



June 9, 2015

Circular Number C-06-2467

To:

The banking corporations and the credit card companies

Issue: Prevention of Money Laundering and Terrorism Financing, and Customer Identification

(Proper Conduct of Banking Business Directive 411)

Introduction

1. On August 4, 2014, the Israeli Securities Authority and the Banking Supervision Department published an Outline of principles (hereinafter: “the Outline”) that will enable the issuance of Exchange-Traded Notes (ETN) that track the yields of bank shares without those shares being considered as “holdings” of the issuing companies as defined in the Banking (Licensing) Law, 5741–1981. The Exchange-Traded Notes would therefore not be considered for the purpose of the limitation set out in the Banking Law regarding holding not more than 5 percent of any type of means of control of a bank without needing to obtain a holding permit. The companies issuing Exchange-Traded Notes are “Reporting Corporations” based on the Securities Law, 5728–1968.
2. According to the principles of the Outline, an ETN issuer may issue and manage two types of Exchange-Traded Notes in relation to the Tel Aviv Banks Index: “transparent” (hereinafter: “transparent ETN”) and “sealed” (hereinafter: “sealed ETN”). In a transparent ETN, all four means of control in the Exchange-Traded Notes assets (bank shares) shall be owned by the final holder, and shall be held by a trustee in an account under the trustee’s name.
3. Similar to a fund, as defined in Section 1 of the Prohibition of Money Laundering (Obligation to identify, report and manage records of banking corporations to prevent money laundering and terrorism financing) Order, 5761–2001 (hereinafter: “the Order”), the purchase of Exchange-Traded Notes is possible only through members of the Tel Aviv Stock Exchange. In addition, Section 4.2.2 of the Outline limits the decisions that the issuer of a transparent ETN can make, even more than the limitations that apply to a fund manager, and permits only the purchase and sale of shares that comprise the Tel Aviv Banks Index, in accordance with their weights in the index (passive investment management).



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4. In view of the foregoing, and following consultations with the Advisory Committee on Banking Business, and with the approval of the Governor, and by virtue of my authority pursuant to Section 5(a)(8) of the Order, I have amended Proper Conduct of Banking Business Directive number 411 regarding Prevention of Money Laundering and Terrorism Financing, and Customer Identification (hereinafter: “the Directive) as detailed below:

The amendment to the Directive

In Appendix A to the Directive, the following text shall be added:

“The provisions of Sections 2(b) and (d)(2) and 4(a) of the Order—in regard to recording an account beneficiary—will not apply to a trustee account managed on behalf of a “transparent” Exchange-Traded Note related to the Tel Aviv Banks Index, in which the set mechanism to activate voting rights, as noted in Section 4.1.2 of the outline, is approved by the Israel Securities Authority and by the Bank of Israel, with regard to the existence of the operational test set in the outline.

5. Effective date

This Circular shall become effective on the date of its publication.

File update

6. The updated page of the Proper Conduct of Banking Business file is attached. The following are the update instructions:

Remove page:	Insert page:
411-1-12 (various versions)	411-1-12 [13] (6/15)

Sincerely,

Bank of Israel
Banking Supervision Department
Policy and Regulation Division



David Zaken
Supervisor of Banks