

DIARY OF EVENTS IN THE MONEY AND CAPITAL MARKETS IN 2004

January

Bank of Israel interest rate

- Rate reduced by 0.4 percentage points to 4.8 percent

Pension funds

- The issue of earmarked bonds for the new pension funds ceased. It was decided that these bonds would be issued only if their balance after an additional issue would not exceed 30 percent of the funds' assets.
- The Knesset passed the third reading of the bill raising the retirement age: to 64 for women and 67 for men.

Insurance companies

- The reform in the insurance industry was implemented, increasing the transparency of insurance schemes and changing the composition of the industry's fees.

February

Bank of Israel interest rate

- Rate reduced by 0.3 percentage points to 4.5 percent

March

Bank of Israel interest rate

- Rate reduced by 0.2 percentage points to 4.3 percent

Repo auctions

- The Bank of Israel started carrying out Repo transactions with the banking corporations and members of the stock exchange. In these transactions the Bank sells 1-year Treasury bills by auction at a uniform price known in advance, and buys them back two weeks later.

The stock exchange

- Market-makers were authorized for trade in derivatives on the value of the euro in the Tel Aviv Stock Exchange.

April

Bank of Israel interest rate

- Rate reduced by 0.2 percentage points to 4.1 percent

Pension funds

- New directives were issued covering the operation of the new pension funds as actuarially balanced yield funds. A new scale was set for their management fees—0.5 percent of the fund's assets and up to 6 percent of the current payments (compared to 8 percent previously).

The stock exchange

- The stock exchange's derivatives ("Maof") clearing house started operating a system for real-time collateral control in derivative trading. The system calculates the collateral required from clearing-house members during trade on a continuous basis throughout the trading day and in real time. Hitherto the calculation was made once a day at close of trade.

May

The stock exchange

- The stock exchange launched a new system for trading in nontradable bonds issued to institutional investors (excluding mutual funds) without a prospectus. The system enables institutional investors to trade in these bonds by means of a separate trading system.

July

Income tax

- A tax of 15 percent was imposed on tracker funds (exchange traded funds, ETFs) traded in the Tel Aviv Stock Exchange that mirror international indices. The tax was made retroactive to January 2004.

August

The Securities Law

- The Knesset passed an amendment to the Securities Law that deals with the change in the method of underwriting and the way in which securities have to be offered to the public.

Real estate investment trusts (REITs)

- A memorandum for a real estate investment trusts law was submitted to the Knesset along the lines of the recommendations of the committee set up to explore the introduction of REITs in Israel. Among the recommendations: the funds to be established should be traded on the Tel Aviv Stock exchange; most of their assets should be invested in income-generating assets; most of their profits should be distributed as dividends; and they be granted tax relief.

September

Pension funds

- New directives were issued simplifying the transition from one new pension fund to another.

The stock exchange

- With the development of the tracker-fund market during the last year and in the light of experience gained, the Board of Directors of the Tel Aviv Stock Exchange authorized the issue of ETFs on the index of hedging funds, on commodities and on "shorts"—funds that move in the opposite direction to the index that serves as their basis asset. The Board also issued rules governing the companies that issue the certificates in the tracker funds and added a minimal capital ratio requirement.

November

The reform in the capital market

- The government approved the recommendations in the report of the Bachar Committee for the reform of the capital market, the essence of which was the separation of the provident and mutual funds from the banks. The government also decided to set up a committee comprising the Director Generals of the Prime Minister's Office and the Ministry of Finance to examine proposed changes to the report and to submit its findings to the Prime Minister and the Minister of Finance.

Institutional investors

- The *Shaarei Ribit* company won a Ministry of Finance tender to set up and operate the database of interest rates for the provident funds, insurance companies and pension funds. The interest rates will serve to capitalize the cash flows of the nontradable assets of these investors—deposits, loans and nontradable bonds. The transfer to assessment of the nontradable assets of the institutional investors is planned for April 2005.

Commercial securities

- The Knesset approved a change in the definition of a commercial security in the Securities Law to include also securities not traded on the stock exchange. Thus the status of commercial securities in the traded and nontraded markets were brought into line.
- The Knesset Finance Committee approved an amendment to the securities regulations easing the issue of commercial securities, and allowing issues via shelf prospectuses.

December

Bank of Israel interest rate

- Rate reduced by 0.2 percentage points to 3.9 percent

January 2005

Bank of Israel interest rate

- Rate reduced by 0.2 percentage points to 3.7 percent

Income tax

- In the context of the reform of income tax on individuals that came into effect in January, the tax rates on capital gains, interest income and income from dividends on foreign securities, currently at 35 percent, were brought into line with those applicable to those on securities traded on the Tel Aviv Stock Exchange. The significance of this change is that tax on capital gains and on interest income from foreign securities is 15 percent, and on income from dividends, 25 percent. Pension funds, provident funds and advanced study funds that are exempt from tax on investments in Israeli securities will be exempt also from tax on investment in foreign securities.

State Loan Law

- The Knesset passed an amendment to the State Loan Law permitting the integration of market-makers into the government-bond market.

Commercial securities

- Stamp duty was cancelled starting with the issue of nontradable commercial securities.

February 2005

Bank of Israel interest rate

- Rate reduced by 0.2 percentage points to 3.5 percent