

(DRAFT)

Financial Services (Investment Rules) Control Regulations, 5766-2006

By virtue of the authority vested in me pursuant to Sections 26 and 60 of the Financial Services Control (Provident Funds) Law, 5766-2006¹ (hereafter: “the Provident Funds Law”) and Sections 36 and 112 of the Financial Services Control (Insurance) Law, 5741-1981² (hereafter: “The Insurance Companies Law”), and with the approval of the Knesset Finance Committee, I hereby enact these Regulations:

Chapter I: Interpretation

Definitions 1. In these Regulations –

“Option” – a call option or a put option the fair value of whose underlying asset is determined on a daily basis, where the call option or the put option or their underlying asset is immediately realizable;

“Call option” – a right conferred on the purchaser thereof to sell the underlying asset at exercise price, or to receive the difference between the value of the underlying asset and the exercise price, and all at the times and on the conditions stipulated therein.

“Put option” - a right conferred on the purchaser thereof to purchase the underlying asset at exercise price, or to receive the difference between the underlying asset and the exercise price, and all at the times and on the conditions stipulated therein;

“Debenture” – an instrument issued by a corporation attesting to the existence of a monetary obligation owed by the corporation, and defining the conditions thereof, except for promissory notes or bills of exchange given by a corporation in the course of business, including such instrument issued by the State or by a cooperative society;

“Marketable debenture” - a debenture listed for trading on the Stock Exchange, on a foreign Stock Exchange or in a regulated market;

“Designated debenture” - each of the following:

(A) A debenture designated for a long-standing fund;

¹ Sefer Hachukim 5766, p. 889

² Sefer Hachukim 5741, p. 208; 5765, p. 732

- (B) An “Arad”-type debenture;
- (C) A debenture issued by the State of Israel pursuant to the Loan (Insurance Companies) Law 5723-1962³ (hereafter: “The Loan Law - Insurance Companies”);
- (D) Debenture under guarantee by the State of Israel issued pursuant to linked life insurance agreements;

“Debenture designated for long-standing fund” – each of the following:

- (1) A debenture issued in accordance with the State Loan Regulations (“Miron” type series) 5730-1980⁴;
- (2) A non-marketable debenture issued by 11th Tevet 5735 (1st January 1988) to a pension-only provident fund not in the hands of the State, where the proceeds of the issuance were deposited in full in a deposit with the Accountant General at the Ministry of Finance.

“Arad”-type debenture” – a non-marketable debenture issued to pension-only provident funds, in accordance with the State Loan (“Arad” type Series) Regulations, 5755-1995⁵;

“State of Israel bond” – a bond issued by the State pursuant to the State Loan Law, 5739-1979⁶ (hereafter: “State Loan Law”) or pursuant to the Development Loan Law 5720 - 1960⁷, or pursuant to the Short term Loan Law, 5744-1984⁸ (hereafter: “the Short Term Loan Law”), or pursuant to the State Property Law, 5711-1951⁹, and which is traded on the Stock Exchange, on a foreign Stock Exchange or on a regulated market.

“Stock Exchange” – a Stock Exchange in Israel, which has obtained a license in accordance with Section 45 of the Securities Law;

“Foreign Stock Exchange” – a Stock Exchange in an approved foreign country;

“Housing loan insurance secured by a mortgage” – within the definition thereof in the Notice of Control over Insurance

³ Sefer Hachukim 5723, p. 10; 5750, p. 144.

⁴ Kovetz Hatakkanoth 5730, p. 1764; 5757, p.79

⁵ Kovetz Hatakkanoth 5755, p. 1499; 5755, p. 1620

⁶ Sefer Hachukim 5739, p. 112; 5755, p. 150.

⁷ Sefer Hachukim 5720, p. 47

⁸ Sefer Hachukim 5744, p. 69; 5756, p. 376.

⁹ Sefer Hachukim 5711, p. 52; 5755, p. 496.

Business (Insurance Sectors), 5745-1985¹⁰ (hereafter: “Insurance Sectors Notice”);

“Life insurance”, “General Insurance”, “Financial Report”, “Insurance Premiums”, “~~Deferred Acquisition Expenses~~Deferred acquisition costs”, “Subsidiary”, “Investee Company”, “Option Warrant”, “Index”, “the Consumer Price Index”, “Monetary Assets”, “Non-Monetary Assets” – within the definition thereof in the Insurance Business Control Regulations (Particulars of Report) 5758-1998¹¹.

“Sickness and Hospitalization Insurance” - within the meaning thereof in Clause 6, Section 1A of the Insurance Sectors Notice, provided that the insurance policies were issued for a period in excess of one year and are group insurance policies;

“Bank” - a corporation having obtained a license pursuant to section 4(A) (1) (A) or (B) of the Banking (Licensing) Law, 5741-1981¹² and also a bank outside Israel, being domiciled in an approved foreign country, and under state control of the country in which it is domiciled;

“Interested party” – within the meaning thereof in Paragraph (1) of the definition of “interested party” in a corporation under the Securities Law, 5728-1968¹³ (hereafter: “The Securities Law”);

“Investment Portfolio Management Licensee” – within the meaning thereof in the Investment Consultancy and Management Law and in relation to investments in an approved foreign country; also whoever is entitled to engage in investment portfolio management under the law applicable in such foreign country;

“Rating” - debt rating in Israel or in an approved foreign country, set by a company that has been approved by the Commissioner as a rating company;

“Shareholders’ equity”, “loan to collateral ratio” – within the definition thereof in the Insurance Business Control Regulations (Minimal Shareholders’ Equity Required of an Insurer), 5758-1998¹⁴ (hereafter: “the Shareholders’ Equity Regulations”);

¹⁰ Kovetz Hatakkanoth 5745, p. 1416; 5758, p. 948.

¹¹ Kovetz Hatakkanoth 5758, p. 438; 5765, p. 744.

¹² Sefer Hachukim 5741, p. 232; 5759, p. 24.

¹³ Sefer Hachukim 5728, p. 234; 5760, p. 252.

¹⁴ Kovetz Hatakkanoth 5758, p. 472; 5766, p. 88.

“Holding” - whether alone or with others, whether directly or indirectly, through a trustee, a trust company, a nominee company, or otherwise, including a right to such holding; and a holding in the hands of a corporation – shall also be deemed a holding in the hands of an investee company, and a holding in the hands of one individual – also a holding in the hands of an individual and his relative residing with him or where the livelihood of the one depends on the other; for this purpose “relative” – within the meaning thereof in the Companies Law;

“Loan” – an investment in a debenture and in a commercial paper, excepting an investment in governmental securities and in securities of an approved foreign country, including the loan of securities to anyone not being a Stock exchange member, and in respect of an insurer, its non-yield contingent liabilities – including advance payments to an insurance agent, the debit balance of an insurance agent toward the insurer, and also guarantees net of amounts transferred to a reinsurer, multiplied by such rates as the Commissioner may direct;

“Loan to a planholder or an insured” – a loan given by an institutional investor to a planholder or an insured out of the moneys of the provident fund or the moneys of an insurance scheme;

“Linked life insurance agreements” – agreements between the Government of Israel and life insurance companies, by virtue of the Insurance Companies Loan Law, concerning investment in debentures;

“Investment” – purchase, sale, holding, grant of loan and any other transaction;

“Right in land” - ownership or lease in perpetuity in real estate, including contractual right or option to receive such right;

“Liability” – an obligation deriving from loans, including from loans to planholders or to insured parties;

“Related company” – a company which another company controls or which controls another company or another company which is under control of one of such companies;

“Future contract” – within the definition thereof in Section 64(B) of the Joint investments in Trust Law, 5755 - 1994¹⁵ (hereafter: “Joint Investments in Trust Law”);

¹⁵ Sefer Hachukim 5754 p.308; 5766, p. 292

“Investment Consultancy and Management Law” – the Regulation of Investment Counselling and Portfolio Management Law, 5755-1995 ¹⁶

“Exposure to underlying asset” – sum total of all the following:

- (1) The underlying asset;
- (2) The underlying asset derived from holdings in an option in accordance with the parameters published from time to time by the Stock Exchange in the Trading Regulations;
- (3) Future contract on the underlying asset in the quantity stipulated in the conditions thereof;

“Underwriter” – Within the definition thereof in the Securities Law;

“Fund unit” – a unit of participation in a fund for joint investments in trust within the meaning of a unit per Section 3(B) of the Joint Investments in Trust Law;

“Borrower” – A person having a liability, including a spouse, and also a number of borrowers when the anticipated repayment of the liability is based primarily on the same source and no one of them has any significant additional source for the repayment of the liability;

“Risk distribution index” - the ratio between the weighted value of the assets held for coverage of an insurer’s obligation of any type, and the amount of such obligation;

“Approved foreign country” - a country accorded a -BB rating and upward;

“Exercise price” - the price at which the option or the future contract are to be exercised;

“~~AAL~~AAD (Amended average ~~lifetim~~eduration)” – a period of time, in years, from the date of the financial report to maturity of the assets, in accordance with the average period in years to maturity of the assets; ~~AAL~~AAD is to be computed in respect of the assets and in accordance with the formulae in the First Schedule;

¹⁶ Sefer Hachukim 5755, p. 416; 5766, p. 18.

“Short selling” - sale of a security not belonging to the vendor in one of the following instances:

- (1) In a Stock Exchange – in accordance with the conditions stipulated in the Stock Exchange Regulations;
- (2) In a foreign Stock Exchange or a regulated market – in accordance with the conditions required there;

“Investment track” – an instrument of investment for the moneys of planholders or insured parties characterized by investment restrictions stipulated in the Articles of the provident fund or the insurance policy;

“Income-yielding real estate” - a right in land yielding regular income to the holder of the right therein, excepting revaluation differentials, in at least six months out of the last twelve months at any time; however, for the purpose of real estate where six months have not yet elapsed since the date of acquisition of the date of obtaining a tenancy approval - a right in land yielding regular income to the holder of the right therein, excepting revaluation differentials;

“Institutional investor”- each of the following:

- (1) A managing company in respect of investments made for a provident fund under its management, however in respect of a new fund and a long-standing fund – investments made as against the balance of the fund’s assets not invested in designated debentures;
- (2) An insurer in respect of investments counter-weighting revenue-contingent liabilities;

“Securities” - within the definition thereof in the Securities Law and including a non-marketable debenture, government-issued certificates, an option, a future contract, units in a fund, units or shares in a foreign fund, rights in a partnership, whether or not the partnership is registered, and a commercial certificate of indebtedness, and all whether registered by name or to bearer.

“Government security” – a debenture of the State of Israel or of an approved foreign country, including payments on account of such debenture and deposits placed with the Accountant General at the Ministry of Finance;

“Marketable security” – a security registered for trading on a Stock Exchange, on a foreign Stock Exchange, or in a regulated market.

“Underlying asset” – the asset subject of the obligation in an option or in a future contract;

“Asset outside Israel” – any of the following:

- (1) Currency or a deposit held in an approved foreign country, and a right in land in an approved foreign country;
- (2) A security issued or traded in an approved foreign country;

“Liquid assets” – any of the following:

- (1) State of Israel bonds;
- (2) Cash;
- (3) Deposits whose due date falls within three months;
- (4) Debentures with a rating of BBB and upwards, whose due date falls within three months;
- (5) Liquid commercial certificate of indebtedness;
- (6) Units in a fund, units or shares in a foreign fund;

“External representative” – within the meaning thereof in the Companies Law; for the purpose of Section 240(B) of the said Law -

- (1) An interest in respect of a person holding 10% or more of a certain type of means of control in a company shall also be deemed an interest being such as to preclude appointment pursuant to that Section.
- (2) A shareholding, excepting a holding in marketable shares of not more than 1% of the nominal value thereof, shall also be deemed an interest.
- (3) Whoever is a planholder of a provident fund or an insured in yield-contingent liabilities of an insurer the ratio of whose holdings is in excess of 0.1% of the assets of the institutional investor, shall be deemed to hold an interest in the institutional investor;

“The obligation amount” – the value of an obligation as recorded in the latest financial report, but if the value of the obligation shall have been materially modified during the

reported period, then its effect on the computation of the value of the obligation shall be taken into account.

“Principal market maker” – within the definition thereof in the State Loan Law;

“Buyback transaction in securities” – within the meaning thereof in the Agreements in Financial Assets Law 5766-2006¹⁷;

“Coordinated transaction” – within the definition thereof is the Stock Exchange Regulations;

“Weighted value of assets” – multiplication of the value of an asset by a rate assigned to it in the Fourth Schedule;

“Deposit” – a sum of money deposited with a Stock Exchange member, a bank, an insurer or a reinsurer;

“Accountant General deposit” – a special deposit of moneys placed with the Accountant General at the Ministry of Finance in accordance with his instructions;

“Related parties” – each of the following:

(1) Parties one of whom –

(A) Holds, directly or indirectly, 10% of more of a certain type of means of control in another;

(B) Is entitled to appoint, directly or indirectly, the General Manager of the other;

(C) Serves as director or General Manager in the other;

(2) Corporations in which membership is contingent on membership in another;

(3) Parties as per sub-paragraphs (1) and (2) and an additional corporation one of which holds 25% or more of a certain type of the means of control therein;

(4) A managing company and the provident funds it manages;

(5) Institutional investors constituting a group of investors;

“Group of borrowers” - each of the following:

¹⁷ Sefer Hachukim 5766, p. 286

- (1) The borrower together with an individual controlling it and whoever is controlled by them; for this purpose, the State of Israel and the Bank of Israel shall not be included in a group of borrowers;
- (2) Borrowers in whom one of the following is fulfilled:
 - (A) At least one of them is guarantor for a material portion of the obligation of the other borrower;
 - (B) At least one of them is guarantor is a guarantee of unlimited amount, for securing the obligation of another borrower;
 - (C) The obligation of each one of them to the institutional investor is in excess of 5% of the revalued value of the assets of the institutional investor, and in respect of an insurer in relation to liabilities that are not yield-contingent – the obligation of each one of them is in excess of 5% of the shareholders' equity of the insurer, and a material commercial inter-dependency exists between them that is not limited to a short period of time, including by the securing of rights;
- (3) Whoever the Commissioner shall have designated as part of a group of borrowers, excepting whomsoever the Commissioner shall have removed therefrom;

“Group of investors” – institutional investor, controlled by the same person or managed by the same person or whose investments are managed by the same person, all either directly or indirectly, unless it shall have been proved, to the Commissioner's satisfaction, that there exist in their respect separate management systems including a separate Board of Directors, a separate investments committee, a separate chair of the Board of Directors, a separate General Manager, a separate disposition of employees, and a separate system of investment management and choice of assets and separate offices;

“New fund” – a pension provident fund not being an insurance fund, that was first approved after the 29th Tevet 5755 – (1st January 1995) and respecting which it was determined that it is entitled to purchase “Arad” type debentures”;

“Foreign fund” – within the definition thereof in the Joint Investments in Trust Law;

“General fund” – A pension provident fund not being an insurance fund, that was first approved after 29th Tevet 5755 (1st January 1995) and respecting which it was determined that it is not entitled to acquire a designated debenture;

“Registration of a mortgage” – including registration of a caveat as regards the registration of a mortgage, pledge of right in land and the conferring of an irrevocable power of attorney on an institutional investor entitling it to register such mortgage or pledge;

“Fair value” – the amount in consideration of which an asset may be exchanged or an obligation satisfied in the ordinary course of business, between a voluntary purchaser and a voluntary vendor;

“Market value” of a security - the value determined for the security in the market in which it is held in accordance with the latest quotation set for it on the last trading day having taken place on the Stock Exchange, on a foreign Stock Exchange or in a regulated market, all according.

“Revalued asset value” – the value of the assets of the institutional investor in accordance with instructions to be given by the Commissioner in this matter, and excepting employers’ obligations;

“Regulated market” – a system by means of which trading takes place in securities in Israel or in an approved foreign country in accordance with principles prescribed by whoever is entitled to prescribe them under the laws of the country in which it is conducted;

“Commercial certificate of indebtedness” – a certificate of indebtedness issued by a corporation, being a covenant by the corporation to pay the holder, at a date being not later than one year from issuance date, the amount of the obligation, without any addition of indexation differences;

“Marketable commercial certificate of indebtedness” – a commercial certificate of indebtedness marketed on the Stock Exchange, on a foreign Stock Exchange or in a regulated market;

“Liquid commercial certificate of indebtedness” – a commercial certificate of indebtedness the first possible date of redemption whereof is not later than three months as from date of issuance;

“Income Tax Regulations” – the Income Tax Regulations
(Principles for the Approval and Management of Provident
Funds) 5724-1964¹⁸

¹⁸ Kovetz Hatakkanoth 5724, p. 1302.

Chapter II: Investments of a Pension Provident Fund

- Long-standing fund investments . 2 (A) A long-standing fund shall invest its assets as follows:
- (1) In debentures designated for a long-standing fund that were issued prior to the 4th of Ellul 5763 (1st September 2003) or in an Accountant General's deposit deriving from the early redemption of such debentures;
 - (2) In "Arad" type designated debentures, if the total value of the debentures pursuant to sub-paragraph (1) was less than 30% of the revalued value of its assets – such that the overall ratio of the debentures as per that sub-section together with the debentures as per sub-paragraph (1), insofar as they exist, shall be up to 30% of the revalued value of its assets;
 - (3) There shall apply to the balance of the fund's assets not invested in accordance with sub-paragraphs (1) and (2) the provisions of Chapter III of these Regulations, and it shall be deemed for the purpose of the provisions of that chapter to be to all intents and purposes an institutional investor.
- (B) A long-standing fund shall be entitled to continue to hold 100% of the means of control of an auxiliary corporation which it held on the 23rd Tevet 5760 (1st January 2000); in this sub-paragraph, an "auxiliary corporation" – a corporation which is not, in itself, a long-standing fund, which engages solely in the field of activity permitted to the long-standing fund that controls it.
- (C) Notwithstanding sub-regulation (A)(3), the fund shall be entitled to hold assets transferred to it by related parties, in order to help reduce its actuarial deficit, with the prior approval of the Commissioner, and on such terms as he shall determine, and such assets shall be deemed to be an investment in the debenture designated for the long-standing fund
- Investments by a new fund . 3 A new comprehensive fund shall invest up to 30% of the revalued value of its assets in "Arad" type debentures; to the balance of the assets of a new comprehensive fund there shall apply the provisions of Chapter III of these Regulations, and it shall be deemed for the purpose of the provision of this chapter to be to all intents and purposes an institutional investor; however a new comprehensive fund is entitled to hold more than 30% of the revalued value of its assets in "Arad" type debentures, if the debentures –
- (A) Were issued to it prior to the 7th Tevet 5764 (1st January 2004) or were transferred to it as provided by Regulation 41Q of the Income Tax Regulations;
 - (B) Are held in a separate account, in accordance with the provisions

established by the Commissioner, as against 70% of the Fund's liabilities to whoever was entitled to receive a pension from it prior to the 7th Tevet 5764 (1st January 2004).

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| Investments by a general fund | 4. | The provisions of Chapter III of these Regulations shall apply to investments by a general fund. |
| Cash transfer to reinsurer outside Israel | 5. | A pension provident fund is not entitled to transfer cash to a reinsurer outside Israel other than subject to the instructions of the Commissioner as per Regulation 43. |

Chapter III – Investments by an institutional investor

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| Investments in an asset | 6. | An institutional investor is entitled to invest in any asset subject to the restrictions and the rules prescribed in these Regulations; |
| Fiduciary duty | 7. | <p>An institutional investor and whose engaged on its behalf I the management of the moneys of planholders or insured parties shall act in the interest of each of the planholders of the insured parties, shall not prefer any interest and any consideration or the interest of the planholders of the insured parties and shall act faithfully, diligently, prudently and skilfully as a skilled trustee would act under such circumstances; on proceeding to decide on the institutional investor's investments, they shall take into consideration, inter alia, the following:</p> <ul style="list-style-type: none"> (A) Adjustment of the investment policy and the investment mix to anticipated cash flow in the institutional investor, including determination of the minimal ratio of liquid assets, and having regard to the moneys designated for payment of a pension to pension recipients; (B) Alternative investment possibilities of the same type in view of anticipated yield and risks and the ratio between them; (C) Where the investment is in securities - also the economic feasibility of the investment in accordance with the quality of the security when measured by generally accepted economic yardsticks. |
| Compliance with investment ratios | 8. | <ul style="list-style-type: none"> (A) An institutional investor shall at all times maintain the investment ratios permitted to it by these Regulations in a particular asset or in types of assets, all according, and shall also abide by the restrictions and conditions prescribed for it in these Regulations in relation to investment therein; (B) The restrictions and the conditions prescribed for the |

institutional investor in these Regulations shall apply, separately, to every investment track and also to the entirety of assets of the institutional investor in all tracks.

Deviation
from
investment
ratios

9. (A) An institutional investor shall correct any deviation from the provisions relating to its investments pursuant to these Regulations within the following time periods:
- (1) Deviation in investment in a deposit, a loan or a non-marketable debenture – by the day on which, according to the terms of the deposit, the loan or the debenture, it is realisable without a fine;
 - (2) Deviation in investment in a related party deriving from the transfer of means of control in the institutional investor – shall be corrected within fifteen months from the date of deviation, provided that a resolution, documented in writing, shall have been adopted by two thirds of the external representatives in the investment committee;
 - (3) A deviation in any other investment – on the first date on which the deviation is amenable to correction and in a deviation in a related party – within nine months from date of the deviation, provided that a resolution, documented in writing, shall have been adopted by two thirds of the external representatives on the investments committee.
- (B) If the deviation is not corrected within the periods prescribed in sub-regulation (A), the following provisions shall apply:
- (1) The institutional investor shall report to the Commissioner on the existence of the deviation within three business days as of the end of the period prescribed in sub-regulation (A);
 - (2) For the days as from the end of the period prescribed in sub-regulation (A) and until the date on which, as confirmed by the Commissioner, the deviation was corrected, no management fees shall be collected from the planholders or the insured for all the holdings of the institutional investor in the asset in which the deviation occurred, and in respect of a sector-related provident fund – it shall be entitled to collect management fees at the full rate thereof, but shall not accept new planholders until such time as the Commissioner shall have confirmed that the deviation

has been corrected.

- (C) (1) Notwithstanding sub-regulation (A) aforesaid, by reason of a deviation created consequent on a new investment in an asset – management fees shall not be collected from the planholders or the insured for all the institutional investor’s holdings in the asset, commencing from the date on which the deviation occurred and until such time as the Commissioner shall have confirmed that the deviation has been corrected, and in respect of a sector-related provident fund – it shall be entitled to collect management fees in the full rate thereof, but shall not accept new planholders until such time as the Commissioner shall have confirmed that the deviation has been corrected;
- (2) The institutional investor shall report to the Commissioner on the existence of the deviation within three business days from the date on which the deviation occurred.
- (D) The Commissioner is entitled to direct that the fact of the existence of deviations as per this Regulation be brought to the attention of the planholders or the insured, in such manner as he may prescribe.

~~Deferred acquisition expenses~~
~~Deferred acquisition costs~~

10. An insurer is not entitled to hold deferred ~~acquisition expense~~acquisition costs as against yield contingent liabilities, except a holding of ~~deferred acquisition expenses~~deferred acquisition costs up to the amount of ~~deferred acquisition expenses~~deferred acquisition costs for income tax purposes, subject to their having been recorded –

- (A) By reason of life insurance policies issued until the 6th of Tevet 5764 (31st December 2003);
- (B) By reason of deposits made until 19th Tevet 5765 – (31st December 2004).

Investment in a particular corporation and loans to an individual

11. (A) An institutional investor is entitled to grant loans to an individual, to hold securities of a particular corporation, to make deposits in that corporation or to grant it loans up to 10% of the revalued value of its assets.
- (B) Sub-regulation (A) shall not apply to a holding in cash and cash equivalents for the purpose of managing current cash flow or to Government

securities.

(C) In this Regulation, “loan to an individual” –
excepting a loan to a planholder or an insured.

Investment in
a group of
borrowers

12. (A) An institutional investor is entitled to hold securities of a group of borrowers or to grant loans to a group or borrowers or to make deposits with that group of borrowers, of up to 15% of the revalued valuation of its assets.
- (B) Sub-regulation (A) shall not apply to a holding of cash and cash equivalents for the purpose of managing current cash flow.

Investment in
means of
control of a
corporation

13. (A) An institutional investor is entitled to hold shares or means of control of corporations and also rights in a partnership of up to 20% of the shares of the corporation, of the means of control therein or of the rights in the partnership, all according, subject to the following conditions:
- (1) Among the holders of means of control its rate of holding in the corporation, or its share in the partnership compared to all partners, is not the highest;
- (2) The insurer, a person controlling either the insurer or the managing company, does not control the corporation in voting agreements or in a holding of securities, either directly or indirectly;
- (B) Notwithstanding sub-regulation (A), the investments of an institutional investor in a designated corporation by means of an interim fund shall be deemed to have been made by the institutional investor, provided that all of the following are fulfilled:
- (1) The interim fund invests in a designated corporation only.
- (2) The rights and duties of the institutional investor in the interim fund do not differ materially in terms of the rights and obligations of another investor in the designated corporation;
- (3) The institutional investor does not

participate in the making of investment decisions in the designated corporation or in the interim fund and does not take part in the management thereof.

- (C) A group of investors is entitled to hold shares or means of control of corporations, and also rights in a partnership, up to 20% of the corporation's shares, of the means of control therein, or of the rights in the partnership, all according, and for the purpose of a group of investors being in control of a bank - up to 10%, provided that its holdings do not procure it control in the corporation; if the group of investors deviates from the provisions of this sub-regulation, the institutional investor having caused the deviation shall sell its surplus holdings in the corporation, and if the institutional investor was a managing company - the holdings of the fund the acquisition for which caused the deviation. .
- (D) Subject to sub-regulation (4), an institutional investor is entitled to invest in a partnership, on fulfilment of the following conditions:
- (1) The institutional investor is a limited partner in a limited partnership duly registered in Israel or in an approved foreign country;
 - (2) The institutional investor is entitled to realise its investments at all times or to transfer its share in the partnership to another institutional entity.
- (E) Notwithstanding sub-regulations (A) and (C), a fund or a group of investors which on the 28th of Av 5758 (20th August 1998) (in this sub-regulation – the determining date) held means of control of a corporation all of whose revenues are from the leasing of buildings in possession or under ownership of the corporation in a ratio in excess of 10% in a fund, 20% in a group of investors and 10% in a group of investors controlled by a bank, it shall be entitled to continue to hold means of control in such ratio until 10th of Tevet 5775 (1st January 2014) , provided that after the determining date, the fund or the groups of investors shall not have invested in the corporation, in any manner, including by way of owners' loans or debentures, new amounts, excepting amounts it covenanted to invest prior to the determining date.

In this sub-regulation, “group of investors” –
excepting an insurer’s yield contingent obligation
assets.

(F) In this Regulation:

“Interim fund”- a corporation established with the
object of forming an association of investors for the
purpose of investment in a designated corporation;
“Limited partner” - within the definition thereof in
the Partnerships Ordinance [New Wording], 5735 -
1975¹⁹ (hereafter –“ the Partnerships Ordinance”);

“Partnership”- a registered partnership within the
meaning in Section 66 of the Partnerships Ordinance;
“Designated corporation” – a corporation in which
an institutional investor makes an investment
through the agency of an interim fund.

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| Investment in
real estate by
means of a
subsidiary | 14. | Notwithstanding Regulation 13, an institutional investor is entitled to acquire and to hold a right in land, through a subsidiary being wholly owned by it, provided that both the following are fulfilled:

(A) The sole occupation of the subsidiary is the holding of real estate assets and no lien or mortgage attaches to its assets;

(B) For the purpose of these Regulations, the investments made by the subsidiary shall be deemed to have been made by the institutional investor. |
| Investment in
marketable
debentures | 15. | An institutional investor or a group of investors are entitled to hold marketable debentures not being State of Israel bonds or marketable commercial certificates of indebtedness of an issuer up to 40% of the overall nominal value of the debentures of such series or of the commercial certificates of indebtedness. |
| Non-
negotiable
loans and
deposits | 16. | An institutional investor is entitled to grant loans, excepting marketable debentures and marketable commercial certificates of indebtedness, to invest in non-marketable debentures and to make deposits in such amounts and on such conditions as the Commissioner shall direct. |
| Loans to
planholder and
insured | 17. | An institutional investor is entitled to grant a loan to an insured or a planholder, excepting a planholder being an employer and a planholder or an insured holding office in |

¹⁹ Laws of the State of Israel [New Wording], p. 28; Sefer Hachukim 5759, p. 26.

the institutional investor, on fulfilment of all of the following:

- (A) The loan amount at the time of the grant shall not exceed 50% of the insurance policy redemption values standing to credit of the insured or of the amount standing to credit of the planholder in the provident fund, net of the tax that would apply were he to withdraw the moneys on date of grant of the loan.
- (B) A planholder or an insured shall not initially be granted a loan until one year shall have elapsed from the date of his becoming a planholder or an insured, all according.
- (C) A loan shall be granted on ordinary commercial terms and in accordance with a procedure established by the Investment Committee;
- (D) The planholder or the insured has given the institutional investor a written covenant to clear the payments as stated;
- (E) The planholder or the insured shall be entitled to redeem the loan price to the due date thereof on conditions similar to those in effect in respect of similar loans.
- (F) Total loans to planholders or insured parties shall not exceed 10% of the revalued value of the assets of the institutional investor;
- (G) For the purposes of this sub-regulation, if the insured demands payment of the redemption value specified in the insurance policy or if the planholder wishes to withdraw all or a portion of the moneys at his disposal in the provident fund, such that the balance remaining after the withdrawal will be less than the loan, the balance standing to credit of the insured or the planholder shall be deemed to be the balance net of the loans, and the amount deducted as aforesaid shall serve for repayment of the loans; for this purpose “the loans” – the debt balance of the planholder or the insured to the institutional investor in respect of the loans granted to him.

Investment
outside Israel

18.

An institutional investor is entitled to invest outside of Israel, in assets outside Israel.

- Right in land 19. An institutional investor is entitled to invest in a right in land, on the following conditions:
- (A) The revalued value of the investment in one property shall not exceed 5% of the revalued value of its assets; for this purpose, “one property” includes several properties located in the same block and the same parcel.
 - (B) At least 75% of the total rights in the real estate are rights in revenue producing real estate.
- Investment in options 20. An institutional investor is entitled to acquire or to create an option, on the following conditions:
- (A) The revalued value of all the options acquired by him, excepting an 001 call option, shall not exceed 5% of the revalued value of its assets;
 - (B) The revalued value of all the options acquired by it, pursuant to a hedging transaction, shall not exceed 10% of the revalued value of its assets - in addition to the amount in sub-paragraph (1), and provided that approval was obtained from two thirds of the external representatives on the investment committee and the approval was documented in writing within seven days of the date of making the investment. In this sub-paragraph, “hedging transaction” - a future transaction concluded for the purpose of hedging the value of an existing or future asset.
 - (C) The revalued value of each 001 call option acquired shall not exceed 5% of the revalued value of the institutional investor’s assets.
 - (D) Exposure to the underlying asset shall not deviate from the limits applicable pursuant to these Regulations;
 - (E) Their underlying asset is an asset in which the institutional investor is not prohibited from investing pursuant to these Regulations.

In this Regulation -:

“001 call option” – a call option on a securities index traded on the Stock Exchange, whose exercise price is equal to 1 agora.

“Securities index” - an index calculated and published by the Stock Exchange,

21. An institutional investor is entitled to acquire or to create future contracts, on these conditions:
- (A) Exposure to the underlying asset shall not deviate from the restrictions applicable in accordance with these Regulations;
 - (B) Their underlying asset is an asset in which the institutional investor is not prohibited from investing pursuant to these Regulations
- Value of securities
22. (A) The value of the securities, in respect of transactions in options, in future contracts, in short selling and in securities buyback transactions, shall not at any time exceed 10% of the revalued value of the institutional investor’s assets.
- (B) The value of the securities in respect of transactions as per sub-regulation (A), on the Stock Exchange, on a foreign Stock Exchange or in a regulated market shall be calculated as prescribed in the directives of the Stock Exchange, the foreign Stock Exchange or the regulated market, all according.
- (C) The value of the securities, in respect of transactions in options, in future contracts, in short selling and in securities buyback transactions in securities other than on the Stock Exchange, a foreign Stock Exchange or a regulated market, shall be calculated as is customary in such type of transactions.
- Obtaining credit, mortgaging assets and giving guarantees
23. (A) An institutional investor shall not be entitled, as part of its investments pursuant to these Regulations, to obtain any credit of any type whatsoever, to mortgage any of its assets, or to guarantee obligation of any kind, except for giving a guarantee required for the acquisition of an asset on its behalf, provided that the guarantee amount not exceed 1% of its assets.
- (B) An institutional investor shall be entitled to mortgage any of its assets or to deposit an asset with a trustee for the purpose of giving security in respect of transactions in options, in future contracts, and in short selling.

- Prohibition on investments in employer's business
24. (A) An institutional investor shall not invest its moneys in the business of an employer of its salaried planholders or insured, in its securities, in the businesses of a related company of such employer or in its securities - if the total moneys of the planholders or the insured of such employer constitute at least 10% of the sum total of the moneys of all planholders or insured with such institutional investor.
- (B) A central provident fund shall not invest its moneys, either directly or indirectly, in the business of a planholder the moneys standing to whose credit in the fund constitute more than 10% of the assets of the fund or the business of a related company.
- (C) The provisions of sub-Regulations (A) and (B) shall not apply to -
- (1) The deposit of moneys in a current account for the purposes of managing current cash flow in a banking institution or a financial institution in which the planholders or the insured of the institutional investor are employed;
 - (2) Investment in a designated debenture or in State of Israel bonds.
 - (3) Investment in a security traded on the Stock Exchange, provided that the investment ratio does not exceed 5% of the total nominal value of such type of security; for this purpose, all debentures issued by any corporation shall be deemed to be one type of security, and all the other securities - a second type.

- Transactions with and through related parties
25. (A) In this Regulation and in Regulation 26 –
- “Approval” - prior approval by two thirds of the external representatives on the investment committee provided that the approval shall have been documented in writing within seven day of the date of implementing the transaction;
- “Related party” – Each of the following:
- (1) Party at interest in the institutional investor;

- (2) Related party of the institutional investor;
- (3) A person managing the investments of the institutional investor, in relation to the moneys managed by it;
- (4) A person controlling or holding twenty percent or more of a particular type of means of control in the person managing the investments of the institutional investor, in relation to the moneys being managed by the investment manager;
- (5) Whoever is controlled by one of those enumerated in sub-paragraphs (3) or (4) in relation to moneys managed by the investment manager.

“Related party transaction” – acquisition of an asset or a service from a related party or sale of an asset or a service to a related party, and also the hiring of an asset from a related party or the leasing of an asset to a related party, excepting a transaction payment for which was made out of the management fees paid by the planholder of the insured;

“Transaction through a related party” – acquisition or sale of an asset through a related party, excepting a transaction paid for out of the management fees paid by the planholder or the insured.

- (B) A transaction by an institutional investor with or through related parties, shall be concluded on the conditions and at the price that would be payable to a non-related party under the same circumstances and shall be only one of the following:
- (1) A Stock Exchange transaction not being a coordinated transaction;
 - (2) A transaction in a foreign Stock Exchange or in a regulated market;
 - (3) An off-floor transaction in marketable securities in the Stock Exchange, off-floor in a foreign Stock Exchange and outside a regulated market, or a coordinated transaction for which approval has been given.

- (4) A transaction with a principal market maker for the purchase or sale of State of Israel bonds, to be concluded in accordance with instructions to be given by the Commissioner;
 - (5) Any other transaction for which approval has been given.
- (C) Notwithstanding sub-regulation (B), an institutional investor shall not conclude a transaction with any of the following:
- (1) With anyone controlling it or holding twenty percent or more in the means of control in it, excepting a transaction on the Stock Exchange, a foreign Stock Exchange or a regulated market, not being a coordinated transaction, foreign currency transactions, in options and future contracts as per Regulation 31 and a transaction with a principal market maker as per sub-regulation (B) (4);
 - (2) Another institutional investor controlled by the same corporation or whose investments are managed by it, excepting a transaction of the Stock Exchange, a foreign Stock Exchange, or in a regulated market not being a coordinated transaction;
 - (3) An insurer being its related party.
- (D) A group of investors is entitled to order securities issuance of which is marketed by its related party, up to 5% of the quantity sold in the offer, provided that approval has been given.
- (E) An institutional investor shall not loan securities through a related party.
- Investment in related parties 26.
- (A) Investment by an institutional investor in related parties shall be made on such conditions at such price as would be payable to a non-related party under the same circumstances.
 - (B) Total investment by an institutional investor in an interested party and in related parties shall not exceed 5% of the revalued valued of its assets.

- (C) An institutional investor shall not invest in any of the following:
- (1) A person controlling it or holding twenty percent or more of a particular type of means of control in it;
 - (2) A person managing its investments in relation to moneys managed by it;
 - (3) A person controlling or holding 20% or more of a particular type of means of control in a person managing its investments, in relation to moneys managed by it;
 - (4) In any of its officer holders;
 - (5) In anyone employed by it or being under its control, and not being an office holder in it, except for a grant of a loan to such employee being an insured or a planholder, in accordance with Regulation 17.
- (D) An institutional investor is entitled to invest in an entity controlled by one of those enumerated in sub-regulation (C) in sub-paragraphs (1) and (2) provided that the investment is in marketable securities only, and in accordance with a procedure prescribed by external representatives in the investment committee;

Transactions between the insurer's various types of liabilities

27. An insurer shall not conclude a transaction between its yield- contingent liabilities and its non-yield-contingent liabilities.
- For present purposes, "transaction" – purchase or sale of an asset.

Investment management by a portfolio manager

28. (A) An institutional investor is entitled to engage pursuant to a resolution of the investment committee, with an individual holding a license to manage investment portfolios, who works in a company licensed as an investment portfolio manager, with a company licensed as an investment portfolio manager, or with an foreign resident individual or company provided that they are licensed to manage investment portfolios under the law applicable in their country of domicile (hereafter – "portfolio manager").

- (B) Notwithstanding sub-regulation (A), an institutional investor is entitled to manage its investments through a party controlling it, a company under its control or under control of whoever controls it even if they do not hold an investment portfolio management license.
- Off-floor transactions 29. (A) An institutional investor is entitled to buy and sell a marketable security in an off-floor transaction on the Stock Exchange, or on a foreign Stock Exchange or on a regulated market, if the transactions has been accorded the prior approval of the investment committee and the approval has been documented in writing within seven days of the date of conclusion of the transaction.
- (B) Sub-regulation (A) shall not apply to a transaction between an institutional investor and a principal market maker for the purchase or sale of State of Israel bonds.
- Purchase and sale of securities 30. (A) An institutional investor shall buy and sell marketable securities including securities bought or sold by the investment manager through whoever shall have been appointed for the purpose in a competitive process approved by the investment committee of the institutional investor, in which all participants in the process are given equal opportunity to carry out the purchase or the sale; such competitive process shall be held at least once every two years between at least four participants.
- (B) Notwithstanding sub-regulation (A), an institutional investor shall be entitled to buy and sell also through an entity not chosen in such competitive process, provided that two thirds of the external representatives on the investment committee shall have confirmed that, as matters actually stand, it is the only one through which the purchases or the sales can be made.
- (C) Subject to sub-regulations (A) and (B), purchases or sales of securities through a related party shall not exceed 20% of total purchases or sales concluded by the institutional investor in the course of a calendar year.
- Foreign currency transactions in 31. An institutional investor shall conclude foreign currency transactions in non-marketable options and non-marketable future contracts in accordance with a the procedure

options and
future contracts

established in this matter by the investment committee in which the institutional investor will be obliged, inter alia, to apply to at least three concerns with a request for buying and selling prices; such transactions through a related party shall not exceed 20% of total transactions concluded by the institutional investor, of any type, in the course of a calendar year.

Participation in
general
meetings

32.

- (A) An institutional investor shall participate in and vote at a general meeting of a corporation in which it has the right to vote, for or against a draft resolution tabled for the approval of its general meeting, if the draft resolution represents a possible injury to its planholders or its insured, all according, or the promotion of their interest or, if relating to approval of a related party transaction or the grant of compensation- to an interested party.
- (B) Subject to sub-regulation (A), an institutional investor shall participate in and vote at a general meeting of a corporation of which it is a related party in a manner to be approved by two thirds of the external representatives on the investment committee.
- (C) An institutional investor shall retain written documentation of the particulars of the meeting, including its ratio of voting out of the total of holders of voting rights, and of how it voted; if the meeting shall have adopted a resolution for which the statutorily requisite majority is not an ordinary majority, the documentation shall also include these details: total shares participating in the vote, the number of shares having voted in favour of or against the draft resolution and the proportion of those out of the total shares included in the ballot for the purpose of voting; added to the documentation shall be any background material or preparatory work assembled for the purpose of the meeting and for the purpose of adopting the resolution as to how the institutional investor is to vote.
- (D) The provisions of this Regulation shall not apply in respect of a voting right deriving from investment in foreign securities, if the general meeting takes place outside of Israel.

Chapter IV: Investments in a Managing Company as Against its Shareholders' Equity

Managing company investments

33. (A) A managing company shall hold at least 70% liquid assets out of the minimal shareholders' equity required of it.
- (B) A managing company shall not invest the minimal shareholders' equity required of it in whoever controls in, it a related party or in a party related to whoever controls it.
- (C) A managing company shall not control and shall not hold twenty percent or more of a particular type of means of control other than subject to the provisions of Regulation 38(A) of these Regulation, mutatis mutandis; investment pursuant to this Regulation shall be made as against an amount exceeding the minimal shareholders' equity required of the managing company.
- (D) A managing company is not entitled to mortgage those of its assets that stand as against the minimal shareholders' equity or to guarantee an obligation of any type whatsoever.

Chapter V: An Insurer's Investments as Against Non-Yield-Contingent Liabilities

Mark A: Types of Liabilities

Types of liabilities

34. An insurer's liabilities and its shareholders' equity shall be classified as follows:
- (1) Class 10 – an obligation deriving from life insurance business either CPI-linked, linked to the foreign currency exchange rate, or denominated in foreign currency in Israel;
 - (2) Class 20 – Yield-contingent obligation;
 - (3) Class 30 – an obligation deriving from life insurance business and not included under Class 10 or 20 liabilities;
 - (4) Class 40 - an obligation deriving from general insurance business in Israel;
 - (5) Class 50 – an obligation deriving from life insurance business outside Israel;
 - (6) An obligation deriving from general insurance business outside Israel;

- (7) Class 70 – the shareholders’ equity amount up to the minimal shareholders’ equity amount required pursuant to the shareholders’ equity regulations;
- (8) Class 80 – The shareholders’ equity in excess of the minimal shareholders’ equity amount required pursuant to the Shareholders’ equity regulations;
- (9) Class 90 - other liabilities not included in sub-paragraphs (1) to (8).

Applicability 35. The provisions of this Chapter shall apply to liabilities Classes 10, 30, 40, 50, 60, 70, 80 and 90 (hereafter – “non-yield-contingent liabilities”) only, unless stipulated that they also apply in relation to Class 20 liabilities.

Mark B: Restrictions on an Insurer’s Investment

Deferred acquisition expenses costs

36. An insurer shall hold ~~deferred acquisition expenses~~deferred acquisition costs as follows:

(A) In life insurance -

- (1) As against a Class-10 obligation in respect of life insurance policies issued by 14th Tevet 5751- (31st December 1990);
- (2) As against a Class 70 obligation not exceeding the sum of these two:

(A) Deferred ~~acquisition expense~~acquisition cost in respect of life insurance policies issued commencing 7th Tevet 5764 (1st January 2004);

(B) 55% of the difference between the balance of the ~~deferred acquisition expenses~~deferred acquisition costs in life insurance as recorded in the insurer’s book, and the balance of ~~deferred acquisition expenses~~deferred acquisition costs for income tax purpose subject to their having been recorded -

- (1) In respect of life insurance policies issued by 6th Tevet 5764 (31st December 2003);

(2) In respect of deposits made by 19th Tevet 5765 931st December 2004);

(3) As against 80 and 90 Class liabilities.

(B) In general insurance – as against 40 and 60 Class liabilities only; for this purpose “general insurance” – all insurance sectors within the meaning thereof in the Insurance Sectors Notice, excepting life insurance and sickness and hospitalization insurance.

(C) In sickness and hospitalization insurance – as against 70, 80 and 90 Class liabilities only.

Application of Chapter III provisions

37. Applicable to the insurer’s investments as against non-yield-contingent liabilities shall be the provisions of Regulations 6, 8(A), 11, 12, 13(B), 16, 17,18, 19 (1), 20, 21,22, and 27, with the following modifications:

(A) Wherever “~~intitutional~~institutional investor” appears, it shall be replaced by “insurer”;

(B) Wherever “the revalued value of its assets” appears, it shall be replaced by “the amount of each type of obligation separately”;

(C) In Regulation 8, sub-paragraph (B) shall be replaced by the following:

“(B) Assets the investment in which deviates from the permitted investment ratios and from the investment limits pursuant to these Regulations, shall be deemed to be non-recognised assets within the meaning thereof in the Shareholders’ Equity Regulations”.

(D) In Regulation 11 – following sub-regulation (C) insert:

“(D) Investment as per sub-regulation (A), excepting a deposit held in a hand, shall not exceed 15% of the insurer’s shareholders’ equity, and such investment included a deposit held with a bank and with banks controlled by shall not exceed 30% of the insurer’s shareholders’ equity”;

(E) In Regulation 12, the text shall be marked “(A)”, and shall be followed by:

“(B) Investment as per sub-regulation (A) shall not

exceed 30% of the insurer's shareholder's equity.”;

- (F) ~~In~~ Regulation 13(B) , the words “notwithstanding sub-regulation (A)” shall be deleted;
- (G) In Regulation 16, the text shall be marked “(A)” and shall be followed by:
 - “(B) An insurer is entitled to grant a loan to its employee, on fulfilment of the following:
 - (1) The loan is granted in accordance with a procedure approved by the Board of Directors;
 - (2) The loan is granted on ordinary commercial terms;
 - (3) The sum total of all loans granted to employees accepting loans to an insured as provided by Regulation 17 shall not exceed 1% of the insurer's shareholders' equity”.
 - (C) Notwithstanding sub-regulation (B)(2), and subject to sub-regulations (B) (1) and (3), an insurer is entitled to grant a loan to its employee, other than on ordinary commercial terms, provided that the sum total of all loans to such employee shall not exceed NIS 100,000.
- (H) In Regulation 20_-
 - (A) At the end of paragraph (1) insert: “and provided that the value of all such options shall not exceed 5% of its shareholders' equity”;
 - (B) The ending of paragraph (2), commencing with the words “shall not exceed”, shall be replaced by “shall not exceed 15% of its shareholders' equity in addition to the ratio in sub-paragraph (1), and on condition that the prior confirmation shall have been obtained of two thirds of the planholders of the investment committee that they are non-yield-contingent.”;
- (I) In Regulation 22 -
 - (A) At the end of sub-paragraph (A) insert:

“provided that the total value of the security shall not exceed 10% of the insurer’s shareholders’ equity”;

(B) After sub-paragraph (C) insert:

“(D) In this Regulation, “security” – including a credit limit utilized for the making of transactions in options, in future contracts and short selling.”

(C) For the purpose of this Regulation -

(1) Also to be taken into account are investments standing as against a Class 20 obligation and investments held by a group of investors of which the insurer is a part;

(2) All or any of the investments made by a subsidiary of an insurer not being an insurer-, and which is occupied primarily with the holding of assets, shall be deemed to have been made by the insurer.

Investment in insurer or in a corporation engaging in insurance brokerage mediation

40. (A) An insurer shall not invest directly or indirectly in another insurer or in a parent company of another insurer unless all of the following are fulfilled:

(1) Its rate of holding of any class of means of control in an insurer or a parent company of another insurer does not exceed one percent, and its total holdings per this sub-paragraph of the means of control in other insurers or in parent companies of other insurers does not exceed five percent of its shareholders’ equity; the provisions of this sub-paragraph shall not apply to a holding of means of control in another insurer or a parent company of another insurers for which permission is given pursuant to Section 32 of the Insurance Law;

(2) The investment shall have obtained the prior approval of the Commissioner; such approval shall determine the conditions and maximum amount of the investment.

(B) Direct or indirect investment by an insurer in another corporation engaging in insurance ~~brokerage mediation~~ is subject to the prior approval of the Commissioner;

(C) Notwithstanding sub-regulation (A), investment by an insurer in securities of another insurer or of a parent company of another insurer shall not be subject to the prior approval of the Commissioner-, provided that all of the following are fulfilled:

~~(1) The rate of its holding in any type of means of control in another insurer or in the parent company of another insurer does not exceed one percent, and its total holdings per this sub-paragraph in the means of control in other insurers or parent companies of other insurers does not exceed five percent of its shareholders' equity; the provisions of this sub-paragraph shall not apply to a holding of means of control in another insurer or the parent company of an insurer for which permission has been given under Section 32 of the Insurance Law;~~

~~(2) The investment shall have obtained the prior approval of the Commissioner; such approval shall determine the conditions of the investment and its maximum amount;~~

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על עצמו???](#)

~~(B) Director or indirect investment by an insurer in another corporation engaging in insurance intermediarybrokerage is subject to the prior approval of the Commissioner;~~

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~~(C) Notwithstanding sub-paragraph (A), investment by an insurer in securities of another insurer or the parent company of another insurer shall not be subject to the prior approval of the Commissioner, provided that all of the following are fulfilled:~~

~~(1) The rate of investment does not exceed five percent of the nominal value of such security;~~

~~(2) The rating of investment does not exceed five percent of the sum total of each type of obligation as against which the insurer holds such securities;~~

- (3) Its total investments in securities of another insurer or the parent company of another insurer does not exceed one percent of its shareholders' equity.
- (4) Its total investments in securities of other insurers or parent companies of other insurers do not exceed five percent of its shareholders' equity.

(D) In this Regulation:

“Investment” – the grant of a loan, the creation of a debit balance other than in the ordinary course of insurance business, the purchase of securities including security for the safekeeping of which the insurer stands guarantor.

“Parent company” – a corporation in which all of the following are fulfilled:

- (1) It holds more than fifty percent of a particular type of means of control in a given insurer;
- (2) Its share in the insurer's shareholders' equity exceeds fifty percent of its shareholders' equity.

Investments as against Class 70 to 90 liabilities

41. Investments of the types set forth below shall be held as against Class 70 to 90 liabilities only:

- (1) Non-monetary assets respecting which no express provision is made in these Regulations;
- (2) Deferred tax;
- (3) ~~Acquisition expense~~ Acquisition costs of an insurance portfolio from another insurer.

Mark C: General Provisions

Linkage of investments

42. The linkage conditions of securities, deposits and loans shall conform to the linkage conditions of the type of obligation against which they are held; this provision shall not apply to Class 30, 41 liabilities or to Class 70, 80 and 90 liabilities;

The insurer's assets

- 43 (A) An insurer shall hold an asset only if its right therein is an ownership right, including a perpetual leasehold, and its control thereof is complete, whole and direct, and no lien or mortgage attaches thereto.
- (B) Notwithstanding sub-regulation (A), an insurer may

invest in an asset under joint ownership, if the following conditions are fulfilled:

- (1) An agreement exists between the partners for the management of the asset;
- (2) The insurer is entitled, at all times, to realise its investment or to transfer its share in the asset to another controlled institutional entity in Israel;
- (3) On fulfilment of one of the following:
 - (A) The insurer is a limited partner in a partnership duly registered in Israel or in an approved foreign country and the rate of its holding in the partnership does not exceed forty-nine percent; for this purpose, "holding" - including a holding of a group of investors of which the insurer is a part;
 - (B) By reason of an investment in a real estate asset under joint ownership, provided that no lien or mortgage attaches to the insurer's share in the asset.
- (C) Notwithstanding sub-regulation (A) and subject to Regulation 38(C), an insurer is entitled to acquire and to hold a right in land, in fixed assets and in other non-insurance activity, through a wholly owned subsidiary provided that the subsidiary engages primarily in the holding of assets and no lien or mortgage attaches to its assets.
- (D) An insurer shall not hold an asset through a trustee except with the prior approval of the Commissioner.
- (E) An insurer is entitled to place moneys in a deposit or to hold securities in the safekeeping of one being a Stock exchange member under the Articles of the Stock Exchange within the meaning thereof in Section 46 of the Securities Law or with other entities approved by the Commissioner, and subject to directives he may issue in this regard.
- (F) Notwithstanding sub-regulation (A) and subject to Regulation 22, an insurer is entitled to deposit securities with a bank, a clearing house, a Stock exchange member or a financial institution approved by the Commissioner, as against an investment in

options, in future contracts, in short selling or in a securities buyback transaction.

- (G) An insurer is entitled to hold deposits and debentures in depository in a bank in Israel as against letters of credit necessitated by overseas reinsurance agreements, in an amount not exceeding the insurance liabilities in such agreements.

Foreign insurer's investment

44. (A) A foreign insurer shall invest and hold assets in Israel in the amount of its total liabilities in Israel, plus its total surplus of assets over liabilities as determined in Regulation 8 of the Shareholders' Equity Regulations.
- (B) A foreign insurer is entitled to transfer abroad an amount exceeding 110% of the sum total of all the assets required per sub-regulation (A).

Transfer of funds to foreign reinsurer

45. An Israeli insurer is entitled to transfer cash to an overseas reinsurer out of its business accruing in Israel in accordance with the Commissioner's directives.

Mark D: Class 10 – Investments as against liabilities in Israel deriving from value linked life insurance business or foreign currency denominated

Secondary liabilities types

46. Class 10 liabilities shall be divided into these sub-classes:
- (1) Class 11 – [obligation linked to the Consumer Price Index](#) ~~linked obligation~~ in respect of which the insurer is entitled to purchase designated debentures.
- (2) Class 12 – obligation linked to the Consumer Price Index –in respect of which the insurer is not entitled to acquire designated debentures.
- (3) Class 13 -- obligation linked to the exchange rate of the US dollar or denominated in such currency;
- (4) Class 14 - obligation linked to the exchange rate of the Euro or denominated in such currency;
- (5) Class 15 – ~~Obligation~~ [obligation](#) linked to an index or a currency not enumerated in the liabilities of Classes 12 to 14 or not denominated in such currency.

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Linkage of investments

47. Notwithstanding Regulation 42, an insurer is entitled to hold assets whose linkage conditions are different from the linkage conditions of the types of obligation as against which they are held, at the following rates:

- (A) Class 11 obligation – up to 10% of the amount of any obligation;
 - (B) Class 12 obligation – up to 25% of the amount of any obligation;
 - (C) Class 13 to 15 liabilities – up to 15% of the amount of each class of obligation separately.
- Risk distribution index 48. The risk distribution index shall not, at any time, be less than the following:
- (A) In a Class 11 obligation - 50%; not to be taken into account in computing the risk distribution index are designated debentures and the amount of the obligation standing against them.
 - (B) In Class 12 to 15 liabilities – 70%.
- Prohibition of investment 49. (A) An insurer shall not invest as against Class 12 to 15 liabilities in rights in land, in shares, in options and in future contracts.
- (B) Notwithstanding sub-paragraph (A), an insurer may invest in options and futures whose underlying asset is interest, index or exchange rate, provided that such investments are designated for the hedging of risks.
- Class 10 obligation money management 50. An insurer shall set rules for the management of moneys in policies against which, or against part of which, there stand no designated debentures, which shall include, inter alia, the following:
- (A) Adjustment of the amended average lifetimeduration of the assets held against them to the amended average lifetimeduration of the liabilities;
 - (B) Minimal ratio of liquid assets.
- Mark E: Class 30- Investment as against obligation in Israel deriving from unlinked or death risk only life insurance business
- Secondary obligation classes 51. Class 30 obligations shall be divided into these secondary classes:
- (1) Class 31 - an obligation deriving from life insurance business not including in a Class 10 or 20 obligation.

- (2) Class 32 – An actuarial reserve for long-term care insurance and for incapacitation for work.

- Risk distribution index 52. The index for the distribution of risk in Class 31 and 32 obligations shall at no time be less than 75%.
- ~~AA~~AAD of assets 53. The amended average lifetime duration of the assets held as against Class ~~32-31~~ and ~~33-32~~ obligations shall be determined by a committee on non-yield contingent investments, in accordance with the recommendation of the responsibly appointed actuary.

Mark F: Class 40 – Investments as against obligations in Israel deriving from general insurance business in Israeli currency and in foreign currency

- Secondary obligation classes 54. Class 40 type obligations shall be divided into the following secondary classes:
- (1) Class 41 – obligation denominated in Israeli currency;
- (2) Class 42 – obligation linked to or denominated in foreign currency.

- Linkage of investments 55. Notwithstanding Regulation 42, an insurer is entitled to hold assets the whose linkage conditions differ from the linkage conditions of a Class 42 obligation by not more than 20% of the amount of the obligation.

- Risk distribution index 56. The risk distribution index -in Class 41 and 42 obligations shall at no time be less than 60%.

- ~~AA~~AAD of assets 57. The amended average lifetime duration of the assets held as against a Class 41 or 42 obligation shall be determined by a committee for non-yield contingent obligations, in accordance with the recommendation of the responsible appointed actuary.

- Mortgage secured housing loans 58. An insuring holding a license to engage in the insurance of housing loans secured by a mortgage only shall not hold a right in land or in a debenture back by a right in land, unless required to acquire such assets in its ordinary course of business and on conditions approved by the Commissioner.

Mark G: Class 70 - Investments as against shareholders' equity amount up to the minimal shareholders' equity amount required in accordance with the Shareholders' Equity Regulations

- Insurer's investments 59. An insurer is entitled to make investments as per Regulation 41as against Class 70 obligations, provided that the total value

of such investments shall not exceed 30% of the said obligations.

- | | | |
|--|-----|---|
| Liquid assets | 60. | An insurer shall hold liquid assets in an amount not less than 30% of Class 70 obligations, net of the value of all liquid assets -required of an insurer being its subsidiary, multiplied by its rate of holding in such company. |
| Control of bank, managing company or other insurer | 61. | An insurer shall not invest, directly or indirectly, including through any of its subsidiaries, in a bank, in a managing company or in another insurer control by it as against a Class 70 obligation, in an amount exceeding the added equity required pursuant to Regulation 5 of the Shareholders' Equity Regulations. |
| Non-bank investee companies, managing company or insurer | 62. | An insurer is entitled to hold means of control in non-bank investee companies, in a managing company or an insurer in a rate not exceeding 40% over a Class 70 obligation. |

Chapter 6: General provisions

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|---|-----|--|
| Written documentation | 63. | An insurer and a managing company shall retain full documentation of transactions concluded in accordance with the provisions of these Regulations for a period of seven years and shall report on them to the Commissioner, on demand. |
| Commencement, applicability and transitional provisions | 64. | A provident fund which on date _____ duly held a deposit of a related party or granted a non-negotiable loan to a related party, in contravention of the provisions of Regulation 25 of these Regulations, shall be entitled to continue to hold such deposit or such non-negotiable loan until the day on which, according to the terms of the deposit or the loan, all according, they can be realised without a fine. |

First Schedule

(Definition of Amended Average Lifetime-Duration (AADL) – Regulation 1)

Calculation of Average Lifetime-Duration and Amended Average LifetimeDuration

- Definitions:
- | | |
|----------------|--|
| D | Average <u>lifetimeduration</u> |
| MD | Amended average <u>lifetimeduration</u> □ |
| R _t | Rate of yield to maturity for period 1 (percent) □ |
| C _t | Cash flow in t time |
| t | Time (in years) |
| N | Period remaining to maturity (in years) |

(1) Calculation of average lifetimeduration –

$$D = \frac{\sum_{t=1}^N \frac{C_t * t}{(1 + R_t)^t}}{\sum_{t=1}^N \frac{C_t}{(1 + R_t)^t}}$$

2) Calculation of amended average lifetimeduration:

$$MD = \frac{D}{1 + R}$$

The assets included in the calculation:

- 1) Debentures other than designated debentures
- 2) Loans
- 3) Deposits

Second Schedule

(Definition of “weighted value of assets” in Regulation 1)

Ratios for the purpose of computing Risk Distribution Index by types of assets

Rate of value of the asset for the purpose of computer the Risk Distribution Index	Type of assets
	Marketable assets
	1 . Debentures
95%	(A) Short term loans;
90%	(B) State of Israel bonds excepting STLs;
80%	(C) Concern debentures rates Israel and upward or commercial papers rated A2 and upward.
50%	(D) Concern debentures rated less than BBB and non-rated or commercial papers rated less than A2.
90%	(E) Debentures of approved foreign country with a rating of not less than the rating of the State of Israel.

- 80% (F) Concern debentures traded overseas with a rating of BBB and upward or commercial papers with a rating of 2A and upwards;
- 50% (G) Concern debentures traded overseas with a rating lower than BBB and unrated and commercial papers with a rating lower than A2.
2. Shares
- 75% (A) Tel-Aviv 25 shares
- 65% (B) Tel-Aviv 100 shares not being Tel-Aviv 25 shares
- 50% (C) Shares traded in Israel not defined in subparagraphs (A) and (B);
- 65% (D) Shares traded overseas;
- Non-negotiable assets
- (3) Debentures, loans and deposits
- 100% (A) Designated debentures
- 85% of Paragraph 1 (B) Debentures, loans, deposits and debit balances of re-insurers as per Paragraph 1 in re debentures
- 85% of Paragraph 1 in re debentures (C) Debentures and loans rated by the insurer; for the purpose of this paragraph rating by an insurer in accordance with a model approved by the ~~commissioner~~ Commissioner shall be deemed as if made by a rating company;
- 100% (D) Loans as against life insurance policies;
- 85% (E) A loan secured by a mortgaged on a residential apartment, provided that the ratio of the loan to collateral does not exceed 60%, and if the loan is secured under housing loan insurance secured by a mortgage, provided that the ratio of the loan to the collateral net of the insurance coverage does not exceed 55%.
4. Unit of participation in mutual funds
- 85% (A) Units of participation in mutual funds whose rate of investment in debentures rated at least BBB is

greater than 80 percent and which do not invest in derivatives.

65%	(B)	Units of participation in other mutual funds;
100%	5.	Cash and short term deposits for a period of up to 3 months in banks;
30%	6.	Shares or right in partnership;
40%	7.	Right in land;
25%	8.	Other assets and other non-marketable assets;
100%	9.	Deferred acquisition expenses <u>Deferred acquisition costs</u> in general insurance.

In this Schedule-

“Tel-Aviv 25 shares” – shares included in the Tel-Aviv 25 list of the Stock Exchange or any other list that may replace it as determined by the Stock Exchange;

“Tel-Aviv 100 shares” – shares included in the Tel-Aviv 100 list of the Stock Exchange or any other list that may replace it as determined by the Stock Exchange.