

A BANKING CORPORATION'S DEALINGS IN SECURITIES
ON ITS CUSTOMERS' ACCOUNT

Introduction

1. (a) This regulation sets procedures which banking corporations (including auxiliary corporations) must follow in their dealings in securities on their customers' account.
- (b) A banking corporation must issue detailed procedures on this subject to its employees, and the following procedures constitute a minimum general framework for this. The procedures issued by each banking corporation to its employees must express both the statutory restrictions and those imposed by other authorized entities in Israel.

Definitions

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| 1a. "Stock exchange" - | A stock exchange in Israel and a stock exchange abroad that has been granted authorization by whoever was empowered by the law of the country in which it operates to grant such authorization. |
| "Stock exchange in Israel" - | A stock exchange within its meaning in the Securities Law, 5728-1968. |
| "Regulated market" - | A system for trading in securities, options, or futures, according to rules set by whoever is empowered by the law of the country in which it operates to set such rules. |
| "Securities" - | As defined in section 1 of the Securities Law, 5728-1968, including units in a joint investment trust fund, securities issued by the government or |

under a special law, and securities issued outside Israel;

“Relative” -

As defined in the Banking (Licensing) Law, 5741–1981.

Transactions in securities custody deposits

2. (a) (Revoked)

(b) Depositing securities for custody

Receipts given by the banking corporation against the receipt of securities from customers, as well as the receipts from owners of custody deposits against securities handed over to them, shall be done only on the banking corporation's numbered forms.

(c) The banking corporation should record on the receipt, in addition to the number of the account and the name of the depositor, the name of the security, its identification number, and the date or number of the first coupon attached to it. If a given coupon is missing, the banking corporation must note this explicitly on the receipt. It must also note whether the receipt given to the depositor is temporary (subject to an examination of the legality of the securities).

(d) With regard to the depositing of registered securities, the banking corporation must determine appropriate procedures for examining the possibility of transferring them. Securities registered on a name other than that of the depositor may not be accepted, unless they have been assigned or transferred by means of a written instruction, etc. A security registered in one person's name may be accepted in that person's joint account with another person. A customer who wants a specific security to remain registered in his name and not to be included in the pool, should state this unequivocally.

With regard to compulsory bonds, section 6 of chapter 2 of the procedure for redeeming registered compulsory loans in the instructions of the State Loans Authority should be followed.

(e) Monitoring receipts against securities for custody

The procedures of the banking corporation shall ensure the monitoring and control over the redemption of bonds that have been deposited, prize loans that have been drawn, and interest and dividends that have been declared.

(f) Withdrawal of securities

Withdrawing actual securities from a deposit, or transferring them from one deposit to another while changing ownership, requires the approval of a person authorized to do so, and that person must ascertain whether there is any impediment to such a procedure.

Securities for clearance

3. (a) The banking corporation shall set procedures for dealing with securities received for clearance; these shall ensure that the implementation of the clearance is monitored and controlled.
- (b) The banking corporation should record the identifying particulars of both the customer and the securities, in the same way as with regard to securities for custody.

Keeping securities in safe deposit boxes

4. (a) In administering securities in safe deposit boxes in the head office and in branches, proper control procedures should be followed as regards access to the safe deposit boxes, and in particular the separation of the functions of officials and proper recording procedures of movements of securities.
- (b) In its procedures, the banking corporation should specify the kinds of securities that will be kept in the branches and not transferred to the main safe deposit box, as well as setting a procedure for handling securities in transit.
- (c) The management of the banking corporation shall determine procedures regarding taking stock of securities in a safe deposit box. The program for stocktaking must incorporate all kinds of securities at a frequency to be decided by the management.

The procedures of the banking corporation shall determine the way discrepancies that are uncovered are to be dealt with.

Securities transactions on customers' account

5. Receiving instructions from customers (6/98)

- (a) All instructions from customers regarding transactions in securities on their account shall be given on special forms. The exact time the instruction was received shall be recorded on the instruction.
- (b) Every instruction, subject to the contents of [Regulation no. 435](#) regarding "Telephone instructions", shall be signed by the customer and by an official of the banking corporation. The management of the banking corporation shall determine the maximum financial value of a transaction above which the approval of an authorized person is required.
- (c) If the customer has requested information about the presumed date of the implementation of his order, or wishes to limit the implementation to a specific time, price, or stage of trading, this must be specified on the instruction form.
- (d) The management of the banking corporation shall set procedures with regard to responsibility for the implementation of a customer's instructions, and preliminary examination of the state of his accounts.
- (e) Implementation of instructions
 - (1) In its procedures, the management of the banking corporation shall explicitly specify binding rules regarding the prohibition of offsetting purchases against sales, both between the customers themselves, and between them and transactions on the banking corporation's account at all stages of trading, except for offsetting in an Israeli stock exchange that is permitted under the regulations of the Tel Aviv Stock Exchange (TASE).
 - (2) Despite the aforesaid in this section, a banking corporation may offset purchases against sales of securities on a stock exchange abroad between the customers themselves, provided the banking corporation acts in the transaction as an agent and not as a dealer (whether directly or indirectly), and the price of

the transaction is determined on the basis of a reasonable price, taking into account the value of the security in the stock exchange and without favoring one customer on another. Nevertheless, a banking corporation shall not delay implementing a sale or purchase instruction in order to offset customers' instructions.

- (f) The management of the banking corporation shall establish procedures for preventing misuse of the information accumulated by the various elements in the banking corporation regarding its customers' securities activity, by its employees or any other element.
- (g) The banking corporation shall make sure that it receives a written report of the results of the activities of the outside dealers and brokers who work for it. Adequate control mechanisms shall be established in order to enable instructions to be compared with actual implementation, both by outside dealers and brokers and by internal dealers and, in the case of a transaction on an Israeli stock exchange, including adherence to the trading procedures of the stock exchange on which the transaction was executed.
- (h) The management of the banking corporation shall establish procedures for monitoring the implementation of customers' instructions.
- (i) (1) Within ten days of the day the transaction was implemented, written notification that includes the details of the transaction shall be sent to the customer. However, if a banking corporation does not enable his customers to obtain such notifications via a computer terminal, the notification will be sent within seven days of the day the transaction was implemented.
- (2) With regard to transactions concerning investments in mutual funds on the basis of a customer's standing orders, the customer shall be notified in writing at least every six months. This notice shall include all the details of the transactions implemented during that period.
- (3) A banking corporation that enables its customers to obtain notifications via a computer terminal and knows that the customer has indeed received all the relevant notices within ten days of the execution of the transaction (including

the full details of the transactions implemented at his instruction), shall not be required to send additional notices under this subsection.

Prohibition on transactions with customers against nostro (6/98)(2/07)

5a. A banking corporation shall not perform a transaction in tradable securities off the stock exchange floor or outside a regulated market between its own (nostro) account and a customer's account, except:

- (a) In order to correct errors;
- (b) The sale off the stock exchange floor or outside a regulated market of a controlling interest of at least 2 percent of the share capital of the company concerned;
- (c) Bond transactions, provided all the following conditions obtain:
 - (1) The customer has signed a general agreement in advance to implement transactions against the bank's nostro;
 - (2) The value of the transaction is not less than NIS 3 million.
 - (3) The transaction is not with a related party, as defined in [Regulation no. 312](#); in this regard:
 - a. A corporation of which at least 99 percent of all means of control are held by the banking corporation will not be regarded as a related party.
 - b. A banking corporation may perform transactions off the stock exchange floor or outside a regulated market in Israel government with a related party that is an institution subject to the supervision of the Commissioner of the Capital Market, Insurance and Savings, and in mutual funds subject to the supervision of the Israel Securities Authority. A banking corporation shall retain documentation relating to all the said transactions.

Transactions under a power of attorney and standing orders (6/98)

6. (a) Without detracting from section 4 of the Regulations of the Investment Advice and Portfolio Management Law 5755 – 1995, an employee of a banking corporation may not accept a power of attorney from a customer to implement securities transactions unless the customer is a relative of the employee.

The management of the banking corporation shall establish special procedures for this subject, including reference to the content of the power of attorney and the restrictions on its use.

- (b) (Revoked)
- (c) The management of the banking corporation shall establish a procedure for the implementation of securities transactions under a standing order.

Transactions for bank employees

- 7. The management of the banking corporation shall establish a specific policy with regard to securities transactions by its employees, and these shall be detailed in appropriate procedures.

Implementation of short transactions

- 8. The management of the banking corporation shall establish in a procedure its position regarding the implementation of short transactions; this procedure must set out rules for implementation in instances where, in the management's opinion, such transactions are permissible.

Custodial accounting

- 9. The accounting system shall express the stock of securities held for the customers, their location, and the details of the owners of the deposits. Reports shall also be issued reflecting the concentration of transactions in individual accounts.

Securities held with others (7/02)

- 10. (a) (1) A banking corporation that holds securities for custody with others shall sign a written agreement with the holder detailing the terms of the association.
 - (2) The aforesaid in section (1) shall not apply to a banking corporation's holding of securities for custody with others if this has been done by means of the clearing house of Israel's Stock Exchange.

- (b) In administering custody deposits for securities held with others, the depositing banking corporation shall ensure that the securities held for its customers are fully segregated from those it owns. It is the responsibility of the depositing banking corporation to ensure that this distinction is also clear to the institution holding the securities. The holder of the securities shall administer separate accounts for the depositing banking corporation and its customers. The customers' securities may not be pledged, except when the right has been given to pledge securities purchased in order to ensure that their proceeds are repaid to the holder.

Implementation of transactions via a broker

- 10a. (a) A banking corporation that does not itself implement transactions on a stock exchange or regulated market shall sign a written agreement with a broker by means of whom the transactions will be implemented on that stock exchange or regulated market, defining the terms of association.
- (b) The banking corporation's internal procedures permitting a customer to give sale and/or purchase orders directly to an outside broker in Israel or abroad shall require the signing of written agreements with the customer and the broker. The agreements shall specify the terms of association, including limitation on the amount of the transactions and the explicit specification in each transaction of the fact that the order was given to the broker directly by the customer.

Internal control

11. A control system shall be set up to incorporate the activities of the banking corporation with regard to securities in such a way as to meet the requirements of this regulation.

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