver the PD's letter of undertaking to the Clearing House, as formulated in Appendix Thirty-Nine of the By-Laws.
10. a. A member is responsible toward the Clearing House for the clearing of all transactions by the PD who contracted a clearing agreement with the member, and for covering all monetary and other obligations that stem from them, and also for every act, or omission (hereafter, together: "acts") of the PD that is connected thereto, and that even if – in consequence thereof – the member will become liable for a sum in excess of what was agreed in the clearing agreement between it and the PD.
- b. A member shall deliver a letter of undertaking to the Clearing House, as formulated in Appendix Forty of the By-Laws, in connection with every PD with which it contracted a clearing agreement.
11. a. A member shall inform the General Manager of the Clearing House, or in his absence the General Manager of the Stock Exchange, and also MTS, in writing of the date of termination of a clearing agreement with a PD (hereafter: "notice of termination"), no later than two clearing days before the date of termination of the clearing agreement.
- b. When a member has given notice of the termination of a clearing agreement, as aforesaid, then the member shall continue to be responsible toward the Clearing House, as said in paragraph 10 above, and in this context it shall continue to be responsible for the clearing of all transactions carried out by the PD on the MTS system until the end of the second clearing day after the clearing day on which the notice of termination was delivered to the General Manager of the Clearing House or to the General Manager of the Stock Exchange, as said in paragraph 11.a. above, or until the PD ceases to participate in trading on the MTS system, whichever is the later (hereafter: "time of cessation of responsibility").



For this matter, the following is made clear:

- 1) as long as the Clearing House receives proper notices from MTS in respect of transactions contracted on the MTS system and to which the PD is a party, the PD shall be deemed not to have terminated its participation in trading on the MTS system;
  - 2) the member's responsibility toward the Clearing House, as aforesaid, shall also apply to every liability in connection with aforesaid transactions or acts, for which the payment date or the clearing date falls after the cessation of responsibility.
- c.
- 1) Notwithstanding the aforesaid, if a member (hereafter: "the terminating member") has given notice that a clearing agreement with a PD has been terminated and another member has given notice that he contracted a new clearing agreement with the same PD (hereafter: "the new clearing agreement") as said in paragraph 9 above, then the terminating member shall continue to be responsible toward the Clearing House, as said in paragraph 10 above, and that includes that he continues to be responsible for clearing all the transactions carried out by the PD on the MTS system until the end of the second clearing day after the clearing day on which the notice of termination was delivered to the Manager of the Clearing House or to the General Manager of the Stock Exchange, as said in paragraph 11.a. above, or until the new clearing agreement goes into effect, whichever is later (hereafter: "time of cessation of responsibility").
  - 2) For this matter, the following is made clear:
    - a. as long as the new clearing agreement is not in effect, the terminating member will continue to be responsible to the Clearing House, as said in paragraph 11.c.1) above;
    - b. the terminating member's aforesaid responsibility toward the Clearing House shall also apply to every obligation in connection with aforesaid transactions or acts, for which the date of clearing or the date of payment falls after the time of cessation of responsibility.
12. Subject to the fulfillment of the conditions prescribed in paragraph 13 below, when a transaction is contracted on the MTS system between two members, then two contracts shall arise, in Israel – the one a contract between the Clearing House as the seller and the member who bought MTS certificates, and the other a contract between the Clearing House as the buyer and the member who sold MTS certificates (the said two contracts shall jointly be called "the contracts").
- For this matter, it is stated clearly that, if a PD is party to a transaction on the MTS system, then the contract shall arise, as aforesaid, between the Clearing House and the member who clears for the PD.
13. a. If a proper notice is received by the Clearing House within five minutes of the time, when a transaction was contracted on the MTS system, but before the cut-off time for the receipt of notices, then the Clearing House shall become a party to the contracts at the time when the transaction was contracted on the MTS system.

- b. If a proper notice is received by the Clearing House later than five minutes after a transaction was contracted on the MTS system, but before the cut-off time for the receipt of notices, then the Clearing House shall become a party to the contracts at the time when the proper notice was received by the Clearing House, on condition that – until the proper notice was received by the Clearing House – the Clearing House had not given MTS a notice as said in paragraphs 17.c.1), 17.f.5) and 18.b.1) below, and did not receive a notice from MTS, as said in paragraphs 18.b.2) and 18.c. below.

Let it be clearly stated that if a notice under the said paragraphs was given or received by the Clearing House, then the Clearing House shall not be party to the contracts and it shall not clear the transaction, the particulars of which were included in the proper notice.

- c. If a notice received by the Clearing House is not a proper notice (even if the notice was received by the Clearing House within five minutes after the transaction was contracted on the MTS system), then the Clearing House may reject the notice, and in a said case the Clearing House shall not become party to the contracts and it shall not clear the transaction, particulars of which were included in the notice that was rejected.
- d. If no proper notice was received by the Clearing House up to the cut-off time for receipt of notices, in respect of any transaction whatsoever that was contracted on the MTS system, then the Clearing House shall not become party to the contracts and it shall not clear the said transaction.

Notwithstanding the aforesaid, the General Manager of the Clearing House may decide, at his discretion, within thirty minutes after the cut-off time for the receipt of notices that he agrees to clear the said transaction; written notice of this agreement shall be given to MTS.

If written agreement was given by the General Manager of the Clearing House as aforesaid, then the Clearing House shall become party to the contracts at the time the said agreement was given to MTS in writing.

- e. When the Clearing House has become a party to aforesaid contracts, then from the said time on the Clearing House shall be responsible for the fulfillment of its undertakings according to the contracts, as specified in the above Chapter Five.
14. a. MTS shall send notices to the Clearing House through the SWIFT network.
- b. If MTS informed the Clearing House in writing that, because of any reason whatsoever, messages cannot be transmitted over the SWIFT network, then – subject to the provisions of paragraph 13 above – MTS may transmit notices by alternate means on which the Clearing House and MTS shall agree from time to time.

The notices that will be received by alternate means, as aforesaid, shall – for all intents and purposes – be deemed notices received over the SWIFT network.

15. a. On each clearing day, up to the cut-off time for the receipt of notices, MTS may deliver a notice to the Clearing House about the cancellation of a transaction contracted on the MTS system (hereafter: "cancellation notice"), for which proper

- notice that they had been contracted had earlier been delivered to the Clearing House in the course of the same clearing day.
- b. If a said cancellation notice was received by the Clearing House, then the Clearing House shall not become party to the contracts and it shall not clear the transaction, particulars of which were included in the cancellation notice.
  - c. MTS may give the Clearing House a new proper notice in respect of the a transaction that was included in the proper notice that was canceled as aforesaid, on condition that the Clearing House receive the new proper notice up to the cut-off time for the receipt of notices on the clearing day on which the said transaction was contracted, and in the said instance the provisions of paragraphs 13.b. to 13.d. above shall apply.
16. a. If the Clearing House informed MTS of its inability to render services (within the meaning of that term in the MTS contract), or that a force majeure event occurred (within the meaning of that term in the MTS contract), which prevents the Clearing House from continuing to provide some or all of the clearing services, as said in this Chapter (hereafter in this paragraph: "notice by the Clearing House"), then the following provisions shall apply:
- 1) the cut-off time for the receipt of notices shall be advanced, and it shall be ten minutes after the Clearing House delivered the notice by the Clearing House to MTS.
  - 2) when ten minutes have passed after the notice by the Clearing House was given to MTS, as aforesaid, every notice that will be received by the Clearing House about transactions contracted on the MTS system shall be deemed a notice that is not proper; accordingly the Clearing House shall reject the said notices, shall not become party to the contracts and shall not clear the transactions, particulars of which were included in the notices that were rejected as aforesaid;
  - 3) the remainder of the clearing day on which the notice by the Clearing House was delivered, as aforesaid, as well as every additional day (that, if not for the notice by the Clearing House, would have been deemed a clearing day) shall not be deemed a clearing day; in a said case, the Clearing House shall cease providing clearing services until an additional notice is given by the Clearing House to MTS, according to which the Clearing House will resume its activity and will continue to provide clearing services, beginning at a time that will be stated in the additional notice.
- b. Without derogating from the provisions of paragraph 16.a. above, the Clearing House has the right to inform the members that – because of any reason whatsoever (of any sort and kind), which shall be specified in the notice – the Clearing House is unable to continue to provide all or some of the clearing services said in this Chapter; in a said case, the Clearing House will cease to provide clearing services, as specified in the said notice until the Clearing House gives an additional notice to the members, according to which the Clearing House will resume its activity and will continue to provide clearing services, beginning at a time that shall be stated in the additional notice.

17. a. 1) The Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may decide on a temporary interruption in the provision of Clearing House services to a member in accordance with this Chapter (hereafter: "temporary interruption"), if he concludes, at his discretion, that there is a suspicion that the member is liable not to meet its obligations or any part thereof or that the member is liable not to pay its debts or any part thereof, or if it was decided to convene the Board of Directors in order to discuss the continued provision of clearing services to the member, as specified in paragraph 17.c. below.

In such an instance, the Manager of the Clearing House shall, as far as possible, refrain from deciding on a temporary interruption in the provision of clearing services before the member is given an opportunity to present its arguments to him. However, if the Manager of the Clearing House believes, in his judgment, that the decision should not be delayed, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may decide on said temporary interruption, even before giving the member an opportunity to present its arguments to him, on condition that the member be given an opportunity to present its arguments after the decision has been made.

- 2) Notwithstanding the aforesaid, if the member did not meet its monetary obligations that stem from the clearing orders and the clearing acts performed in the Clearing House, as specified in Chapter Six of Part Two of the By-Laws, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order an immediate temporary interruption in the provision of Clearing House services to the member.

In such an instance, the member shall be given an opportunity to present its arguments after the decision was adopted.

- 3) The Manager of the Clearing House shall inform the Governor of the Bank of Israel of his intention to take a decision to interrupt temporarily the provision of Clearing House services to a member, and he shall give the Bank of Israel an opportunity to express its opinion on this matter.

However, if the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, is of the opinion that taking the decision to interrupt temporarily the provision of Clearing House services to a member should not be delayed, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may decide on said temporary interruption, even before giving the Bank of Israel an opportunity to express its opinion, provided that the Bank of Israel is given the opportunity to express its opinion after the decision has been taken.

- b. If it has been decided to temporarily interrupt the provision of clearing services to a member, as specified in Chapter Three "B" of Part One of the By-Laws, the provision of clearing services to the member shall be interrupted temporarily also in accordance with this Chapter.

- c.
  - 1) When it has been decided to temporarily interrupt the provision of clearing services to a member, in accordance with this Chapter, the Manager of the Clearing House shall, without delay, give notice thereof to MTS, stating the precise time when the notice was given to MTS (hereafter in this paragraph: "time of the notice to MTS"). Furthermore, the Manager of the Clearing House shall give notice of his decision to the Chairman of the Board of Directors, who will act to convene the Board of Directors as soon as possible, in order to discuss the continued provision of clearing services to the member, in accordance with this Chapter.
  - 2) With effect from the time of the notice to MTS, every notice that shall be received by the Clearing House about transactions carried out on the MTS system by the member or about transactions carried out on the MTS system by primary dealers with whom the member made a clearing agreement shall be deemed notices that are not proper; accordingly the Clearing House shall reject the said notices, shall not become party to the contracts and shall not clear the transactions, particulars of which were included in the notices that were rejected as aforesaid.
  - 3) It is hereby clarified that the aforesaid does not derogate from the undertakings of MTS under the MTS contract to cancel and disconnect access to trading on the MTS system for the member and for the primary dealers referred to in paragraph 17.c.2) above, and also to cancel all the transactions carried out by any of them, with effect from the time of the notice to MTS.
- d. If, during the period in which the temporary interruption is in effect, the member proves to the Manager of the Clearing House's satisfaction that the grounds for deciding on the temporary interruption in the provision of clearing services have been removed, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may decide that the provision of clearing services be resumed, and in such an instance the Manager of the Clearing House shall so inform MTS.
- e. If the member did not prove to the Manager of the Clearing House's satisfaction that the grounds for deciding on the temporary interruption have been removed, the Board of Directors shall convene and discuss the continued provision of clearing services to the member.
- f.
  - 1) If the Board of Directors decided that there is a suspicion that the member is liable not to meet its obligations or any part thereof, or that the member is liable not to pay any of its debts or any part thereof, or if one or more of the other events specified in paragraph 2.1.2 of Chapter Three "B" in Part One of the By-Laws occurred (the aforesaid suspicion, as well as any of the aforesaid events shall hereafter be called an "event that arouses suspicion of insolvency"), then the Board of Directors may decide to interrupt the provision of clearing services to the member in accordance with this Chapter, and it may restrict the said interruption of services to a period that it shall set.

- 2) The Board of Directors may decide to continue the provision of clearing services to the member, either in full or in part, and it may restrict the said provision of services by conditions and restrictions, as it finds appropriate at its discretion.
- 3) The Board of Directors shall decide to stop the provision of clearing services to a member in accordance with this Chapter, or to continue the partial provision of clearing services to the member only by a 75% majority of those present at the Board of Directors meeting that discusses the matter, and only after it has given the member an appropriate opportunity to appear before the Board of Directors or to present its stand in writing. If the Board of Directors holds that making the decision must not be postponed, then the Board of Directors may decide as aforesaid even before the member was given an opportunity to bring its arguments before the Board of Directors, as aforesaid, provided the member shall be given an opportunity to present its arguments in writing after the decision was adopted.
- 4) The chairman of the Board of Directors shall inform the Governor of the Bank of Israel of the intention of the Board of Directors to discuss the interruption of the provision of Clearing House services to a member and he shall give the Bank of Israel an opportunity to express its opinion on this subject.

However, if the Board of Directors is of the opinion that adopting the decision to interrupt the provision of Clearing House services to the member must not be delayed, the Board of Directors may decide on the said interruption even before the Bank of Israel was given an opportunity to express its opinion, provided that the Bank of Israel is given the opportunity to express its opinion after the decision was adopted.

- 5) If, in accordance with this Chapter, it was decided to stop the provision of clearing services to a member, or if it was decided to provide clearing services to a member only partially, then the member and all persons who act on its behalf shall take all necessary steps to prevent, as far as possible, harm to the member's clients, including – but without derogating from the generality of the aforesaid – to PDs who signed clearing agreements with the member, to other Clearing House members and to the Clearing House.
- 6) If in accordance with this Chapter the Board of Directors decided to stop the provision of clearing services to the member, or to provide clearing services to the member only partially, then notice shall be given to MTS.

If no decision for a temporary interruption was made, as said in paragraph 17.a. above, before the decision of the Board of Directors to stop the provision of clearing services to the member, or to provide clearing services to the member only partially, as aforesaid, then the provisions of paragraphs 17.c.1) to 3) above shall apply, mutatis mutandis, to the matter of giving notice to MTS and its results.

- g. A member shall continue to be liable for all its debts in respect of clearing services, in accordance with this Chapter, even if it was decided to stop the

provision of clearing services to him, whether temporarily or permanently, and also if it was decided to provide only partial clearing services to him

18. a. The Clearing House may from time to time transmit to MTS information and particulars in its possession about all matters connected to a member or to a PD, and to the transactions contracted by them on the MTS system.
  - b. Without derogating from the generality of the aforesaid, the following is hereby made clear:
    - 1) if the Clearing House believes that an event that arouses suspicion of a member's insolvency occurred, or that a said event is liable to occur, then the Clearing House shall give notice thereof to MTS without any delay;
    - 2) if the MTS believes that an event that arouses suspicion of a member's insolvency occurred, or that a said event is liable to occur, or that a similar event occurred in respect of a PD or that a said similar event is liable to occur, then MTS shall give notice thereof to the Clearing House without any delay.
  - c. If MTS suspends a member or a PD from trading on the MTS system, then it shall so inform the Clearing House without delay, and it shall not cancel the suspension without obtaining the consent of the Clearing House thereto.
  - d. The Clearing House may cooperate with the various authorities in Israel or abroad and give them information and particulars, as will be necessary, on all matters connected to a member or to a PD and to the transactions contracted on the MTS system.
19. The Clearing House and MTS may terminate the MTS contract, on the terms and at the times prescribed in the MTS contract.

If either of the parties to the MTS contract decides to terminate the contract, then the Clearing House shall so inform the members and stop the provision of clearing services for transactions carried out on the MTS system in under a schedule that will be prescribed by the Board of Directors for this purpose.

20. a. The Clearing House and the Stock Exchange, as well as the persons who act on their behalf – that is their officers, managers and the persons employed by them (all these hereafter to be known as "persons who act on behalf of the Clearing House") – shall be exempt and shall bear no responsibility or liability whatsoever for any loss, damage, expenditure or deficit of any type or kind whatsoever (hereafter in this paragraph: "damage") that are liable to be caused to any person or entity whatsoever, including – but without derogating from the generality of the aforesaid – to a member or to a PD because of any act, activity or omission of any kind whatsoever (unless performed with malice) of the Clearing House, of the Stock Exchange or of persons who act on behalf of the Clearing House on every matter connected to this Chapter or to the provision of clearing services for transactions carried out on the MTS system.
- b. Without derogating from the generality of the aforesaid, the Clearing House and the Stock Exchange, as well as the persons who act on behalf of the Clearing House, shall be exempt and shall bear no responsibility or liability whatsoever for

any loss, damage, expenditure or deficit of any type or kind whatsoever (hereafter in this paragraph: "damage") that are liable to be caused to any person or entity whatsoever, including – but without derogating from the generality of the aforesaid – to a member or to a PD, because of any act, activity or omission of any kind whatsoever of MTS or of any person on its behalf, all whether or not they are connected to any act performed by the Clearing House.

21. Without derogating from the provisions of paragraph 20 above, let it be stated clearly that – for the clearing of transactions contracted on the MTS system – the Clearing House depends only on the proper notices that it receives from MTS.

The Clearing House will not clear transactions contracted on the MTS system, if it did not receive a proper notice in their respect, and the Clearing House also is not responsible for the content of the proper notices or for any fault, mistake or shortcoming in them due to any reason whatsoever.

MTS alone bears the full responsibility for the content of the proper notices and for the correctness and completeness of the information in them.

22. a. It is hereby clearly stated that Israel Law applies to the MTS contract and that the competent Courts in Israel have sole jurisdiction to hear any matter connected to it.
- b. Israel Law (and it alone) shall apply to all matters connected to the provision of clearing services by the Clearing House, including – but without derogating from the generality of the aforesaid – all matters connected to the By-Laws, the contracts between the Clearing House and its members, as specified in paragraph 12 above, to every clearing agreement between a member and a PD and to every undertaking of a PD toward the Clearing House.
- c. The Courts in Israel shall have sole jurisdiction on any matter connected to any controversy in connection with the provision of clearing services by the Clearing House, including – but without derogating from the generality of the aforesaid – all matters connected to the By-Laws, to the contracts between the Clearing House and its members, as specified in paragraph 12 above, to every clearing agreement between a member and a PD and to every undertaking of a PD toward the Clearing House.
23. The fees for the clearing services that will be provided as specified in this Chapter shall be in accordance with the tariff, which is attached to the Regulations under Part Six of the Tel Aviv Stock Exchange Rules.



**CHAPTER NINETEEN "A" - PROVIDING CLEARING SERVICES FOR  
REPO TRANSACTIONS CARRIED OUT ON THE MTS SYSTEM**

1. a. The provisions of this Chapter as well as the provisions of Chapter Five (including all the provisions of the By-Laws that apply by its virtue) shall apply to the clearing of Repo transactions (all the aforesaid provisions and Chapters shall hereafter be called "this Chapter").
- b. Without derogating from the provisions of paragraph 4.d. in the above Chapter Nine, if the record date for the payment of interest on Repo securities falls between the first leg clearing date of the Repo transaction and the second leg clearing date of that transaction, then the Clearing House shall debit the transferee member for the amount of interest on the interest payment day on the said Repo security and credit that amount to the transferor member, and that even if the payment day comes after the date for clearing the second leg of that Repo transaction.

2. In this Chapter –

"proper notice" – a notice sent by MTS and received by the Clearing House, in a manner agreed between the Clearing House and MTS, which includes particulars of two transactions with Repo securities that were contracted on the MTS system, in a format agreed between the Clearing House and MTS;

"cut-off time for receipt of notices" – the cut-off time for the receipt of notices by the Clearing House on the clearing day, in respect of transactions carried out on that clearing day on the MTS system, as will be agreed from time to time between the Clearing House and MTS.

"clearing agreement" – an agreement signed between a Repo participant and a member, according to which the member will provide clearing services for the Repo participant on all matters connected to the clearing of Repo transactions contracted on the MTS system;

"member that clears for a Repo participant" – a member who contracted a clearing agreement with a Repo participant;

"clearing day" – each of the following days: Monday, Tuesday, Wednesday and Thursday, other than –

- a. the holidays specified here and their eves: New Year, Yom Kippur, Succoth, Simchat Torah, Passover, the seventh day of Passover, Shavuot and Independence Day;
- b. the Ninth of Av and Purim;
- c. days on which trading does not take place on the MTS system;
- d. any day in respect of which the Clearing House announced in advance that clearing services will not be provided;

notwithstanding the aforesaid, in respect of second leg clearing every day on which the Clearing House performs clearing shall be deemed a clearing day.

3.
  - a. Within the framework of the MTS contract, the Clearing House was appointed by MTS to provide clearing services in Israel to members in respect of Repo transactions that will be carried out on the MTS system, all according to the conditions specified in this Chapter (hereafter, in this Chapter: "Repo clearing services").
  - b. The Clearing House will provide Repo clearing services as said above to members during the period of effect of the MTS contract and as long as that period has not come to an end and the MTS contract has not been canceled.
  - c. The MTS contract regulates the relationship between the Clearing House and MTS; accordingly any third party whatsoever, including – but without derogating from the generality of the aforesaid – any member or Repo participant whatsoever, shall not have any right, remedy or grounds for action against the Clearing House or against any person who acts on behalf of the Clearing House (that is, its officers, managers and persons employed by it) under the MTS contract or under any statute on any matter connected to the MTS contract.
  - d. In order to remove any doubt it is here clearly stated that the Clearing House and MTS have at all times the right to cancel or change the MTS contract or the clearing services provided thereunder, including – but without derogating from the generality of the aforesaid – to expand or to reduce the extent of the services or their content, all without obtaining the consent of any third party whatsoever, including – but without derogating from the generality of the aforesaid – without obtaining the consent of any member or Repo participant whatsoever.
4.
  - a. The Clearing House shall deliver a copy of the MTS contract to every member interested in it, subject to the member's signature of an undertaking to maintain confidentiality, as formulated in Appendix Forty "A" of the By-Laws.
  - b. If a member contracted a clearing agreement with a Repo participant, as specified in paragraph 6.c. below, then it may give a copy of the MTS contract to the Repo participant who is interested in it, subject to the Repo participant signing an undertaking to maintain confidentiality, as formulated in Appendix Forty "B" of the By-Laws.
5. The equity capital of a member that wishes to receive Repo clearing services from the Clearing House shall not be less than the capital required under the provisions of Chapter Two in Part One of the By-Laws.
6. A member, other than a custodial member, may provide clearing services to a Repo participant, on condition that all the following conditions have been fulfilled:
  - a. The equity of the member shall not be less than the capital required under the provisions of Chapter Two in Part One of the By-Laws.
  - b. the member has the means and the professional manpower that enable it to provide clearing services for the Repo participant, as well as the apparatus, means and computer systems that enable it to receive from the MTS system reports of the transactions carried out by the Repo participant immediately after they were carried out;
  - c. the member and the Repo participant contracted a clearing agreement which inter

alia includes , the provisions specified in paragraph 9 below and the Repo participant signed a letter of undertaking toward the Clearing House, as formulated in Appendix Forty "C" or in Appendix Forty "D" of the By-Laws, as the case may be.

7. A member that contracts a clearing agreement with a Repo participant is responsible toward the Clearing House that the clearing contract has been signed by the Repo participant and that it includes all the provisions that are specified in paragraph 9 below, and also that the Repo participant signed an undertaking toward the Clearing House, as formulated in Appendix Forty "C" or in Appendix Forty "D" of the By-Laws, as the case may be.
8.
  - a.
    - 1) A member who provides clearing services for a Repo participant shall perform for the Repo participant all the acts required in connection with the clearing of all the transactions contracted on the MTS system and to which the Repo participant is a party, and the Repo participant shall, for all intents and purposes, be deemed a client of the member in respect of all matters connected to the By-Laws.
    - 2) Without derogating from the generality of the provisions of paragraph 8.a.1) above and in order to remove all doubt it is hereby clearly stated that all the provisions prescribed in Chapter Nineteen "D" in Part Two of the By-Laws – including provisions on the early termination of Repo transactions to which the member is a party, on an irrevocable power of attorney given by the member, on the delegation of powers, and on lien and set-off shall apply to the member also in respect of the Repo transactions carried out by the Repo participant for whom the member provides clearing services for Repo transactions, and that whether the Repo participant performs the Repo transactions for himself or for others, and those transactions shall, for all intents and purposes, be deemed Repo transactions that were carried out for a client of the member.
  - b.
    - 1) If a Repo participant is an NCHM, then it must contract a clearing agreement with the same member with which it contracted a clearing agreement under Chapter One in Part Two of the By-Laws.
    - 2) If a Repo participant is a PD, then it must contract the clearing agreement with the same member, with which it has a clearing agreement under Chapter Nineteen in Part Two of the By-Laws.
    - 3) An MPRT that is an NCHM must contract a clearing agreement with the member that performs monetary clearing for it.
  - c. Every NBM shall have one member that performs monetary clearing for it, in respect of all the activity of the NBM in the Clearing House.
9. A clearing agreement shall include, inter alia, the following provisions:
  - a. a declaration by the Repo participant that it knows and agrees that the MTS contract regulates relations between the Clearing House and MTS and that accordingly no third party whatsoever, including – but without derogating from the generality of the aforesaid – any member or Repo participants, shall not have

- any right, remedy or grounds for action against the Clearing House or against any person who acts on behalf of the Clearing House (that is, its officers, managers and the persons employed by it) under the MTS contract or under any statute on any matter connected to the MTS contract;
- b. a declaration by the Repo participant that it releases the Clearing House and the Stock Exchange, as well as the persons who act on behalf of the Clearing House, from every responsibility or liability, as specified in paragraph 22 below;
  - c. a declaration by the Repo participant that it knows and agrees that Israel Law (and it alone) shall apply to all matters connected to the provision of clearing services by the Clearing House, including – but without derogating from the generality of the aforesaid – to all matters connected to the By-Laws, to the contracts contracted between the Clearing House and its members, as specified in paragraph 13 below, to every clearing agreement between a member and a Repo participant and to every undertaking by a Repo participant toward the Clearing House;
  - d. a declaration by the Repo participant that it knows and agrees that the Courts in Israel shall have sole jurisdiction on any matter connected to any controversy about the provision of clearing services by the Clearing House, including – but without derogating from the generality of the aforesaid – all matters connected to the By-Laws, to the contracts contracted between the Clearing House and its members, as specified in paragraph 13 below, to every clearing agreement between a member and a Repo participant and to every undertaking by a Repo participant toward the Clearing House;
  - e. a declaration by the Repo participant that it knows and agrees that the Clearing House will deliver to MTS information and particulars on all matters connected to the Repo participant and to the Repo transactions contracted on the MTS system, and also that the Clearing House will cooperate with the various authorities, in Israel and abroad, and will deliver to them information and particulars, as will be required, on all matters connected to the Repo participant and to transactions contracted on the MTS system;
  - f. a declaration by the Repo participant that it knows that the Clearing House would not have consented to the contracting of a clearing agreement between the Repo participant and a member, if not for the Repo participant's declarations and undertakings, as specified above in this paragraph 9;
  - g. a declaration by the Repo participant that it knows that its declarations and undertakings, as specified above in this paragraph 9, are to the benefit of the Clearing House and that they vest in the Clearing House – as the beneficiary – the right to demand the fulfillment of the said declarations and undertakings or of any part of them, and furthermore, that the said declarations and undertakings will not be subject to change or cancellation, except by way of terminating the clearing agreement, as specified in paragraph 12 below and subject to its conditions.;
  - h. a clearing agreement between a member and a NMP shall also include, in addition to the aforesaid, a declaration by the NMP that it agrees with all the provisions of the By-Laws, as far as they concern its activity, as they will be from time to time, and that it undertakes to act in accordance with the By-Laws, as they will be from

time to time, as far as they concern its activity.

10. A member shall inform the Clearing House of contracting a clearing agreement with a Repo participant at least two (2) trading days before the clearing agreement goes into effect, and it shall deliver the Repo participant's letter of undertaking to the Clearing House, as formulated in Appendix Forty "C" or in Appendix Forty "D" of the By-Laws, as the case may be.
11.
  - a. A member is responsible toward the Clearing House for the clearing of all transactions by the Repo participant who contracted a clearing agreement with the member, and for covering all monetary and other obligations that stem from them, and also for every act, action or omission (hereafter, together: "acts") of the Repo participant that is connected thereto, and that even if – in consequence thereof – the member will become liable for a sum in excess of what was agreed in the clearing agreement between it and the Repo participant.
  - b. A member shall deliver a letter of undertaking to the Clearing House, as formulated in Appendix Forty "E" of the By-Laws, in connection with every Repo participant with which it contracted a clearing agreement.
12.
  - a. A member shall inform the General Manager of the Clearing House, or in his absence the General Manager of the Stock Exchange, and also MTS, in writing of the date of termination of a clearing agreement with a Repo participant (hereafter: "notice of termination"), not later than two (2) trading days before the date of termination of the clearing agreement.
  - b. When a member has given notice of the termination of a clearing agreement, as aforesaid, then the member shall continue to be responsible toward the Clearing House, as said in paragraph 11 above, and in this context it shall continue to be responsible for the clearing of all transactions carried out by the Repo participant on the MTS system until the end of the second clearing day after the clearing day on which the notice of termination was delivered to the General Manager of the Clearing House or to the General Manager of the Stock Exchange, as said in paragraph 12.a. above, or until the Repo participant ceases to participate in trading on the MTS system, whichever is the later (hereafter: "time of cessation of responsibility").

For this matter, the following is made clear:

- 1) as long as the Clearing House receives proper notices from MTS in respect of transactions contracted on the MTS system and to which the Repo participant is a party, the Repo participant shall be deemed not to have terminated its participation in trading on the MTS system;
  - 2) the member's responsibility toward the Clearing House, as aforesaid, shall also apply to every liability in connection with Repo transactions or aforesaid acts, for which the payment date or the clearing date falls after the time of cessation of responsibility.
- c.
    - 1) Notwithstanding the aforesaid, if a member (hereafter: "the terminating member") has given notice that a clearing agreement with a Repo participant has been terminated, and if another member has given notice that he

contracted a new clearing agreement with the same Repo participant (hereafter: "the new clearing agreement") as said in paragraph 10 above, then the terminating member shall continue to be responsible toward the Clearing House, as said in paragraph 11 above, and that includes that he continues to be responsible for clearing all the transactions carried out by the Repo participant on the MTS system until the end of the second clearing day after the clearing day on which the notice of termination was delivered to the Manager of the Clearing House or to the General Manager of the Stock Exchange, as said in paragraph 12.a. above, or until the new clearing agreement goes into effect, whichever is later (hereafter: "time of cessation of responsibility").

- 2) For this matter, the following is made clear:
  - a. as long as the new clearing agreement is not in effect, the terminating member will continue to be responsible to the Clearing House, as said in paragraph 12.c.1) above;
  - b. the terminating member's aforesaid responsibility toward the Clearing House shall also apply to every obligation in connection with aforesaid transactions or acts, for which the date of clearing or the date of payment falls after the time of cessation of responsibility.

13. Subject to the fulfillment of the conditions prescribed in paragraph 14 below, when a Repo transaction is contracted: two contracts shall arise in Israel – the one a contract between the Clearing House as transferor of the Repo securities to the transferee member, according to which the Clearing House will transfer the Repo securities to the transferee member against consideration, and at the end of the period agreed in advance, the transferee member will transfer to the Clearing House Repo securities of the same kind against an amount of consideration agreed in advance or according to a method of calculation agreed in advance; and the second a contract between the Clearing House as transferee and the transferor member, according to which the transferor member will transfer the Repo securities to the Clearing House against consideration and at the end of the period that was agreed in advance the Clearing House will transfer Repo securities of the same kind to the transferor member, all against an amount of consideration agreed in advance or according to a method of calculation agreed in advance (the said two contracts shall jointly be called "the contracts");

for this matter it is stated clearly that, if a Repo participant is a party to a Repo transaction on the MTS system, then the contract shall arise, as aforesaid, between the Clearing House and the member who clears for the Repo participant.

14.
  - a. If a proper notice of a Repo transaction is received by the Clearing House within five minutes of the time the transaction was contracted on the MTS system, but before the cut-off time for the receipt of notices, then the Clearing House shall become a party to the contracts at the time when the transaction was contracted on the MTS system.
  - b. If a proper notice of a Repo transaction is received by the Clearing House later than five minutes after the transaction was contracted on the MTS system, but before the cut-off time for the receipt of notices, then the Clearing House shall

become a party to the contracts at the time when the proper notice was received by the Clearing House, on condition that –until the proper notice was received by the clearing House- the Clearing House had not given MTS notice as said in paragraphs 19.c.1), 19.f.5) and 20.b.1) below ,and did not receive a notice from MTS as said in paragraphs 20.b.2) and 20.c below.

Let it be clearly stated that if a notice under the said paragraphs was given or received by the Clearing House, then the Clearing House shall not be a party to the contracts and it shall not clear the transaction, the particulars of which were included in the proper notice.

- c. If a notice received by the Clearing House is not a proper notice (even if the notice was received by the Clearing House within five minutes after the transaction was contracted on the MTS system), then the Clearing House may reject the notice, and in a said case the Clearing House shall not become party to the contracts and shall not clear the transaction particulars of which were included in the notice that was rejected.
- d. If no proper notice was received by the Clearing House up to the cut-off time for the receipt of notices in respect of any transaction whatsoever that was contracted on the MTS system, then the Clearing House shall not become party to the contracts and it shall not clear the said transaction.

Notwithstanding the aforesaid, the General Manager of the Clearing House may decide, at his discretion, within thirty minutes after the cut-off time for the receipt of notices, that he agrees to clear the said transaction; written notice of this agreement shall be given to MTS.

If written agreement was given by the General Manager of the Clearing House as aforesaid, then the Clearing House shall become party to the contracts at the time the said agreement was given to MTS in writing.

- e. When the Clearing House has become a party to aforesaid contracts, then from the said time on the Clearing House shall be responsible for the fulfillment of its undertakings according to the contracts, as specified in the above Chapter Five.
15. If a proper notice has been received by the Clearing House, then the Repo transaction shall be cleared as specified in Chapter Five above.
  16. a. MTS shall send notices to the Clearing House through the SWIFT network.
  - b. If MTS informed the Clearing House in writing that, because of any reason whatsoever, messages cannot be transmitted over the SWIFT network, then – subject to the provisions of section 14 above – MTS may transmit notices by alternate means on which the Clearing House and MTS shall agree from time to time.

The notices that will be received by alternate means ,as aforesaid, shall – for all intents and purposes – be deemed notices received over the SWIFT network.

17. a. On each clearing day, up to the cut-off time for the receipt of notices, MTS may deliver a notice to the Clearing House about the cancellation of a Repo transactions contracted on the MTS system (hereafter: "cancellation notice"), for

which proper notice that they had been contracted had earlier been delivered to the Clearing House in the course of the same clearing day.

- b. If a said cancellation notice was received by the Clearing House, then the Clearing House shall not become party to the contracts and it shall not clear the Repo transaction, particulars of which were included in the cancellation notice.
  - c. MTS may give the Clearing House a new proper notice in respect of a Repo transaction that was included in the proper notice that was canceled as aforesaid, on condition that the Clearing House receive the new proper notice up to the cut-off time for the receipt of notices on the clearing day on which the said Repo transaction was contracted, and in the said instance the provisions of paragraphs 14.b. to 14.d. above shall apply.
18. a. If the Clearing House informed MTS of its inability to render services (within the meaning of that term in the MTS contract), or that a force majeure event occurred (within the meaning of that term in the MTS contract), which prevents the Clearing House from continuing to provide some or all of the clearing services as said in this Chapter (hereafter in this section: "notice by the Clearing House"), then the following provisions shall apply:
- 1) the cut-off time for the receipt of notices shall be advanced, and it shall be ten minutes after the Clearing House delivered the notice by the Clearing House to MTS.
  - 2) when ten minutes have passed after the notice by the Clearing House was given to MTS, as aforesaid, every notice that will be received by the Clearing House about transactions contracted on the MTS system shall be deemed a notice that is not proper; accordingly the Clearing House shall reject the said notices, shall not become party to the contracts and shall not clear the Repo transactions, particulars of which were included in the notices that were rejected as aforesaid;
  - 3) the remainder of the clearing day on which the notice by the Clearing House was delivered, as aforesaid, as well as every additional day (which, if not for the notice by the Clearing House, would have been deemed a clearing day) shall not be deemed a clearing day; in a said case, the Clearing House shall cease providing clearing services until an additional notice is given by the Clearing House to MTS, according to which the Clearing House will resume its activity and will continue to provide clearing services, beginning at a time that will be stated in the additional notice.
- b. Without derogating from the provisions of section 18.a. above, the Clearing House has the right to inform the members that – because of any reason whatsoever (of any sort and kind), which shall be specified in the notice – the Clearing House is unable to continue to provide all or some of the clearing services said in this Chapter; in a said case, the Clearing House will cease to provide clearing services, as specified in the said notice until the Clearing House gives an additional notice to the members, according to which the Clearing House will resume its activity and will continue to provide clearing services, beginning at a time that shall be stated in the additional notice.



19. a. 1) The Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may decide on a temporary interruption in the provision of Clearing House services to a member in accordance with this Chapter (hereafter: "temporary interruption"), if he concludes, at his discretion, that there is a suspicion that the member is liable not to meet its obligations or any part thereof or that the member is liable not to pay its debts or any part thereof, or if it was decided to convene the Board of Directors in order to discuss the continued provision of clearing services to the member, as specified in paragraph 19.c. below.

In such an instance, the Manager of the Clearing House shall, as far as possible, refrain from deciding on a temporary interruption in the provision of clearing services before the member is given an opportunity to present its arguments to him. However, if the Manager of the Clearing House believes, in his judgment, that the decision should not be delayed, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may decide on said temporary interruption, even before giving the member an opportunity to present its arguments to him, on condition that the member be given an opportunity to present its arguments after the decision has been made.

- 2) Notwithstanding the aforesaid, if the member did not meet its monetary obligations that stem from the clearing orders and the clearing acts performed in the Clearing House, as specified in Chapter Six of Part Two of the By-Laws, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order an immediate temporary interruption in the provision of Clearing House services to the member.

In such an instance, the member shall be given an opportunity to present its arguments after the decision was adopted.

- 3) The Manager of the Clearing House shall inform the Governor of the Bank of Israel of his intention to take a decision to interrupt temporarily the provision of Clearing House services to a member that is a bank and he shall give the Bank of Israel an opportunity to express its opinion on this matter.

However, if the Manager of the Clearing House is of the opinion that taking the decision to interrupt temporarily the provision of Clearing House services to a member should not be delayed, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may decide on said temporary interruption, even before giving the Bank of Israel an opportunity to express its opinion, provided that the Bank of Israel is given the opportunity to express its opinion after the decision has been taken.

- b. If it has been decided to temporarily interrupt the provision of clearing services to a member, as specified in Chapter Three "B" of Part One of the By-Laws, the provision of clearing services to the member shall be interrupted temporarily also in accordance with this Chapter.

- c.
  - 1) When it has been decided to temporarily interrupt the provision of clearing services to a member, in accordance with this Chapter, the Manager of the Clearing House shall, without delay, give notice thereof to MTS, stating the precise time when the notice was given to MTS (hereafter in this paragraph: "time of the notice to MTS"). Furthermore, the Manager of the Clearing House shall give notice of his decision to the Chairman of the Board of Directors, who will act to convene the Board of Directors as soon as possible, in order to discuss the continued provision of clearing services to the member, in accordance with this Chapter.
  - 2) With effect from the time of the notice to MTS, every notice that shall be received by the Clearing House about a Repo transaction carried out on the MTS system by the member or about a Repo transaction carried out on the MTS system by Repo participants with whom the member made a clearing agreement shall be deemed notices that are not proper; accordingly the Clearing House shall reject the said notices, shall not become party to the contracts and shall not clear the Repo transaction, particulars of which were included in the notices that were rejected as aforesaid.
  - 3) It is hereby clarified that the aforesaid does not derogate from the undertakings of MTS under the MTS contract to cancel and disconnect access to trading on the MTS system for the member and for the Repo participants referred to in paragraph 19.c.2) above, and also to cancel all the Repo transactions carried out by any of them, with effect from the time of the notice to MTS.
- d. If, during the period in which the temporary interruption is in effect, the member proves to the Manager of the Clearing House's satisfaction that the grounds for deciding on the temporary interruption in the provision of clearing services have been removed, the Manager of the Clearing House, in consultation with the CEO of TASE and the chief risk manager, may order that the provision of clearing services be resumed, and in such an instance the Manager of the Clearing House shall so inform MTS.
- e. If the member did not prove to the Manager of the Clearing House's satisfaction that the grounds for deciding on the temporary interruption have been removed, the Board of Directors shall convene and discuss the continued provision of clearing services to the member.
- f.
  - 1) If the Board of Directors decided that there is a suspicion that the member is liable not to meet its obligations or any part thereof, or that the member is liable not to pay any of its debts or any part thereof, or if one or more of the other events specified in paragraph 2.1.2 of Chapter Three "B" in Part One of the By-Laws occurred (the aforesaid suspicion, as well as any of the aforesaid events shall hereafter be called an "event that arouses suspicion of insolvency"), then the Board of Directors may decide to interrupt the provision of clearing services to the member in accordance with this Chapter, and it may restrict the said interruption of services to a period that it shall set.

- 2) The Board of Directors may decide to continue the provision of clearing services to the member, either in full or only in part, and it may restrict the said provision of services by conditions and restrictions, as it finds appropriate at its discretion.
- 3) The Board of Directors shall decide to stop the provision of clearing services to a member in accordance with this Chapter, or to continue the partial provision of clearing services to the member only by a 75% majority of those present at the Board of Directors meeting that discusses the matter, and only after it has given the member an appropriate opportunity to appear before the Board of Directors or to present its stand in writing. If the Board of Directors holds that making the decision must not be postponed, then the Board of Directors may decide as aforesaid even before the member was given an opportunity to bring its arguments before the Board of Directors, as aforesaid, provided the member will be given an opportunity to present its arguments in writing after the decision was adopted.
- 4) The chairman of the Board of Directors shall inform the Governor of the Bank of Israel of the intention of the Board of Directors to discuss an interruption in the provision of Clearing House services to a member and he shall give the Bank of Israel an opportunity to express its opinion on this subject.

However, if the Board of Directors is of the opinion that adopting the decision to interrupt the provision of Clearing House services to the member must not be delayed, the Board of Directors may decide on the said interruption even before the Bank of Israel was given an opportunity to express its opinion, provided that the Bank of Israel is given the opportunity to express its opinion after the decision has been adopted

- 5) If, in accordance with this Chapter, it was decided to stop the provision of clearing services to a member, or if it was decided to provide clearing services to a member only partially, then the member and all persons who act on its behalf shall take all necessary steps to prevent, as far as possible, harm to the member's clients, including – but without derogating from the generality of the aforesaid – to the Repo participants that signed clearing agreements with the member, to other Clearing House members and to the Clearing House.
- 6) If in accordance with this Chapter the Board of Directors decided to stop the provision of clearing services to the member, or to provide clearing services to the member only partially, then notice shall be given to MTS.

If no decision for a temporary interruption was made, as said in section 19.a. above, before the decision of the Board of Directors to stop the provision of clearing services to the member, or to provide clearing services to the member only partially, as aforesaid, then the provisions of paragraphs 19.c.1) to 3) above shall apply, mutatis mutandis, to the matter of giving notice to MTS and its consequences.

- g. A member shall continue to be liable for all its debts in respect of clearing

services, in accordance with this Chapter, even if it was decided to stop the provision of clearing services to it, whether temporarily or permanently, and also if it was decided to provide only partial clearing services to it.

20.
  - a. The Clearing House may, from time to time, transmit to MTS information and particulars in its possession about all matters connected to a member or to a Repo participant, and to the Repo transactions contracted on the MTS system.
  - b. Without derogating from the generality of the aforesaid, the following is hereby made clear:
    - 1) if the Clearing House believes that an event that arouses suspicion of a member's insolvency occurred, or that a said event is liable to occur, then the Clearing House shall give notice thereof to MTS without any delay;
    - 2) if the MTS believes that an event that arouses suspicion of a member's insolvency occurred, or that a said event is liable to occur, or that a similar event occurred in respect of a Repo participant or that a said similar event is liable to occur, then MTS shall give notice thereof to the Clearing House without any delay.
  - c. If MTS pending a member or a Repo participant from trading on the MTS system, then it shall so inform the Clearing House without delay, and it shall not cancel the suspension without obtaining the consent of the Clearing House thereto.
  - d. The Clearing House may cooperate with the various authorities in Israel or abroad and give them information and particulars, as will be necessary, on all matters connected to a member or to a Repo participant and to the Repo transactions contracted on the MTS system.
21. The Clearing House and MTS may terminate the MTS contract, on the terms and at the times prescribed in the MTS contract.

If either of the parties to the MTS contract decides to terminate the contract, then the Clearing House shall so inform the members and stop the provision of clearing services for transactions carried out on the MTS system under a schedule that will be prescribed by the Board of Directors for this purpose.

22.
  - a. The Clearing House and the Stock Exchange, as well as the persons who act on their behalf – that is their officers, managers and the persons employed by them (all these hereafter to be known as "persons who act on behalf of the Clearing House") – shall be exempt and shall bear no responsibility or liability whatsoever for any loss, damage, expenditure or deficit of any type or kind whatsoever (hereafter in this section: "damage") that are liable to be caused to any person or entity whatsoever, including – but without derogating from the generality of the aforesaid – to members or to a Repo participants, because of any act, activity or omission of any kind whatsoever (unless performed with malice) of the Clearing House, of the Stock Exchange or of persons who act on behalf of the Clearing House on every matter connected to this Chapter or to the provision of clearing services for Repo transactions carried out on the MTS system.
  - b. Without derogating from the generality of the aforesaid, the Clearing House and the Stock Exchange, as well as the persons who act on behalf of the Clearing

House, shall be exempt and shall bear no responsibility or liability whatsoever for any loss, damage, expenditure or deficit of any type or kind whatsoever (hereafter in this section: "damage") that are liable to be caused to any person or entity whatsoever, including – but without derogating from the generality of the aforesaid – to a member or to a Repo participant, because of any act, activity or omission of any kind whatsoever of MTS or of any person on its behalf, all whether or not they are connected to any act performed by the Clearing House.

23. Without derogating from the provisions of section 22 above, let it be stated clearly that – for the clearing of the Repo transactions contracted on the MTS system – the Clearing House depends only on the proper notices that it receives from MTS.

The Clearing House will not clear Repo transactions contracted on the MTS system, if it did not receive a proper notice in their respect, and the Clearing House also is not responsible for the content of the proper notices or for any fault, mistake or shortcoming in them due to any reason whatsoever.

MTS alone bears the full responsibility for the content of the proper notices and for the correctness and completeness of the information in them.

24. a. It is hereby clearly stated that Israel Law applies to the MTS contract and its implementation, and that the competent Courts in Israel have sole jurisdiction to hear any matter connected to it.
- b. Israel Law (and it alone) shall apply to all matters connected to the provision of clearing services by the Clearing House, including – but without derogating from the generality of the aforesaid – all matters connected to the By-Laws, to the contracts between the Clearing House and its members, as specified in section 13 above, to every clearing agreement between a member and a Repo participant and to every undertaking of a Repo participant toward the Clearing House.
- c. The Courts in Israel shall have sole jurisdiction on any matter connected to any controversy in connection with the provision of clearing services by the Clearing House, including – but without derogating from the generality of the aforesaid – all matters connected to the By-Laws, to the contracts between the Clearing House and its members, as specified in section 13 above, to every clearing agreement between a member and a Repo participant and to every undertaking of a Repo participant toward the Clearing House.
25. The fees for the clearing services that will be provided as specified in this Chapter shall be in accordance with the tariff, which is attached to the Regulations under Part Six of the Rules.

## **CHAPTER NINETEEN "B" – COLLATERAL FOR REPO TRANSACTIONS**

### 1. **General**

Members shall give the Clearing House collateral for Repo transactions and charge it to its benefit, all as specified in this Chapter and in Chapter Three "A" in Part One of the By-Laws.

The collateral that will be given to the Clearing House as specified in this Chapter shall be given and charged as a pledge for fulfilling the member's obligations toward the Clearing House for Repo transactions, as specified in this Chapter and in the above Chapter Three "A" in Part One of the By-Laws (hereafter: "the member's obligations for Repo transactions") and also as pledge for fulfilling the member's other obligations toward the Clearing House.

### 2. **How the initial collateral (hereafter: initial margin) is calculated**

#### a. **How the initial margin is calculated for Repo transactions in each of the client accounts of a member**

On each business day the Clearing House shall calculate the amount of initial margin required for all the open Repo transactions in each of the clients' accounts of the member, by the following formula:

$$IM = \sum_{i=1}^n |SG_i - SL_i| \times P_i \times (1 - HCB_i) + |CV| \times HCM$$

For this purpose –

- IM – the amount of initial margin, in NIS terms, required for the clients' account of the member for which the calculation is being made, correct as of the day of the calculation.
- n – the number of series of Repo securities, in which there are open transactions in the clients' account of the member for which the calculation is being made.
- SG<sub>i</sub> – the total nominal value of the Repo securities of series i in all the open Repo transactions in which the member is the transferor, in the clients' account of the member for which the calculation is being made.
- SL<sub>i</sub> – the total nominal value of the Repo securities of series i in all the open Repo transactions in which the member is the transferee, in the clients' account of the member for which the calculation is being made.
- HCB<sub>i</sub> – the percentage of the market value of the Repo securities of series i, that is taken into account for calculating the extent to which the requirement for collateral is being met, as specified in the above Chapter Three "A" in Part One of the By-Laws.
- HCM – 3% or some other percentage, as shall be determined by the Chief Executive Officer of the Clearing House with approval by Chief Executive Officer of TASE; notice of the said decision and of the date

on which it shall go into effect shall be given to the members

- $P_i$  – the last closing price, in agorot, of a Repo security of series  $i$ , as is known at the time of the calculation
- $CV$  – the consideration, in NIS, that will be transferred when the second leg is carried out, in all the open Repo transactions in which the member is the transferor, in the clients' account of the member for which the calculation is being made, less the consideration, in NIS, that will be transferred when the second leg is carried out, in all the open Repo transactions in which the member is the transferee in the said account.

b. **How the initial margin is calculated for the open Repo transactions in a member's nostro account**

The amount of initial margin required of a member for all the open Repo transactions in its nostro account shall be calculated in the manner prescribed in section 2.a. above, mutatis mutandis as the case may be.

3. **How the collateral for the payment of interest on Repo securities is calculated**

a. **How the collateral for the payment of interest on Repo securities in each of the clients' accounts of a member is calculated**

The amount of collateral required for all the open Repo transactions in each clients' accounts of a member, in the period from the record date for interest payment on the Repo security (the cum date) up to and including the payment day on which interest is paid (hereafter: "interest payment day") shall be calculated by the following formula:

$$CM = \sum_{i=1}^n \text{Max}((QL_i - QG_i), 0) \times C_i$$

For this purpose –

- $n$  – the number of series of Repo securities, in which there are open transactions in the client account of the member for which the calculation is being made, for which the cum date is on the day of the calculation or for which the cum date has passed and the interest payment day has not yet come or for which the interest payment day is the day of the calculation
- $CM$  – the amount of required collateral, in NIS terms, for the interest that will be paid to the transferee in the client account of the member for which the calculation is being made, correct as of the day of the calculation
- $QL_i$  – the total nominal value of the Repo securities of series  $i$  in all the open Repo transactions in which the member is the transferee, in the clients' account of the member for which the calculation is being made
- $QG_i$  – the total nominal value of the Repo securities of series  $i$  in all the open Repo transactions in which the member is the transferor, in the clients' account of the member for which the calculation is being made

Ci – the amount of interest, in agorot, that will be paid for NIS 1 nominal value of Repo securities of the series i on the interest payment day.

b. **How the collateral for the payment of interest on Repo securities in a member's nostro account is calculated**

The amount of collateral required of a member for interest payments on Repo securities in its nostro account shall be calculated in the manner prescribed in section 3.a. above, mutatis mutandis as the case may be.

4. **The total amount of collateral that a member must deposit with the Clearing House for all of its clients' accounts and for its nostro account**

The total amount of collateral required of a member, as specified in this Chapter, is the sum of the collateral required of the member for each of its client accounts, under paragraphs 2.a. and 3.a. above, plus the amount of collateral required of the member for its nostro account under paragraphs 2.b. and 3.b. above (hereafter "total amount of collateral").

5. **Supplementing collateral for the Clearing House**

- a. The Clearing House shall calculate the total amount of collateral required of each member after the conclusion of trading on the Stock Exchange on each business day, and after the first multilateral clearing window on business days on which there is no trading on the Stock Exchange.
- b. If the total amount of collateral for the member's open Repo transactions is greater (calculated as said in section 2.1 of the above Chapter Three "A" in Part One of the By-Laws) than the amount of collateral deposited in the collateral accounts (as defined in Chapter Three "A" in Part One of the By-Laws), then the member shall deposit additional collateral in the collateral accounts in the amount of the differential. Members shall deposit the aforesaid additional collateral until 9:30 AM of the first business day after the day on which the calculation was made as said above in section 5.a.

For this purpose the collateral deposited in the collateral accounts as aforesaid shall first be credited to the account of the collateral that a member must provide for Repo transactions and after that on account of the collateral that he must provide for the Risk Fund.

6. **Categories of assets fit to be collateral to the benefit of the Clearing House and the calculation of their value**

The assets that will serve as collateral for the benefit of the Clearing House and the calculation of their value shall be as is specified in Chapter Three "A" in Part One of the By-Laws.

7. **Realizing collateral**

Without derogating from any right whatsoever that the Clearing House has under the By-Laws, under any agreement and under any statute, collateral shall be realized in accordance with the provisions of Chapter Three "B" in Part One of the By-Laws.



## **CHAPTER NINETEEN "C" – TRANSFER TO HEDGE EXPOSURE**

### 1. **General**

The Clearing House shall carry out transfers to hedge exposure, within their meaning in the Financial Assets Agreements Law 5766-2006, for the open Repo transactions of each member, as specified below in this Chapter

### 2. **Debiting and crediting members in order to hedge exposure**

#### a. **Debiting and crediting members in order to hedge the extent of their exposure for the open Repo transactions in each of their clients' accounts**

On each business day the Clearing House shall calculate, by use of the formula below, the amount that will be debited or credited to a member in order to hedge the extent of exposure in the client accounts of the member for which the calculation is being made (hereafter "the amount required in order to hedge the extent of exposure"). The aforesaid calculation shall be made on each business day after the conclusion of trading on the Stock Exchange, and on business days on which there is no trading on the Stock Exchange after the first multilateral clearing window:

$$MTM = VM_t - VM_{t-1}$$

For this purpose –

- MTM – the amount in NIS that will be debited or credited to the member, in order to hedge the extent of exposure
- VM<sub>t</sub> – the NIS amount required in order to hedge the extent of the member's exposure in the clients' account of the member for which the calculation is being made, correct as of the day of the calculation
- VM<sub>t-1</sub> – the NIS amount required in order to hedge the extent of the member's exposure in the clients' account of the member for which the calculation is being made, correct as of the day on which the calculation was last made before the day of calculation (hereafter: "the previous day of calculation").

For this purpose, VM shall be calculated by the following formula:

$$VM = \sum_{i=1}^n (SG_i - SL_i) \times P_i + \sum_{j=1}^m \left[ CG_j \times \left( 1 + \frac{R_j \times T_j}{act_j} \right) \right] - \sum_{k=1}^q \left[ CL_k \times \left( 1 + \frac{R_k \times T_k}{act_k} \right) \right]$$

For this purpose –

- VM – the NIS amount required in order to hedge the extent of exposure in the clients' account of the member for which the calculation is being made, correct as of the day of the calculation
- n – the number of series of Repo securities, in which there are open transactions in the clients' account of the member for which the calculation is being made

- $SL_i$  – the total nominal value of Repo securities of series  $i$  in all the open Repo transactions in which the member is the transferee in the clients' account of the member for which the calculation is being made
- $SG_i$  – the total nominal value of Repo securities of series  $i$  in all the open Repo transactions in which the member is the transferor in the clients' account of the member for which the calculation is being made
- $P_i$  – the last closing price on the Stock Exchange, in agorot, of a Repo security of series  $i$  that is known when the calculation is being made
- $CG_j$  – the consideration, in NIS, that was transferred when the first leg of the open Repo transaction  $j$  was carried out in which the member is the transferee, in the client account of the member for which the calculation is being made
- $CL_k$  – the consideration, in NIS, that was transferred when the first leg of the open Repo transaction  $k$  was carried out in which the member is the transferor, in the client account of the member for which the calculation is being made
- $R_j$  – the interest rate set in the terms of the open Repo transaction  $j$  in which the member is the transferee, precise to three decimal points
- $T_j$  – the number of days from the day on which the first leg was carried out of the open Repo transaction  $j$  in which the member is the transferee, until the day of the calculation
- $R_k$  – the interest rate set in the terms of the open Repo transaction  $k$  in which the member is the transferor, precise to three decimal points
- $T_k$  – the number of days from the day on which the first leg of the open Repo transaction  $k$  in which the member is the transferor was carried out, until the day of the calculation
- $m$  – the number of open Repo transactions in which the member is the transferee, in the clients' account of the member for which the calculation is being made
- $q$  – the number of open Repo transactions in which the member is the transferor, in the clients' account of the member for which the calculation is being made
- $act_j$  – the number of days between the date on which Repo transaction  $j$  was carried out and the same date in the following year, less one day, or between some other date, as will be decided for this purpose from time to time by MTS
- $act_k$  – the number of days between the date on which Repo transaction  $k$  was carried out and the same date in the following year, less one day, or between some other date, as will be decided for this purpose from time to time by MTS.

Members will be credited or debited by the Clearing House in the amount required in order to hedge the extent of exposure in accordance with the above

calculation in the first multilateral clearing window on the first business day after the day on which the calculation was made.

However, on Fridays and on the eves of holidays members will be credited or debited by the Clearing House in the amount required in order to hedge the extent of exposure in accordance with the above calculation in the second multilateral clearing window on the day on which the calculation was made and not on the first business day after the day on which the calculation was made.

b. **Debiting or crediting members for daily interest in respect of the amount required to hedge the extent of exposure in each of the members' clients' accounts**

On each business day the Clearing House shall calculate the daily interest to which members are entitled or which they must pay in respect of the amount required to hedge the extent of exposure, as was calculated on the preceding day of calculation, in each of the members' clients' accounts, and that by the following formula:

$$DIT = VM_{t-1} \times \frac{r \times t}{act}$$

For this purpose –

- DIT – the daily interest, in NIS, debited against or credited to the member in respect of the amount required to hedge the extent of exposure in the clients' account of the member, in respect of which the calculation is being made
- VM<sub>t-1</sub> – the NIS amount required in order to hedge the extent of the member's exposure in the clients' account of the member, in respect of which the calculation is being made, correct as of the preceding day of calculation
- t – the number of days that passed since the preceding day of calculation by use of this formula until the day of calculation
- r – daily interest at the daily interest rate, as will be determined from time to time by the Bank of Israel
- act – the number of days between the date on which the calculation is being made and the same date in the following year, less one day.

The aforesaid calculation shall be made on each business day, after the conclusion of trading on the Stock Exchange, and on business days on which there is no trading on the Stock Exchange after the first multilateral clearing window.

The Clearing House shall credit or debit members as aforesaid in the first multilateral clearing window on the first business day after the day on which the calculation was made.

c. **Debiting or crediting a member in order to hedge the extent of exposure in respect of open Repo transactions in the members' nostro account**

Members will be credited or debited by the Clearing House by the amount

required in order to hedge the extent of exposure in respect of open Repo transactions in the members' nostro account in accordance with the provisions of this Chapter, in the manner specified in section 2.a. above, mutatis mutandis as the case may be.

d. **Debiting or crediting members for daily interest in respect of the amount required to hedge the extent of exposure in the members' nostro accounts**

The Clearing House shall debit or credit a member for the daily interest to which the members are entitled or which they must pay in respect of the amount required to hedge the extent of exposure in the members' nostro account in the manner specified in the above section 2.b., mutatis mutandis, as the case may be.

## **CHAPTER NINETEEN "D" – EARLY TERMINATION OF REPO TRANSACTIONS**

### **1. Master Agreement**

1.1 All the provisions in the By-Laws that apply to Repo transactions, including the provisions below in this Chapter Nineteen "D", constitute a master agreement between the Clearing House and each Clearing House member, which regulates all the Repo transactions between the Clearing House and each member, whether those transactions were performed for that member (nostro) or for its clients, and that includes:

- (a) NCHMs for whose transactions and clients the member is responsible; and also
- (b) Repo participants for whose transactions the member is responsible and the clients of such Repo participants;

(all the above transactions shall hereafter be called "Repo transactions to which the member is a party")

1.2 In order to remove all doubts, the following is here clearly stated:

1.2.1 all the provisions in the By-Laws that apply to Repo transactions constitute a separate master agreement between the Clearing House and each member, which regulates all the Repo transactions to which the member is a party, including – inter alia – provisions for early termination and also provisions on hedging exposure, within the meaning thereof in the Agreements about Financial Assets Law;140 - C

1.2.2 every member is deemed to have agreed to all provisions of the framework agreement by virtue of its membership in the Clearing House and as long as it is a member thereof, without any need for any additional act to be performed.

For this purpose:

"master agreement" – within the meaning of that term in the Financial Assets Agreements Law;

"Financial Assets Agreements Law" – Financial Assets Agreements Law 5766-2006

### **2. Decision by the Board of Directors on the early termination of all the Repo transactions to which a member is party**

2.1 2.1.1 a) Without derogating from any right of the Clearing House under the By-Laws or under any statute, when one or more of the events specified below occurs in respect of any member whatsoever, then the Board of Directors of the Clearing House shall have the right (but not an obligation), to decide at its discretion on the early termination of all the Repo transactions to which the member is a party, all at the discretion of the Board of Directors (hereafter, in this Chapter: "early

termination")

- b) The chairman of the Board of Directors shall inform the Governor of the Bank of Israel of the intention of the Board of Directors to discuss an aforesaid early termination and he shall give the Bank of Israel an opportunity to express its opinion on this subject.

However, if the Board of Directors is of the opinion that adopting the decision must not be delayed, the Board of Directors may decide on an early termination even before the Bank of Israel was given an opportunity to express its opinion, provided that the Bank of Israel is given the opportunity to express its opinion after the decision has been adopted.

And these are the events:

- a. if the member does not pay the Clearing House any amount due from it on the date set for its payment, including – but without derogating from the generality of the aforesaid – any amount the immediate payment of which was called, or if the member violates any obligation toward the Clearing House, either under the By-Laws or under any undertaking by the member toward the Clearing House, or under any statute, including an obligation that is not monetary;
- b. if, in the opinion of the Board of Directors of the Clearing House there is any suspicion that the member is liable not to meet its obligations or any part thereof or is liable not to pay its debts or any part thereof;
- c. if the member's membership in the Clearing House was interrupted, pending or canceled or if it is decided to interrupt temporarily the provision of clearing services to the member or if there are any grounds on which it is possible to interrupt, suspend or cancel its said membership or to interrupt temporarily the provision of clearing services to the member;
- d. if an authorized manager or a special supervisor was appointed for the member, or if the Controller of Banks takes other steps whatsoever against the member under paragraphs 8C or 8D of the Banking Ordinance 1941 or under any other statute that will take their place;
- e. if a petition was brought against the member for its liquidation or for the appointment of a temporary pre-liquidator, a temporary liquidator, a receiver or a temporary receiver, or if a petition was brought against the member to initiate rehabilitation procedures or for a freeze of proceedings, or if the member decides on its voluntary liquidation;
- f. if an attachment is placed on the collateral deposited in the collateral accounts or on any part thereof, or on any substantial

asset of the member, or if a receiver is appointed to realize any part thereof or if any execution proceeding is carried out in connection with any of the said assets.

- 2.1.2 In addition to the provision of section 2.1.1 above, the Board of Directors of the Clearing House shall have the right (but not an obligation) to decide – at its discretion – on the early termination of all the Repo transactions to which the member that holds a "foreign bank license" under the Banking (Licensing) Law 5741-1981 is a party, also when one or more of the events specified below occur:
- a. if the member violated any of its undertakings or declarations under the Schedule to the fixed charges agreement, as formulated in the attached Appendix Two "E";
  - b. if any supervisory agency, in the state in which the member is incorporated or in any other state, takes any steps against the member, such as indicate that there is a suspicion that the member did not comply with the provisions of any statute, or that there is a suspicion that the member's ability to meet its obligations or the orderly conduct of its business have been impaired.
- 2.2 2.2.1 The Clearing House shall give the member one day's advance notice of the early termination.
- 2.2.2 Notwithstanding the provisions of section 2.2.1 above, if the Clearing House is of the opinion that – taking the circumstances of the case into account – the early termination should be carried out immediately, also – but without derogating from the generality of the aforesaid – if in the opinion of the Clearing House there is a suspicion that the Clearing House will not be able to meet its obligations or any part thereof,
- or that the ability of the Clearing House to collect amounts due to it will deteriorate, or if there are other conditions that – in the opinion of the Clearing House – require the early termination of the Repo transactions to which the member is a party without giving the member advance notice thereof, then the Clearing House shall have the right to bring all the Repo transactions to which the member is a party to an early termination without informing the member thereof in advance, on condition that the member be given notice thereof as soon as possible thereafter.
- 2.3 When the Board of Directors of the Clearing House decided on an early termination, as said above, then the early termination shall take place on the first clearing day after the day on which the Board of Directors adopted the decision on the early termination, as said in section 2.1 above, or on the day on which the Board of Directors adopted the decision on the early termination, if the provisions of section 2.2.2 apply (hereafter: "day of early termination").
- 2.4 Let it be stated clearly that, once the Board of Directors of the Clearing House decided on an early termination, as said in section 2.1 above, then all the acts connected thereto shall be carried out by the Clearing House, including by persons to whom powers were delegated (thereafter: "the delegates"), as specified in

section 6 below, all in amounts, on conditions, in a manner and in the order that will be determined by the Clearing House or the delegates, as the case may be, at their discretion (all the acts that will be performed in connection with the early termination and any part thereof shall hereafter in this Chapter be called "the acts").

3. **Calculation of the value of the obligations and rights of the member in violation and of the Clearing House**

3.1 When the Board of Directors has decided on the early termination of all the Repo transactions to which a member is part (hereafter: "the member in violation"), as said in section 2.1 above, then the Clearing House shall calculate the value of the obligations and rights of the member in violation and of the Clearing House in respect of all the Repo transactions to which the member in violation is a party, as of the day of the early termination, as specified below:

3.1.1 the day for performance of the second leg of all the Repo transactions to which the member in violation is a party shall be advanced and shall be on the day of the early termination;

3.1.2 the Clearing House shall calculate the following amounts, as of the day of early termination:

- a. (1) the amount of the fair value of all the Repo securities that each party (the member in violation or the Clearing House, as the case may be, hereafter: "party") must transfer to the other party within the framework of all the Repo transactions to which the member in violation is a party; the calculation shall be made as specified in section 3.1.3 below; and
- (2) all the amounts that each party must transfer to the other party within the framework of the Repo transactions to which the member in violation is a party; in the said calculation the interest on the amounts of consideration that must be transferred as part of the second leg shall be calculated up to the day of the early termination.

- b. The Clearing House shall make the calculations as said in section 3.1.2.a. above until the end of the fifth clearing day after the day of the early termination (hereafter: "the fifth clearing day");

Notwithstanding the aforesaid, if the Clearing House decided that the fair value of the Repo securities be set according to the market value of the Repo securities, as said in section 3.1.3.c(2) below, then the Clearing House shall make the calculations as said in section 3.1.2.a. above as soon as possible after the fifth clearing day.

The day on which the calculations are made by the Clearing House shall hereafter be called the "day of calculation").

3.1.3 In order to calculate the fair value of the Repo securities, as said in section 3.1.2 above, the Clearing House may act in one or more of the ways said in section 3.1.3.a., b. or c. below, at its discretion:



- a. between the day of early termination and the fifth clearing day the Clearing House may sell Repo securities of the kind that the Clearing House must transfer to the member in violation, or buy Repo securities of the kind that the member in violation must transfer to the Clearing House, and determine as follows:
- (1) that the total fair value of the Repo securities that the Clearing House must transfer to the member in violation be determined according to the amount of net consideration that the Clearing House will receive for the Repo securities that the Clearing House sold as aforesaid, after deduction of all the payments, expenses, commissions and other costs connected to the said sale (all the aforesaid amounts shall hereafter be called "expenses");
  - (2) that the fair value of the Repo securities that the member in violation must transfer to the Clearing House be determined according to the amount of net consideration that the Clearing House will pay for the Repo securities that the Clearing House bought as aforesaid, with the addition of the expenses connected to the said purchase.

It is hereby made clear that the above sale or purchase of Repo securities may be carried out by the Clearing House in the course of trading on the Stock Exchange, on the MTS system or in some other similar framework, as part of off-Exchange transactions, in transactions between the Clearing House and the Bank of Israel, or in any other commonly accepted manner.

- b. Between the day of early termination and the fifth clearing day the Clearing House may receive price proposals (quotations) from two or more Stock Exchange members, Repo participants or securities dealers in an appropriate regulated market for the sale of Repo securities of the kind that the Clearing House must transfer to the member in violation, or for the purchase of the Repo securities of the kind that the member in violation must transfer to the Clearing House, and also to receive particulars about the expenses connected to the said transactions, and to determine as follows:
- (1) that the total fair value of Repo securities of the kind that the Clearing House must transfer to the member in violation shall be determined by the price set in the price proposals that the Clearing House received for the sale of the Repo securities, as aforesaid (and if the price proposals included different prices, then the price shall be set according to the average of the said prices), less the expenses connected to the said sale;
  - (2) that the total fair value of the Repo securities of the kind that the member in violation must transfer to the Clearing House shall be determined by the price set in the price proposals that the

Clearing House received for the purchase of the said Repo securities, as aforesaid (and if the price proposals included different prices, then the price shall be set according to the average of the said prices), plus the expenses connected to the said sale.

In this Chapter Nineteen "D" – "**organized market**" – within its meaning in section 1 of the Securities Law 5728-1968.

- c. (1) Between the day of early termination and the fifth clearing day the Clearing House may determine that the fair value of the Repo securities that the Clearing House must transfer to the member in violation or of the Repo securities that the member in violation must transfer to the Clearing House shall be determined according to the market value of the said Repo securities;
- (2) Notwithstanding the aforesaid, if – because of the circumstances that affect the market – the Clearing House is not able to set the fair value of the Repo securities until the fifth clearing day in some reasonable commercial manner, then the Clearing House may set the fair value of the Repo securities as said in section 3.1.3.c.(1) above as soon as possible after the fifth clearing day;

for this purpose: "market value" – means an amount that, in the opinion of the Clearing House, reasonably represents the fair value of the Repo securities, based on sources and methods for the determination of prices (which inter alia include, but without derogating from the generality of the aforesaid, prices of Repo securities or prices for Repo securities for similar periods and with similar conditions), all as will be deemed correct and appropriate by the Clearing House, less all the expenses connected to the sale of the Repo securities, in respect of the Repo securities that the Clearing House must transfer to the member in violation, and with the addition of all the expenses connected to the purchase of the Repo securities, in respect of the Repo securities that the member in violation must transfer to the Clearing House.

3.1.4 In order to remove all doubt, the following is hereby made clear:

- a. the Clearing House may act according to one or several of the methods specified in section 3.1.3 above, including each of the alternatives included in each of the said methods, and that in respect of some or all of the Repo securities and it may act differently in respect each part of the Repo securities, all at the discretion of the Clearing House;
- b. when the Clearing House has determined the total fair value of the Repo securities, as specified in section 3.1.3 above, then that amount shall be deemed to be the value of the Repo securities for the calculation of the obligations and rights of the member in violation

and of the Clearing House, as said in section 4 below.

- 3.1.5 When the Board of Directors of the Clearing House has decided on an early termination, as said in section 2.1 above, then without derogating from the above provisions of this section 3.1 and in addition thereto, the Clearing House shall have the right to contract transactions of any kind whatsoever with third parties, which shall replace the transactions that were terminated early as aforesaid, or the purpose of which is to hedge the exposure of the Clearing House due to the early termination or any part thereof (hereafter, together: "the substitute transactions") and to debit the member in violation for every liability, loss, damage or expense that will be caused to the Clearing House in connection with the substitute transactions, including all the expenses connected thereto.
- 3.1.6 Without derogating from the aforesaid, the member in violation shall bear all the losses, liabilities, payments, expenses, premiums and commissions that will be connected to the early termination of the Repo transactions to which the member in violation is a party and to its implementation; those amounts shall be added to the total of obligations towards the Clearing House of the member in violation and they shall, for all intents and purposes, be deemed an integral part thereof.
- 3.1.7 The Clearing House shall inform the member in violation of the manner of calculating the obligations and rights of the member in violation and of the Clearing House in respect of all the Repo transactions to which the member in violation is a party, and that as soon as possible after the calculation was made as specified above.
- 3.2. In a case in which the early termination of Repo transactions, as aforesaid, is carried out after the determining date for the valuation of debt claims under any statute (hereafter: "the determining date"), then the value of the parties' obligations and rights, as aforesaid, shall be calculated as of the determining date. In the said instance the member in violation is under obligation to indemnify the Clearing House for every obligation, damage, cost or expense that will be caused to the Clearing House in consequence of the aforesaid.
- 3.3 It is hereby made clear that the division into separate accounts, as specified in Chapter Four in Part Two of the By-Laws, is intended to serve technical and operational needs, and that the said separation shall not derogate from the provisions of this Chapter Nineteen "D", which include – without, however, derogating from the generality of the aforesaid – the provisions on the early termination of all the Repo transaction to which the member is a party, as specified above, or the provisions on the grant of an irrevocable power of attorney and the delegation of powers, as specified below.

#### 4. **Netting**

After the value of the obligations and rights of the member in violation and of the Clearing House has been determined as specified above, the value of the obligations and rights of one party (the member in violation or the Clearing House, as the case may be) toward the other party (the Clearing House or the member in violation, as the case may

be) in respect of all the Repo transactions to which the member in violation is a party, shall be the value of its obligations or rights less the obligations or rights of the other party toward it.

The payment of the all the amounts that one party (the member in violation or the Clearing House, as the case may be) will owe to the other party shall be due immediately and without any delay, after the set-off specified above has been carried out.

## 5. **Irrevocable Power of Attorney**

5.1 5.1.1 Without derogating from the above provisions of this Chapter Nineteen "D" and from the rights of the Clearing House thereunder, each of the members hereby grants the Clearing House an authorization and irrevocable power of attorney to carry out the early termination and to debit the monetary account, as specified in the above Chapter One;

5.1.2 the above authorization and power of attorney are irrevocable, since the rights of the Clearing House depend on them, and they shall continue to be in effect for all intents and purposes and shall not be canceled even by a denial of the member's competence or by a receivership of its assets or by its liquidation.

5.2 It is hereby made clear that the above provisions of this Chapter Nineteen "D" do not obligate the Clearing House to act under the above authorization and power of attorney and do not derogate from any right that the Clearing House has under the By-Laws or under any statute, and that the Clearing House shall have the right to refrain from acting under the above authorization and power of attorney or to act in any other manner, as it will deem appropriate, including – but without derogating from the generality of the aforesaid – the Clearing House shall have the right to realize collateral given to it under the By-Laws, all at the discretion of the Clearing House.

## 6. **Delegating powers**

6.1 The Clearing House shall have the right (but not an obligation) to delegate any of its powers under this Chapter to any member or to any committee composed – inter alia – of representatives of members, of experts or consultants or of any third party, and it also may employ consultants or experts or any third parties whatsoever and authorize them to perform the acts or any part thereof, all at the discretion of the Clearing House, in any way necessary in order to implement its responsibilities under this Chapter Nineteen "D".

In order to remove doubt, it is hereby clearly stated that the Board of Directors of the Clearing House does not have the right to delegate its powers that are specified in the opening passage of section 2.11, in section 2.1.1.b. and in the opening passage of section 2.1.2 above.

## 7. **Release from liability**

The Board of Directors of the Clearing House and also the Clearing House and any person on its behalf (including those to whom powers were delegated as said in the above section 6) shall be exempt of responsibility for any act they performed or any

omission they omitted in good faith within the framework of an early termination of Repo transactions to which the member is a party or of anything connected thereto, as specified above in this section Nineteen "D", including – but without derogating from the generality of the aforesaid – for any act they committed or any omission they omitted, while using their discretion, also on all matters connected to the use of their powers, as specified in the above paragraphs 2, 3 and 6.

**CHAPTER TWENTY – PROVIDING OPERATING SERVICES FOR  
THE MINISTRY OF FINANCE LENDING FACILITY**

1. a. In this Chapter –
  - "**Ministry of Finance**" – the Government of Israel in the name of the State of Israel;
  - "**the lending facility contract**" – the contract signed between the Clearing House and the Ministry of Finance, including all its attachments, as it will be amended from time to time, according to which the Clearing House will operate the lending facility for the Ministry of Finance;
  - "**the lending facility**" – the lending facility created by the Ministry of Finance, for the purpose of lending Government bonds to approved borrowers;
  - "**approved borrower**" – whoever has the right to borrow Government Bonds from the lending facility, in accordance with written notification from the Ministry of Finance, which was received by the Clearing House;
  - "**Government bonds**" – bonds the Government issued under the State Loan Law 5739-1979, which are included in the lending facility and will, under the lending facility contract, be lent to approved borrowers;
- b. Every term in this Chapter shall be interpreted according to its meaning in the lending facility contract, unless the context makes a different interpretation necessary.
2. a. The Clearing House will provide services to the Ministry of Finance in all matters connected to the lending transactions and to the operation of the lending facility (hereafter, together: "operating services"), in accordance with the conditions specified in the lending facility contract, as it will be from time to time, or as will be agreed for this purpose from time to time between the Ministry of Finance and the Clearing House; the lending facility contract is here attached as Appendix Forty-One of the By-Laws.
- b. The operating services shall be provided by the Clearing House during the period of the lending facility contract, as long as that period has not ended and the contract has not been canceled.
3. Without derogating from any other agreement in respect of provisions included in the By-Laws, each member hereby consents to all the provisions included in the lending facility contract (to the extent that his consent is required), including – but without derogating from the generality of the aforesaid – his consent to the provisions in paragraphs 14, 15 and 16 of the lending facility contract.
4. Without derogating from the generality of the provisions of section 3 above, it is hereby emphasized as follows –
  - a. 1) the lending facility contract regulates the relations between the Ministry of Finance and the Clearing House on all matters connected to provision of the operating services by the Clearing House; accordingly no third party whatsoever, including – but without derogating from the generality of the

- aforesaid – any member or approved borrower whatsoever, shall have any right, remedy or grounds for an action against the Clearing House or against any person who acts on behalf of the Clearing House (as defined in subparagraph D below) under the lending facility contract or under any statute on any matter connected to the lending facility contract or to the operating services.
- 2) The Ministry of Finance and the Clearing House may, at any time, cancel or change the lending facility contract or the operating services provided thereunder, including – but without derogating from the generality of the aforesaid – the expansion or contraction of the operating services or their content, without obtaining the consent of any third party whatsoever.
- b.
    - 1) As has been specified above, the operating services shall be provided by the Clearing House to and for the Ministry of Finance, in accordance with the lending facility contract and under its conditions; at the same time, and without derogating from the aforesaid, the fees for the operating services shall be paid by the members directly to the Clearing House, as will be specified for this purpose in a tariff, which constitutes an Appendix to the Regulations under Part Six of the Stock Exchange Rules; the fees shall be collected by the Clearing House, in the manner customary at the Clearing House.
    - 2) A member is responsible toward the Clearing House for the payment of all fees by every approved borrower, for which the member is the clearing member.
  - c. If the Clearing House notifies the Ministry of Finance in writing that – because of reasons that will be specified in the notice and in spite of reasonable efforts made by the Clearing House – it is unable to operate the lending facility in accordance with some or all the provisions specified in the lending facility contract (hereafter in this section: "notice of cessation"), then the Clearing House shall cease to perform the acts specified in the notice of cessation. After the circumstances, which were the basis for the aforesaid cessation of activities by the Clearing House, have passed, the Clearing House shall inform the Ministry of Finance in writing of the date on which the acts it ceased to perform as aforesaid will be resumed (hereafter in this section: "notice of resumption"). The Clearing House shall publish the notice of cessation and the notice of resumption on the Internet site said in section 19.1 of the lending facility contract, immediately after they were delivered to the Ministry of Finance.
  - d. The Clearing House and the Stock Exchange and the persons who act on their behalf – that is their officers, managers and the persons employed by them (all these hereafter: "the persons employed by the Clearing House") shall be exempt and shall bear no responsibility or liability whatsoever for any loss, damage, expenditure or deficit of any type or kind whatsoever that are liable to be caused to any person or entity whatsoever including – but without derogating from the generality of the aforesaid – to any member or approved borrower whatsoever, in any connection with activity connected to the lending facility contract (also in consequence of compliance or lack of compliance with provisions of the said

contract), including – but without derogating from the generality of the aforesaid – all matters connected to lending transactions or the operation of the lending facility.

5. The provisions of this Chapter shall not derogate from the other provisions, including definitions that are included in the By-Laws, as far as they do not contradict the provisions of this Chapter.



**CHAPTER TWENTY-ONE – CLEARING DUAL GOVERNMENT**  
**BONDS- REPEALED**

**CHAPTER TWENTY-TWO- PROVIDING OPERATING SERVICES**  
**FOR THE COLLATERAL SYSTEM OF THE BANK OF ISRAEL**

1. a. In this Chapter –  
"collateral system contract" – the contract signed between the Clearing House and the Bank of Israel, with all its attachments, as it will be amended from time to time, according to which the Clearing House will operate the collateral system for the Bank of Israel;  
"collateral system" – a system for the management of collateral, set up and operated by the Clearing House for the Bank of Israel in accordance with the collateral system contract.
- b. Every other term in this Chapter shall be interpreted within its meaning in the collateral system contract, unless the context makes another interpretation necessary.
2. a. The Clearing House shall provide services for the Bank of Israel on all matters connected to the operation of the collateral system (hereafter: "operating services") in accordance with the conditions specified in the collateral system contract, as they will be from time to time, or as will from time to time be agreed between the Bank of Israel and the Clearing House on this subject. The collateral system contract is here attached as Appendix Forty-two of the By-Laws.
- b. The operating services shall be provided by the Clearing House during the period of the collateral system contract and as long as that period has not ended and the contract has not been cancelled.
3. Without derogating from any other agreement on the provisions included in the By-Laws, each member hereby agrees (as far as its agreement is required) to all the provisions included in the collateral system contract, and that includes – but does not derogate from the generality of the aforesaid – that it hereby agrees to all the provisions included in paragraphs 9 and 12 of the collateral system contract.
4. Without derogating from the generality of the provisions of section 3 above, the following is hereby emphasized:
  - a. 1) the collateral system contract regulates the relations between the Bank of Israel and the Clearing House on all matters connected to the provision of operating services by the Clearing House; accordingly, no third party whatsoever, including – but without derogating from the generality of the aforesaid – any member or participant whatsoever, shall not have any right, remedy of grounds for action against the Clearing House or against any person who acts on behalf of the Clearing House (as defined in subparagraph d. below), under the collateral system contract or under any statute, on any matter connected to the collateral system contract or to the operating services.
  - 2) The Bank of Israel and the Clearing House may at any time cancel or change the collateral system contract or the operating services provided under it, including – but without derogating from the generality of the

- aforesaid – the expansion or contraction of the scope of the operating services or of their content, without obtaining the consent of any third party whatsoever.
- b.
    - 1) As specified above, the operating services will be provided by the Clearing House to and for the Bank of Israel, in accordance with the collateral system contract and under its conditions. At the same time, and without derogating from the aforesaid, the fees for the operating services shall be paid by the members directly to the Clearing House, as shall be specified for this purpose in the price list that constitutes an appendix to the Regulations under Part Six of the Stock Exchange Rules; the fees shall be collected by the Clearing House in the manner that is common practice with the Clearing House.
    - 2) Members are responsible toward the Clearing House for the payment of all the fees by each participant, for whom the members act as MPMCs (members who perform monetary clearing).
  - c. If the Clearing House informs the Bank of Israel in writing that – because of circumstances that shall be specified in the notice and in spite of reasonable efforts made by the Clearing House – the Clearing House is not able to operate the collateral system according to all or some of the provisions specified in the collateral system contract (hereafter in this section: "interruption notice"), then the Clearing House shall cease to perform the acts specified in the interruption notice. After the circumstances that were the basis for the aforesaid interruption of acts by the Clearing House have passed, the Clearing House shall inform the Bank of Israel in writing of the date when the acts it ceased to perform as aforesaid shall be resumed (hereafter in this section: "resumption notice"). The Clearing House shall publish the interruption notice and the resumption notice on the Internet site said in section 16.1 of the collateral system contract, immediately after they were delivered to the Bank of Israel.
  - d. The Clearing House and the Stock Exchange, as well as those who act on their behalf – that is their officers, Directors and employees (all these hereafter called "persons who act on behalf of the Clearing House") – shall be exempt of and bear no liability whatsoever for any detriment, damage, expense or loss of any kind whatsoever that is liable to be caused to any person or entity whatsoever, including – but without derogating from the generality of the aforesaid – to any member or participant whatsoever, in connection with any activity connected to the collateral system contract (including because of any compliance or noncompliance with provisions of the said contract), including – but without derogating from the generality of the aforesaid – all matters connected to the implementation of any participant's deposit orders and withdrawal orders or to the operation of the collateral system.
5. The provisions of this Chapter shall not derogate from the other provisions – including the definitions – included in the By-Laws, as far as they do not conflict with the provisions of this Chapter.