

**ACTIVITY ON THE FUTURES CONTRACTS AND
OPTIONS (MAOF) MARKET**

Introduction

1. The activity of the banking corporation in the MAOF (futures contracts and options) market shall be performed subject to the stock market regulations and the auxiliary rules of the MAOF Clearing House Ltd.

In addition, in view of the risks inherent in this activity, and in order to ensure the safe and proper management of the business of the banking corporation in this field, the following steps *inter alia* should be taken:

Definitions

2. **“Option”** - As defined in the auxiliary rules of the MAOF Clearing House;

“Capital of the banking corporation” - As defined in Appendix A to Directive no. 202 (Constituents of Capital).

“Obligations to the MAOF Clearing House” -

- (a) Obligations of the banking corporation to the MAOF Clearing House for the options portfolio of its customers, itself, or another banking corporation for which it is a guarantor to the amount of collateral required in accordance with the scenarios, as specified in the auxiliary rules of the MAOF Clearing House;
- (b) Obligations of the banking corporation to the risk fund of the MAOF Clearing House;

- “Associate member”** - A member of the Tel Aviv Stock Exchange who is not a member of the MAOF Clearing House;
- “Creating an option”** - Accepting an obligation to the MAOF Clearing House to meet its obligation under an option, as set out in the terms of the option;
- “MAOF Clearing House”** - The MAOF Clearing House Ltd., which clears transactions in options and futures contracts;
- “Activity in the MAOF market”** - Creating or trading in an option within the framework of the stock exchange managed by the MAOF Clearing House Ltd.

Organizational arrangements

3. A banking corporation shall not undertake activities in the MAOF market for itself or for its customers without the appropriate professional, computerized and managerial arrangements.

Work procedures

4. The internal work procedures of the banking corporation shall stress *inter alia* the following subjects:
- (a) **Framework of activity in the MAOF market**
- (1) The elements and hierarchy of authority for approving the framework of activity for a customer who creates options, and the level of the type of collateral required to ensure this activity, shall be determined;
 - (2) The banking corporation shall not enable a customer to create options before a framework of activity has been approved for him;
 - (3) The permitted levels of exposure for the banking corporation’s (nostro) obligations to the MAOF Clearing House, shall be determined.

(b) Operation, supervision and control

- (1) The methods and elements for supervision and current monitoring of the activities in the MAOF market, and the level of collateral deriving from it, shall be determined;
- (2) The element responsible for closing the positions of a customer who has deviated from his approved framework, as well as the way and timing of the closure, shall be determined.

Associate member

5. (a) A banking corporation shall not provide clearing house services for transactions in MAOF options to an associate member and his customers without a contractual arrangement;
- (b) The contractual arrangement shall specify the methods the banking corporation may use in order to prevent and reduce the deviations of an associate member or his customers from the framework of the activity and collateral approved.

Comprehensive exposure

6. The total obligations of a banking corporation to the MAOF Clearing House *less* the obligations of its customers which are covered by collateral recognized as deductions under section 5 of [Regulation no.313](#) (Limitations on the indebtedness of a borrower and a group of borrowers), shall not exceed 30% of the capital of the banking corporation.

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