

Bank-Customer Division Banking Supervision Department

Jerusalem
June 13, 2022
Circular no. C-06-2717

To
The Banking Corporations

Re: Presentation of Activity Data in Securities Deposit

Proper Conduct of Banking Business Directives 460 and 425

Introduction

1. This Directive was first published on December 26, 2021, and is expected to come into effect by January 1, 2023, at the latest. Due to issues arising from the banking system as a result of working on implementing the directive, a number of updates were needed for the guidelines set in the Directive.
2. After consulting with the Advisory Committee on Banking Business Affairs, and with the approval of the Governor, I have established this Directive.

Amendments to the Directive

3. Section 4 excluded from the incidence of the Directive the types of customers meeting the definitions of “market maker” and “trading platform” and customers receiving securities custody services from the banking corporation.

Explanatory remarks

In view of the nature of activity of customers meeting the definition of “market maker” according to the Joint Investment Trust Law, 5754-1994, customers who meet the definition of a “trading platform” in accordance with the Securities Law, 5768-1968, and customers receiving securities custody services from the banking corporation, it was decided to exclude them from the incidence of the Directive, and it is not required to provide them with information on return data and periodic information in the format set in the Directive.

4. The requirement in Section 5 on the presentation of the exposure level in the personal area for a customer receiving investment consulting services from the banking corporation was updated so that the data will only be presented in the periodic information, as set in Section 6(b) of the Directive. In addition, it was clarified that the return will be calculated net of fees and third party expenses related to securities activity.

Explanatory remarks

The customer's exposure level is data that can be presented on a quarterly basis, it does not need to be updated on a daily basis. Therefore, it was decided that the data would be presented in the periodic report only.

5. In Section 8 the word “alongside” was deleted and replaced by the word “near”.

Explanatory remarks

The word change was intended to make clear that sending the reports to a customer, who is not an online customer, can take place in separate letters so long as the timing is adjacent.

6. A clarification was added to Section 10 according to which the rate of return would be calculated without taking into account tax expenses as detailed in the instructions included in the periodic report to the customer in the appendix to the directive. In addition, a clarification was added that the calculation of the rate of return is as defined in Sections 10 and 11.

Explanatory remarks

In the previous version of the Directive, the clarification on the tax expenses appeared in the addendum in a footnote. In order to make clear that this is a guideline and not just a customer explanation, the clarification was integrated into the text of the Directive. In addition, so as to remove all doubt, a clarification was added on the calculation of the return.

7. A clarification was added to Section 11 according to which a customer who had ceased to receive investment consulting services prior to the structured deposit maturity date in their account, the structured deposit shall continue to be included in the calculation of the return until its redemption date in practice.

Explanatory remarks

The clarification appeared in the original circular of the Directive and was integrated into the text of the Directive in order to give it legal validity.

8. Updates were made to the uniform format of the periodic information, which was established in the addendum to the directive.

Explanatory remarks

Following comments received regarding the Directive in preparation for its implementation in the banking corporation systems, the following updates were made to the format in which data are presented to the customer:

- a. The title of the addendum was changed from “Securities Deposit Yield” to “Activity Data and Return on Securities Deposit”.
 - b. The designated remark for customers receiving consultation services, which appeared immediately after the main title, was assigned along with the other directives in the matter of a customers receiving consultation services and shall appear for them in the “Deposit Return” chapter.
 - c. Footnote 2 was added that clarified that the sum of the fees includes third party fees that were paid in respect of securities activity and it was made clear that the remark refers to wherever the word “fees” appears.
 - d. The text of the comment for the customer to note regarding difficulties that may arise in immediate divestment was revised and the words “regarding % of the balance of the assets” were changed to “regarding approximately % of the balance of the assets”. The update is intended to emphasize that this is merely an estimate.
 - e. The names of the data presented in the “Deposit Yields by Period (%)” table were updated, and the ending of Footnote 3 was deleted, in order to more clearly show when data is before deducting fees and when they have had fees deducted.
 - f. The words “to the existing infrastructure” were replaced with the words “to existing reports” in order to emphasize that this refers to reports and information mentioned in the section.
 - g. The information presented to a customer receiving consultation services was updated and explanatory remarks were added, instead of Footnote 4, which was deleted.
9. In Part C of the “First Addendum—Abbreviated Report” in Proper Conduct of Banking Business Directive no. 425, under “Securities Portfolio”, the words “gain/loss” shall be deleted and shall be replaced by the text “annual rate of return”. In addition, a clarification has been added for customers that “the rate of return is calculated according to the TWR method, with tax expenses not taken into account, and after fees have been deducted.” Please note! Calculating the rate of

return may also include additional assets, such as structured deposits. For further details see report “Activity Data and Securities Deposit Yield”. The data presented shall be in accordance with the data presented in the yearly report according to this Directive. The directives for preparing the abbreviated report have been updated in accordance with Section 1.6 in Chapter “Part C – Activity in the Account.”

Explanatory remarks

The abbreviated report may improve how customers understand their financial status, and allows them to easily and conveniently review their activity in the account. Therefore, it is important that the abbreviated report also include, for the customer's convenience, the yearly comparison data of the customer in the account, alongside the other data appearing in the report.

Incidence

- 10. This directive, including that stated in this circular, shall come into effect on January 1, 2023 at the latest. The revised customer report as required by Proper Conduct of Banking Business Directive no. 425 shall be at February 28, 2024 at the latest.

File update

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

Remove page

425-1-25 [3] (2/16)
460-1-5 [1] (12/21)

Insert page

425-1-25 [4] (06/22)
460-1-5 [2] (06/22)

Respectfully,



Yair Avidan
Supervisor of Banks