

Bank-Customer Division
Banking Supervision Department

December 26, 2021

Circular no. C-06-2685

To: **The Banking Corporations**

Re: Presentation of Activity Data in Securities Deposit

Proper Conduct of Banking Business Directives 460 and 425

Introduction

1. The Banking Supervision Department, in cooperation with the Israel Securities Authority, establishes in this directive a uniform format for presenting information and data to customers regarding their securities deposits in the banking corporation. Within this framework, information shall be presented to the customer on the return of the securities deposit, the assets included in it, disclosure on activity in the securities deposit, and the fees the customer pays for the services.
2. The information regarding the securities deposit has a great deal of value to customers and is intended to improve their ability to make informed decisions on their optimal channel of investment, while considering alternate channels of investment.
3. After consulting with the Advisory Committee on Banking Business Affairs, and with the approval of the Governor, I have established Proper Conduct of Banking Business Directive no. 460, on the subject of “Presentation of Activity Data in Securities Deposit” (hereinafter—“the Directive”).

Key Points of the Directive

4. Section 3 of the Directive establishes to which types of banking corporation the Directive shall apply.
5. Section 4 of the Directive establishes definitions for the primary terms appearing in the Directive.
6. Section 5 defines the obligation to provide the customer with data on the yield of the securities portfolio in the personal area where the securities activity is presented, in the application the banking corporation offers its customers. The rate of return shall be presented in accordance with the number of days chosen by the customer. For customers receiving investment consulting services, the exposure rate of their securities deposit shall also be presented in the banking corporation.

Explanatory remarks

The purpose of this section is to provide the customer with convenient access to information on the return of the securities for various periods of time in accordance with their choice, by presenting it in an online and dynamic manner, in the application offered the customers (such as the website of the banking corporation or the application). For a customer who receives investment consulting services, the banking corporation is also required to present the exposure level, as this data is intertwined.

7. Section 6 of the Directive presents the types of information and data the banking corporation must present to the customer on a periodic basis, the dates the data is presented, and the format

in which it is presented. The section directs to the Directive's addendum, which presents the data presentation format.

Explanatory remarks

The purpose of the Directive is to establish a uniform periodic framework for presenting the data for the convenience of customers, in addition to the dynamic information presented to the customers on a regular basis. Accordingly, a reporting format has been established containing two parts. The first part, as detailed in the addendum, defines the types of information and data that will be presented: the value of the deposit and cash flows in the deposit, the cumulative rate of return at the quarterly level and in comparison with previous years, and information on fees paid for the activity in securities deposits. The Directive allows the banking corporation to present to the customer the portfolio's rate of return according to the calculation set in the Arrangement of Investment Consulting, Investment Marketing, and Investment Portfolio Management Occupation (Reports) Regulations, 5772-2012. Customers receiving investment consulting shall also be presented with information on the name of the consultant/consulting center in accordance with the manner the consulting is provided, the level of risk in the securities deposit, and the level of exposure to assets and to foreign currency in the securities deposit. The risk level and exposure level shall be calculated on the same assets used in the rate of return calculation. The structure of the second part and its contents are at the discretion of the banking corporation.

8. Section 7 of the Directive establishes that the banking corporation shall provide customers with access to the periodic information presented in the previous quarters of that calendar year. The Section also establishes that the data will be presented in a format that allows tracking, saving and printing.

Explanatory remarks

The purpose of this section is to provide customers with access to the historical data presented to them in the previous quarters in a simple and easy manner.

9. Section 8 of the Directive establishes the manner in which information and data is delivered for customers who do not subscribe to information services on an online channel of communications. The Section establishes that delivery of the information shall be carried out on the means of communications the customer has selected for receiving notices.

Explanatory remarks

The purpose of this section is to anchor clearly the manner in which information and data is delivered for customers who do not subscribe to information services on an online channel of communications. On the delivery date of the annual report and on the semiannual fee report date, the information in question shall be delivered with these reports.

10. Section 9 of the Directive establishes that the reporting currency shall be the New Israeli Shekel (NIS). The banking corporation is entitled to report in foreign currency, so long as it presents the value in NIS alongside the foreign currency, according to the representative rate of exchange on the reporting date, as well as the rate of change in the selected currency versus the NIS.

Explanatory remarks

The purpose of this section is to establish a uniform presentation format for information and data, in order to establish a simple and easy basis of comparison for the customer. At the same time, the banking corporation shall be entitled to report in a foreign currency, if in addition to presenting the foreign currency it presents alongside it the data values in NIS, as well as the rate of change in the foreign currency relative to the NIS.

11. Section 10 defines the calculation method of the securities deposit rate of return. The section presents the TWR format and the parameters for calculating the formula.

Explanations

The purpose of this section is to establish a uniform formula for calculating the return in order to improve the customer's ability to compare alternate products and its investment alternatives. The TWR method is an accepted method for estimating return.

12. Section 11 establishes that in order to calculate the securities deposit yield, one must take into account the types of assets traded on the stock exchange in Israel and outside of Israel appearing under the customer's security deposit, including units, as defined in the Joint Investment Trust Law, 5754-1994. For customers who receive investment consulting services from the banking corporation, the banking corporation shall also include structured deposits when calculating the return. The banking corporation is entitled to determine a consistent methodology defining which additional assets will be included in the customer's account, and how their value will be determined. These definitions will be reported to the customer within the framework of the periodic information.

Explanatory remarks

The purpose of this section is to establish a clear and open calculation format for the customer. Calculation of the yield shall include the types of assets appearing under the deposit of the customer's securities.

For a customer who receives investment consulting, it was decided that structured deposits would also be included in calculating the return. In this regard to be clear, structured deposits that have been purchased, by way of the consulting, must still be included in calculating the yield, up to their redemption date, even if the customer has ceased receiving investment consulting services from the banking corporation.

In addition, the section enables the banking corporations to include additional assets when calculating the return, as in accordance with the consulting recommendation, the customer's money may also be invested in additional assets, such as cash. The banking corporation shall formulate a consistent methodology for defining the types of assets and determining their value, which will be included under the customer's securities deposit. In the first footnote in the periodic report (the addendum to the directive), disclosure shall be provided to the customer on the types of assets included in calculating the yield, and on the additional assets the banking corporation chose to include in the calculation for a customer receiving consultation.

13. The addendum to the directive presents the format in which the data is presented to the customer.

Explanatory remarks

Establishing a clear and uniform framework for presenting the data was intended to increase the customer's ability to understand and compare. Information on commissions shall be presented on the dates set for the presentation of the yearly report and the semiannual reports on commissions. For online customers, the addendum shall include details of the information on commissions or links to the yearly report or to the semiannual commissions report. For customers who do not subscribe to information services on an online channel of communications, the corporation shall provide the information on the commissions near the commission reporting dates.

14. In Part E of the Second Addendum of Proper Conduct of Banking Business no. 425, under the title "Securities", the words "gain/loss" shall be deleted.

Explanations

This correction was made in light of the information provided to the customer in the addendum to this directive.

Incidence

- 15. This circular shall come into effect on January 1, 2023, at the latest. The initial report shall be for the first quarter ending on March 31, 2023, with no comparison numbers.

File update

- 16. Attached are update sheets for proper bank management file. The following are the update instructions:

Remove page

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460-1-5 [1] (12/21)

Respectfully,



Yair Avidan
Supervisor of Banks