

Banking Supervision Department

Jerusalem

July 29, 2024

Circular no. C-06-2789

To

The Banking Corporations

Re: Annual reports to customers of the banking corporations

(Proper Conduct of Banking Business Directive no. 425)

Introduction

1. On June 13, 2022, Proper Conduct of Banking Business Directive no. 460 on “Presentation of Activity Data in Securities Deposit”, which included an indirect amendment to Proper Conduct of Banking Business Directive no. 425, on “Annual Reports to Customers of the Banking Corporations”, was published. There was an error in the amended directive, such that the detailed report and related explanations that refer to the disclosure of the annual rate of return were not updated. Notice to this regard was sent to the banking corporations soon after the amendment was published, and now there is an amendment that clarifies the wording of the Directive as well. In addition, adjustments were made in the short-form report and in the detailed report with regard to the rate of return on a securities deposit, in terms of the investment portfolio management service.
2. After consulting with the Advisory Committee on Banking Business Affairs, and with the approval of the Governor, I have established this Directive.
3. The regulation was not accompanied by the publication of a report as per the Principles of Regulation Law, 5782-2021, in view of the significant activities carried out before the law went into effect, pursuant to the Governor’s decision.

Amendments to the Directive

4. In the first addendum to the Directive, regarding the “Short-form annual report”
 - (a) In Part C on “Transactions in the account” a note was added, according to which the rate of return will not be presented for a securities deposit that was intended for receipt of investment management service. In such a case, the rate of return is reported to the customer by the investment portfolio manager.
 - (b) In Section 1.6 of the guidelines for preparing the short-form report, a note was added according to which the rate of return will not be presented to the customer in regard to a securities deposit that was intended for receipt of investment management service. The rate of return in a managed portfolio is reported to the customer by the portfolio manager in the quarterly report, in accordance with the Regulation of Engagement in Investment Advice, Investment Marketing and Management of Investment Portfolios Regulations (Reports), 5772 – 2012.

Explanatory remarks

In accordance with the regulations noted above, the portfolio manager reports to the customers, once a quarter, on the rate of return in their investment portfolio that is

managed for the customer, in accordance with the requiring rules as arranged in the regulations. In order to prevent lack of clarity for the customer, as it is possible for there to be differences between the return calculation of the Israel Securities Authority and of the Banking Supervision Department, and as the portfolio manager manages the investments in accordance with the customer's instructions, it was decided that the rate of return in such a securities deposit will be presented to the customer exclusively by the portfolio manager.

5. In the Second addendum to the Directive on the issue of "Detailed annual report":
 - (a) In Chapter E, which deals with "other assets and liabilities" – in the part that deals with securities, the words "profit/loss" are to be deleted, and replaced by "annual rate of return". In addition, a note was added, according to which, this detail will not be presented in regard to a securities deposit that was intended for receipt of investment portfolio management service. In such a case, the rate of return is reported to the customer by the portfolio manager.
 - (b) In Chapter H, which deals with "Index of terms", the term "securities–gain/loss" is to be replaced with the term "securities–annual rate of return" and next to it shall be the explanation, "the rate of return is calculated using the TWR method, where tax expenses are not taken into account, and net of fees. Please note! The rate of return calculation may include other assets, such as structured deposits. For further details, see the report on "Data on activity and rate of return on securities deposit". Furthermore, it is clarified that this data shall not be presented to a customer holding a securities deposit that is intended for receipt of investment management services. The rate of return in the managed portfolio is reported to the customer by the portfolio manager in the quarterly report, in accordance with the Regulation of Engagement in Investment Advice, Investment Marketing and Management of Investment Portfolios Regulations (reports), 5772 – 2012.
 - (c) In the section dealing with guidelines for preparing the detailed report, Section 2 of Chapter E was changed accordingly.

Explanatory remarks

The detailed report is intended to give customers a complete and detailed view of their financial state in the past calendar year, and the data presented in it have to be in line with the format of information and data presented to the customer in accordance with Proper Conduct of Banking Business Directive no. 460. In accordance with the provisions of Section 4 above, the rate of return data shall not be reported to the customer holding a securities deposit that is intended for receipt of investment portfolio management service, in accordance with the reasoning noted above.

Incidence

6. This directive, including that stated in this circular, shall go into effect on the date this Circular is published.

File update

7. Attached are update sheets for the Proper Conduct of Banking Business file. The following are the update instructions:

Remove page
425-1-26 [4] (06/22)

Insert page
425-1-26 [5] (07/24)

Respectfully,

Daniel Hahiashvili
Supervisor of Banks