

Measures Being Taken
Regarding the Long-term Savings Market
Following the Global Crisis

Ministry of Finance

Capital Markets, Insurance and Savings Division

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In recent months we have been witnessing the occurrence of an intense global economic crisis which has been affecting the economies worldwide. The combination of a financial crisis and the crisis in the real economy has led to sharp declines in the financial markets, a contraction in the supply of credit, increased levels of unemployment and a reduction in the wealth held by the public. All these have been felt throughout the world and, inevitably, in Israel as well.

The world crisis has adversely impacted the financial systems abroad, and has even caused the collapse of foreign financial institutions that were considered to be untouchable up until just a few months ago. Consequently, the trust that investors had in the various markets and that the savings public and the private investors had in the strength of the financial system, along with the confidence they had in the financial entities that manage their funds, were all diminished. In Israel as well, notwithstanding the fact that in comparison to other countries, the pension savings market has absorbed yields that are less negative, the public's faith in the financial entities that manage their funds has declined.

Since the global crisis began, the Capital Markets Division has followed its implications as expressed in the markets in Israel and throughout the world, while making a careful examination of the financial data of the institutional bodies it supervises. Specifically, the Division has followed the crisis' implications on the stability of these supervised institutional bodies, and for the influences these factors have on the financial stability of the economy in general.

During this period, the institutional bodies face increased responsibility, particularly with regard to their ability to repay loans that were given to the business sector in the last years, in the name of the saving public. The proper conduct of the institutional bodies is critical both in terms of the preservation of the public's funds and in terms of the development of Israel's capital market.

In addition, the crisis has increased the saving public's dissatisfaction with the level of service it receives from the institutional bodies. The level of service, although being examined and measured by the saving public at the peak of a financial crisis, must improve, and there is no obstacle preventing this service from being much better. The management fees that the institutional bodies collect from the savers obligate them to provide a higher level of service, one which matches the level of importance that the public attributes to pension savings.

In light of the deficiencies that caused the global crisis to develop, there is a need to examine whether changes are required with regard to the regulatory provisions and the supervision of the institutional bodies.

In recent months, representatives from the Capital Markets, Insurance and Savings Division, with the Commissioner of Capital Markets taking the lead, have held a long series of conversations with a very wide variety of parties that are active in the capital market and outside of it, including public personalities, academics, consumer and worker organizations, managers of institutional bodies, bank directors, investment managers and accounting and law firms who deal with the capital market.

The Division thanks these many parties for the useful advice that was received.

The points that were raised in these conversations, together with the issues that arose from the work of the intra-division team that was established in recent months, have led the Division to take a number of measures the main purpose of which is to provide better protection for the saving public's funds. This document details these measures.

Although the Western countries have been holding wide-ranging deliberations regarding the regulatory measures that are needed in light of the problems that arose along with the financial crisis, no specific regulatory provisions have been published anywhere. Of course, when such provisions are published in the European Union countries and in the United States, our Division will examine them for the purpose of adjusting them for use in Israel.

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1. Matching the Risks of the Investments to the Customer's Traits (Implementation of the Chilean Model)

Today, some 85% of the funds invested by those who save in the various pension savings instruments are invested in "general" tracks¹ (tracks to which the pension fund members are matched automatically when they first join the fund unless they ask for a different track)

Consequently, the funds of those members who are close to retirement age are invested in the same investment tracks, with the same level of risk, as are the funds members who are in their twenties and thirties. In other words, there is no matching of the level of risk in the investment portfolio with the characteristics of the member

The Capital Markets Division will arrange a series of provisions that will guarantee a gradual reduction of the risk levels over the savings period. Additionally, we will significantly reduce the volatility in the returns on pension savings in the years that approach retirement age and we will minimize, to the extent possible, the fluctuations in the size of the pension payment. The arrangement will apply to all pension savings assets, including assets of current fund members.

Measures to be taken:

- The institutional bodies will be required to establish investment tracks that will serve as default options and will be matched to the characteristics of the saver (matching will be based on, at the least, the saver's age, but the institutional bodies will be able to establish additional parameters). A saver who does not expressly request to move to a different track will be put into these tracks automatically.
- The "general" tracks will be cancelled and the reform will apply to the existing savers and amounts that are currently invested in these tracks.
- A work team will be established which will recommend a mix of investments for tracks designated for savers over age 60, with the objective of reducing significantly the fluctuations in the investment portfolio in the years closely preceding retirement and to preserve, to the extent possible, a fixed pension payment after retirement;
- Similar provisions will be established in connection with pensions for loss of ability to work and for nursing care insurance.

Expected date for publication of the draft arrangement: Second quarter, 2009.

¹ Investment track – investment portfolio which may be general or may have specific investment guidelines. The "general" track are a balance fund made up mainly of bonds, stocks, bonds, loans and deposits

2. Reduction of the number of investment tracks in pension savings products

The institutional bodies currently manage hundreds of provident funds and a variety of investment tracks. In most of them, the tracks invest in identical channels, with the main difference being the branding of the track and its marketing. The members have to choose between hundreds of different products, with the average saver not having a clear understanding of the differences between them. Sometimes these tracks are presented as specializing in a particular investment type, even though in actuality their investment mix is very similar to that of the general tracks. The number of specialized investment tracks (tracks that are not defined as default option tracks) that are managed by the institutional bodies will be reduced significantly.

At the same time, so that the names of the provident funds and investment tracks will properly reflect the fund's or track's investment profile and so that proper and more relevant comparisons can be made by the savers, we will establish clear and uniform principles regarding the names that may be given to provident funds and investment tracks – such that the names will properly reflect the investment mix or the risk involved in such a mix.

Measures to be taken:

- The general tracks will be cancelled;
- Specialized tracks with similar investment mixes will be merged;
- Publication of provisions and rules for establishing names for provident funds and investment tracks in insurance policies and pension funds.

Expected date for publication of the draft arrangement: Second quarter, 2009.

3. Transition to publication of annual yield of pension savings products

Pension savings products are long-term savings products whose performance should be examined over long periods. The rules for publication of the funds' yields are intended to enable the saver to make a comparison between the various pension savings products and to assist that saver in reaching an informed decision regarding their investment.

However, currently, the yield from the last month is what is generally used as a marketing tool by the institutional bodies and by those marketing their pension savings products, and these yields are, consequently, what the savers use as an analytical tool with regard to making decisions regarding such products. In many of the institutional bodies' publications or those of the parties that market their products, the returns over short periods, such as the last month or the last few months, are presented as an important parameter for making decisions to join a particular fund or to transfer from one fund to another fund. This reality indirectly affects the making of decisions by the institutional body itself, and in particular by the investment manager, who is biased in favor of achieving a high monthly return which will serve the institutional body's marketing mechanism, in preference to the promotion of the savers' long term purposes. Since, as stated, these are long term savings, we will prohibit the institutional bodies and the marketers of their products from using short-term yield in order to advertise or make comparisons between tracks or funds.

Measures to be taken:

- Establishment of regulatory provisions to the effect that an institutional body or a marketer who wishes to advertise a yield, in any publication or marketing tool whatsoever, cannot publish a yield for a period which is shorter than 12 months.
- Updating the Gemel-Net, the Pension-Net and Bituach-Net² websites accordingly, such that they do not publish yields for the last month, but only yields that have been achieved over the past 12 months.

Expected date for publication of the draft arrangement: Third quarter, 2009.

² Interactive programs on the Ministry of Finance's internet site which track the yield for Pension funds, provident funds and insurance companies' investment tracks (Gemel-Net for provident funds, Bituach-Net for insurance funds, and Pensia-Net for pension funds)

4. Reporting requirement in the quarterly report to savers regarding management fees

Once each quarter, reports are sent to all savers in provident funds, pension funds and insurance companies – reports which provide details regarding, *inter alia*, the deposits made during that quarter. The quarterly report is relatively limited as compared to the annual report and does not include any reporting regarding the management fees.

In order to allow the saving public to determine the conditions of their pension savings in a more comprehensive manner, we intend to require that additional data be included in the quarterly reports – in particular, data regarding management fees collected from the saver during the past quarter. In addition to their publication in the quarterly report, the management fees will be available to customers through the information retrieval system on the Internet. The savings public will thus have information available to them regarding which they can deal with the institutional body managing their savings or vis-à-vis other institutional bodies to which they can transfer their savings.

Measures to be taken:

- Amendment of the existing Circular concerning quarterly reporting to plan members and to insured – requiring the addition of details regarding management fees in accordance with what is already included in the annual report;
- Addition of management fees to the personal information which is available to all savers on the institutional body's website.

Expected date for publication of the draft arrangement: Third quarter, 2009.

5. Establishment of standards for customer service systems for the institutional bodies

A draft arrangement published by the Capital Markets Division at the end of 2008 regarding the treatment of claims submitted to the insurance companies and to the institutional bodies establishes general lines regarding their behavior after a claimant submits a request for receipt of benefits, including a specification of the documents that they are to provide, schedules for the provision of a response, etc. In recent months, the need to improve the service provided by the institutional bodies other than in the context of the response to financial claims has arisen. The reference is to those savers who wish to receive information regarding their policies, to clarify what are the yields that the funds have achieved, to obtain information regarding the possibilities for insurance coverage or to receive any other information which is not connected specifically to the submission of a claim.

The Capital Markets Division therefore intends to regulate the issue of the customer service to be provided by the institutional bodies, through a Circular which will apply to all the institutional bodies.

Measures to be taken:

- Establishment of time limits for the provision of responses to requests from savers;
- Provision of written confirmations to insured members regarding the execution of transactions;
- Imposition of a requirement regarding documentation and preservation of information;
- Use of enforcement measures against institutional bodies that deviate from the provisions.

Expected date for publication of the draft arrangement: Fourth quarter, 2009.

6. Publication of Statement of Investment Policy

Currently there is a high level of transparency with regard to the institutional bodies' investment performance. The institutional bodies publish a list of securities in which they invest in, the returns that they have achieved and an additional wide variety of reports. These reports provide the saver data regarding the composition and management of the institutional body's investment portfolio.

Nevertheless, this information refers only to the results of the institutional bodies' investment portfolios after the fact. In actuality, almost no information is provided regarding the investment policy that the institutional body intends to follow in the near future. In addition, it is not possible to examine the connection between the institutional body's investment policy and the results that the institutional body achieves. Thus, for example, a much higher return than the institutional body intended to achieve can indicate a higher risk level [for the institutional body's investments] than had been planned.

Therefore, we intend to require the institutional bodies to publish an annual investment policy which they expect to follow during the coming year, while referring to the percentage of the investment regarding which they expect to be exposed with respect to each key investment channel. We will thus enable the saver to choose, in advance, the pension savings body that matches the saver's tastes and risk preferences, and we will also allow the saver to determine whether and to what degree the institutional body in which his or her savings are held has deviated from the investment policy it had declared in advance.

Measures to be taken:

- The imposition on the institutional bodies of a requirement that they inform the savers in advance and in writing of the investment policy that they expect to follow in the coming year;
- The publication of benchmarks that the institutional bodies wish to achieve;
- Any change in the investment policy will require that the savers be updated in the framework of the quarterly report published closest to the date of the change;
- The provision of an opportunity for savers to examine, on an ongoing basis, the returns achieved by the institutional body in comparison to the benchmarks that the institutional body had itself announced.

Expected date for publication of the final arrangement: Second quarter, 2009.

7. Individual Retirement Account (IRA's)

The operation of private provident funds is a new model for Israel, in which, for the first time, it will be possible for a saver to manage his own savings. In other words, the saver himself will choose the investment assets in the personal provident fund.

This model allows each saver to manage his own pension savings, at the risk level which is exactly suited to him, and to invest in the assets that he believes serve his purpose and his purpose only.

Thus, for example, if this model were to exist in Israel, savers could transfer their savings from regular provident funds to personal provident funds in which they would invest in government debentures or bank deposits, all at what would apparently be lower management costs and lower risk.

At the same time, in light of the global crisis and with the intention to balance the saver's right to make investment decisions regarding his pension savings by himself, and a desire to prevent a situation in which those who save through this instrument might tend to take upon themselves unreasonable investment risks, we plan to make a number of changes in the regulations so as to limit the investment rules that will apply to those who save through this instrument.

Additionally, we will examine the possibility of limiting the savings in personal provident funds to only certain types of savings.

Measures to be taken:

- The provision of an opportunity to savers to manage, at low costs and at the risk level they choose, their own pension savings (i.e., in basket certificates, bank deposits, government debentures) while preserving the tax benefits of regular pension funds.

Expected date for publication of the draft arrangement: Second quarter, 2009.

8. Coordination of the compensation for investment managers with long-term results of the institutional bodies

The average savings period for retirement savers is tens of years long. Therefore, it is necessary to work towards a situation in which the making of decisions by both the saver and the institutional body that manages the investment will relate to this period and not to shorter periods of time, which do not serve to benefit the saver.

As a consequence of the existing competition in the pension savings industry, there is a certain tension between the desire to achieve better results over time and the desire to achieve good and immediate results in the short term ("the yields competition").

The desire of investment managers to achieve better results in shorter time periods can be translated by them into investments in certain assets which do not always match the character of the investment that we would have expected to find in savings that are being managed for the long term. In addition, this reality creates an incentive to present excessive profits of certain assets. (A number of institutional bodies have even subjected to monetary fines by the Division due to profit "flooding" and improper valuation of assets).

As the directors of the institutional bodies wish to provide incentives for the investment managers to achieve high yields in the short term, the character of their compensation is also calculated on the basis of the short-term. It is therefore our intention to intervene with regard to the manner in which the investment managers are compensated, such that their compensation policy will be consistent with the benefit of savers in the long run.

Measures to be taken:

- The institutional bodies will be required to establish a compensation policy for investment managers and for those who are involved in the institutional bodies' investments, based on long-term results.
- The audit committee of an institutional body will be required to ascertain that the compensation policy being followed suits the desired investment channel for the savers and that it takes into consideration the risk level at which the results were achieved;
- A restriction will be imposed on the distribution of bonuses that are based on results achieved over a period shorter than three years;
- The principles of the institutional body's compensation policy will be published in its financial statements.

Expected date for publication of the draft arrangement: Second quarter, 2009.

9. The institutional bodies' investments in corporate debentures

In recent years, in the context of the development of the non-bank credit market, the percentage of the institutional bodies' investment in corporate debentures and in loans to business companies has grown. The global crisis has especially affected trading in tradable corporate debentures, which has led to a widening of their credit risk margins, an increase in their yields and volatility in their prices. This situation necessitates a strengthening of the existing standards for assessment of the risks involved in an investment in corporate debentures, and of the standards for the supervision and control of such investments.

In addition, the corporate debentures market in Israel is a new and young market, and the activity of institutional bodies in that market has and will have important consequences in terms of its quality and future development with regard to the relationship between the borrowing business companies and the institutional bodies that invest the savers' funds in these debentures.

In order to ascertain that the institutional bodies are taking the steps required of them with regard to their investments in corporate debentures, a number of measures are suggested which will improve both the decision-making process relating to these investments and the professional abilities of the institutional bodies, in a manner which is consistent with the good of the savers.

a. The acquisition stage

1. A prohibition against investing in debentures without obtaining minimal information

Today, the statutory provisions include no obligation regarding the information to which institutional investors are entitled to receive when they are interested in examining an investment in debentures. In a market in which demand exceeds supply, such as when there is considerable available money on the side of the institutional bodies and less supply coming from companies seeking to raise funds, the companies seeking to raise funds do not wish to volunteer relevant information which relates to an investment in them, as they are aware that in many cases fairly basic information is sufficient to persuade the institutional bodies to invest in them.

This situation can lead to a condition in which investments in certain private companies are carried out without any in-depth study and analysis. We intend to require that any such investment will require the prior receipt of minimal information that meets certain conditions, both in terms of the quality of the information and in terms of the amount of time before the investment itself when such information is received.

Measures to be taken:

- Definition of issues to be referred before institutional bodies which invest in debentures;
- The determination [that certain] data and business information regarding the issuing company must be provided to the institutional bodies in the context of private offerings as well. If the information and the data is not provided, the institutional bodies are prohibited from investing in these assets;
- An investment in negotiable debentures will be carried out on the basis of an internal analysis by the purchasing institutional body without relying exclusively on an investment rating as a single parameter to serve as the basis for the analysis.

Expected date for publication of the draft arrangement: Second quarter, 2009.

2. Sample deed of trust to which the institutional bodies will be required to refer to before purchasing debentures

As a consequence of the financial crisis, it has become clear that the system of connections between the trustee of the issuing company and the institutional bodies is not clear, and that therefore, in many cases in which there is a question about repayment of the debt, it is not sufficiently clear what steps the trustee is required to take in order to secure the rights of the investors in the debentures.

In order to guide the institutional bodies with respect to the subjects regarding which their investment committees must relate prior to deciding on an investment in debentures, we will formulate a sample deed of trust (a “shelf” deed) which will include the qualitative and quantitative parameters regarding which the institutional bodies will be required to make reference before purchasing the debentures.

Expected date for publication of the draft arrangement: Second quarter, 2009.

b. The stage of the management and holding of the debentures

An ongoing and methodical monitoring by the institutional bodies of the portfolio of loans that have been given can significantly improve the institutional bodies' ability to deal in a timely manner with a worsening of the financial abilities of the borrowers and of their ability to repay their debts. Such monitoring is required both because of the duty owed by the institutional bodies to the savers and because of the scope of the loan portfolios that these institutional bodies hold.

Measures to be taken:

- The imposition of an obligation to monitor, on an ongoing basis, the repayment ability of the negotiable debentures parallel to the obligation that currently exists regarding non-negotiable credit;
- The imposition of an obligation to sort and classify all the institutional body's debenture portfolios (negotiable and non-negotiable) into good debts, debts requiring supervision and debts requiring the taking of operative steps vis-à-vis the borrower.

Expected date for publication of the draft arrangement: Second quarter, 2009.

c. The provision of tools for increasing the involvement of institutional bodies in debt arrangements

As part of the institutional bodies' efforts to deal with the credit crisis, a number of significant issues have arisen, in the context of debt arrangements, with respect to the ability of the institutional bodies to protect the rights of the savers in terms of inter-institutional cooperation, the ability of the institutional bodies to hold control of the controlling institutions of the borrowing companies, and the ability of the institutional bodies to accept real estate as a partial or full alternative to the repayment of the debt owed to them.

Additionally, the Division is obligated to ascertain that the institutional bodies are working actively to collect debts that were given out of the savers' funds, and that the institutional bodies understand the responsibility and obligations imposed on them.

Measures to be taken:

- The imposition of a duty on the institutional bodies requiring them to take steps to collect loans given, either independently and in cooperation with other institutional bodies and with banking corporations, in any manner that they see fit.
- Allowing the institutional bodies to hold more than 20% of a company or even to reach the level of holding control of a company for a limited period, as an alternative to having a debt or part of a debt repaid.

Expected date for publication of a final arrangement: Second quarter, 2009.

10. Strengthening the control and supervision mechanisms with regard to investments and risk management

The field of investments is a key area of focus for an institutional body, and tight control and supervision mechanisms are therefore required, as well as high levels of expertise and specialization.

The structural changes that have taken place in the capital market in recent years, along with the expansion of the investment alternatives available to institutional bodies and their entry into new areas of activity require the strengthening of the internal control and supervision mechanisms and the intensification of training, ethical and professional requirements, including standards regarding conflicts of interests in connection with the various occupations of those who take part in ongoing investment activity.

Measures to be taken:

- Expansion of the supervision and control duties imposed on the investment committees of the institutional bodies with respect to the investment managers, in the following areas:
 - The risk levels of the investments portfolio;
 - Methods for revaluation of assets;
 - Quantitative tests for extreme scenarios and their impact on the investments portfolio;
 - Structural separation between the investments units in the institutional bodies and the units dealing with control, asset revaluation and risk management; the risk management unit must be separated from the investments system and must advise the institutional body's investment committee and Board of Directors, and give them a reliable picture regarding the risks involved in the assets in which they have invested in trust, and the potential influence of those risks on the public's savings, and regarding the controls, resources, and processes for the identification, quantification and management of the said risks. This advice will be separate from that of the investment manager and will thus enable the investment committee to supervise the performance of the investments portfolio and the investment manager, without the investment committees being absolutely dependent on the reports provided by the investment managers.
- The parties involved in the valuation of the assets and the investments managers will be separated;
- The requirements regarding professionalism and practical experience required of the members of the investment committee will be increased and the number of members

- required to serve on the investment committee will be increased from three to five to seven, with an absolute majority of external directors;
- Intensification of the requirements regarding the independence of and the absence of conflicts of interest with regard to the members of the investment committees, particularly regarding other occupations they may have in the capital market;
 - Similar to the existing requirement for insurance companies and pension funds – there will be a duty to appoint a market and credit risk supervisor for all provident funds. The risk manager will be directly subject to the CEO.

Expected date for publication of the draft arrangement: Second quarter, 2009.

11. Increasing the shareholders' equity requirements for insurance companies (including examination of the dividend distribution policy)

Shareholders' equity is intended to serve as a cushion to absorb losses resulting from the realization of unexpected risks to which the insurance company is exposed – risks that had not been specifically identified by the company, or the size of which had not been sufficiently estimated.

In recent years, there has been a worldwide trend to promote a risk-based capital regime for insurance companies. The European Union has led the key process in connection with this matter – the Solvency II regulations – the full implementation of which is expected to be complete by the end of 2012. A survey which was carried out by the CMISD in 2007 showed that the capital that could be expected to be required pursuant to the European models is higher than the capital levels currently required in Israel.

In light of the lessons learned from the crisis, a need has arisen to require additional capital with respect to investment risks and with respect to the exposure to re-insurers, and with respect to risks of a mis-match between the insurance company's expected income from its assets and the payment stream expected to arise from its liabilities. Additionally, a need has arisen to distinguish between two levels of capital cushions: the minimal capital which will serve as a bottom threshold for intervention by the Commissioner and a level of capital which guarantees solvency – a level which, if a company's capital falls below it, an action program for replenishing such capital will be required.

Measures to be taken:

- Publication of capital adequacy regulations pursuant to which the insurance company's shareholders' equity will increase by some 30% during the coming four years;
- A significant reduction of the ability to distribute dividends to controlling shareholders of insurance companies during the coming two years, or until the capital adequacy requirements are met in accordance with the new capital adequacy regulations.
- Amending the investment rules that apply to the shareholders equity of insurance companies so as to make them more conservative.
- Promotion of legislation according to which holding companies that hold insurance companies will be subject to supervision by the Ministry of Finance.

Expected date for publication of the draft arrangement: Third quarter, 2009.

12. Expanding the shareholders equity requirement for companies that manage provident funds or pension funds

The minimal shareholders capital requirements that apply to companies that manage provident funds or pension funds constitute a financial security cushion for the management company, to provide protection in the event that the company encounters a crisis which requires that capital be injected to the company, for the purpose of maintaining its ongoing operations. Since these management companies do not bear the market risks of the savers' investments, the only risk for which the management company will need a security cushion is an operating risk.

Various events that have taken place recently at some provident fund management companies establish that it is necessary to strengthen the existing capital requirements, in order to provide an appropriate response to the crises that can occur.

Measures to be taken:

- Enlarging the minimum shareholders' capital requirements of provident fund and pension fund management companies;
- Capital requirements will be a ratio from the volume of assets that the management company manages.

Expected date for publication of the draft arrangement: Second quarter, 2009.

13. Uniformity of and increased stringency in the investment regulations for institutional bodies

There are currently a number of differences between the investment rules for provident funds and pension funds and those that apply to the insurance companies, with respect to the funds in the participating policies. These differences are inconsistent with the fact that these three instruments compete with one other, as part of the competition between institutional bodies engaged in the pension savings industry. It has therefore been decided to consolidate the investment regulations into one group of regulations, such that the investment rules regarding all these institutional bodies will be the same.

Additionally, due to the changes that have taken place in the capital market in recent years, and due to the global crisis, it has been decided to modify some of the regulations and to adjust them to the new holdings structure in the capital market.

Measures to be taken:

- Quantitative restrictions regarding the investments by the institutional bodies in the various sectors in the economy will be added, along with restrictions regarding investment in a group of companies that are held by the same controlling shareholder;
- The restrictions relating to transactions with related parties will be made more stringent.

Expected date for publication of the draft arrangement: Fourth quarter, 2009.

14. Increased stringency in the investment rules regarding the nostro funds of the insurance companies

The insurance companies manage investment assets that are held against two types of liabilities: assets regarding which the investment risk involved in them is imposed on the insureds, and assets regarding which the investment risk involved in them is imposed on the insurance company (“nostro”).

With regard to the management of the nostro assets, the insurance companies are subject to the investment rules that establish minimal dispersal and conservatism rules for the preservation of stability, and these include a restriction on investment in a single issuer or in a group of borrowers, a degree of risk dispersal, etc.

In light of the developments and recent changes in the available insurance products, and in light of the events related to the global financial crisis, it is necessary to update the investment rules regarding the nostro assets, while noting the rules for preservation of stability and the securing of a minimal level of capital.

Measures to be taken:

- **Duty to comply with ALM principles** – the imposition of investment management requirements and a restriction which will require the insurance companies, to the extent possible, to match the average life span of their assets with the average life span of their liabilities, such that the level of their exposure to changes in interest rates will be reduced;
- **Maximal exposure rates** – insurance companies will be subjected to a restriction on investment in shares or assets which do not match the nature of the insurance companies’ liabilities against which these assets are held. Thus, for example, the degree to which the insurance companies rely on the profits from their investments in setting the rates for compulsory car insurance will be reduced and the possibility of investing in risky assets against liabilities for payment of benefits with respect to compulsory insurance policies will be restricted.

Expected date for publication of the draft arrangement: Fourth quarter, 2009.

Measure	Expected schedule for publication of a draft arrangement		
	Second quarter	Third quarter	Fourth quarter
Adoption of the Chilean model	√		
Reduction of the number of investment tracks and adjustment of their names	√		
Transfer to annual yields for pension savings products		√	
Addition of management fees to the quarterly report to fund members		√	
Establishment of standards for customer service systems			√
Publication of expected investment policy*	√		
Privately managed provident funds	√		
Method of compensation for investment managers at institutional bodies	√		
Prohibition of investment in debentures without obtaining minimal information	√		
Sample trust deed to which institutional bodies will be required to relate before acquiring debentures	√		
Management and holding of debentures	√		
Increased involvement of the institutional bodies in debt arrangements*	√		
Strengthening of the control and supervision mechanisms regarding investment and risk management	√		
Increasing the capital requirements for insurance companies		√	
Increased stringency for shareholders equity requirements for management companies	√		
Uniformity of and increased stringency in the investment regulations for institutional bodies			√
Increased stringency in the investment rules regarding the nostro funds of the insurance companies			√

*Publication of a final arrangement