

Presentation of Activity Data in Securities Deposit

Introduction

1. This directive regulates a banking corporation's obligation to present written information to its customers regarding the return on the customer's security deposit in the banking corporation, as well as details on all of the assets included in the securities deposit in their possession. In addition, the data include disclosure on the securities deposit activity and fees the customer pays for the services.
2. Presentation of the information to the customers is intended to reflect the performance of the securities deposit, in order to allow them to make an informed decision on their optimal channel of investment, while examining alternate channels of investment.

Incidence

3. This directive shall apply to the banking corporations as defined in the Banking (Service to the Customer) Law, 5741-1981 (hereinafter: **Banking Corporation**).

Definitions

4. **"Customer"**
 - A customer with a securities deposit in the banking corporation, including a customer who receives investment consulting services from the banking corporation, with the exception of:
 1. A managing company or provident fund as defined in the Control of Financial Services (Provident Funds) Law, 5765-2005;
 2. An insurer as defined in the Control of Financial Services (Insurance) Law, 5741-1981;
 3. A mutual fund management company;
 4. A market maker as defined in the Joint Investment Trust Law, 5754-1994;
 5. A trading platform as defined in the Securities Law, 5728-1968;
 6. A corporation receiving securities custody services from the banking corporation.
- "Investment Consulting", "Investment Portfolio Management"**
 - As defined in the Regulation of the Investment Consulting, Investment Marketing, and Investment Portfolio Management Occupation Law, 5755-1995 (hereinafter: **the Consulting Law**);
- "Exposure Rate"**
 - As defined in the Joint Investment Trust (Options, Future Contracts and Short Sales) Regulations, 5761-2001;
- "Structured Deposit"**
 - A bank deposit included in the definition of a "structured product" in Section 1 of the Consulting Law.
- "Securities Deposit"**
 - With the exception of a deposit intended to receive an investment portfolio management service.

Displaying information to the customer—calculator

5. A banking corporation shall present information to its customers on the rate of return as defined in Sections 10 and 11 of the Directive. The information will be presented in the personal area where the securities activity is presented, in the application the banking corporation offers its customers (hereinafter: the Personal Zone). The rate of return shall be presented in accordance with the number of days chosen by the customer, after deducting fees (including third party expenses by way of securities activity).

Displaying information to the customer—periodic information

6. In addition to that stated in Section 5, a banking corporation shall present to its customers in the personal area, periodic information on activity in their securities deposits, including the rate of return on securities deposits as defined in Sections 10 and 11 of the directive, as detailed in the addendum as follows (hereinafter: **Periodic Information**):
 - (a) The cumulative data from the start of the calendar year to the end of the relevant quarter shall be presented by the end of the month following the end of the quarter in question, with the exception of the fourth quarter of the calendar year, which will be presented on the 28th of February of the consecutive year (hereinafter: **the Report Date**).
 - (b) The data shall be presented divided as follows:
 - (1) **First part** – this part shall be prepared in accordance with the text and structure as set in the addendum. The banking corporation may also present to the customer the portfolio's rate of return according to the calculation set in the Regulation of the Investment Consulting, Investment Marketing, and Investment Portfolio Management Occupation Law, 5772-2012. In the event that a banking corporation chooses to do so, it shall add an explanation for the customer on the differences between the calculations.

For a customer receiving investment consulting services from the banking corporation, the “exposure level”, the risk level, shall be presented as approved by the customer, as well as additional information, as agreed with the customer in this regard (for example, an investment policy, or investment limitations). If the risk level has been updated from the previous report date, the updated risk level shall be noted as of the report date and the risk level reported on the previous report date, while noting the date on which the change was made.
 - (2) **Second Part** – Additional information and explanations at the banking corporation's discretion.
7. The banking corporation shall provide customers with access to the periodic information that was presented in the final quarters of that calendar year, and to the end of year data of the previous two years, in a format that will allow it to be tracked, saved and printed.
8. For customers who do not subscribe to information services on an online channel of communications, the banking corporation shall provide the information and data detailed in Section 6, by the report date defined above, via the means of communications on which the customer has chosen to receive messages. On the delivery date of the yearly report and on the date of the semiannual report on fees, the information in question shall be delivered near these reports.
9. The reporting currency shall be the New Israeli Shekel (NIS). The banking corporation may report in foreign currency, so long as it presents alongside the foreign currency its value in NIS, according to the representative exchange rate on the reporting date, as well as the exchange rate in the selected currency versus the NIS.

Calculation Method of the Return on a Securities Deposit

10. The yield of a security deposit shall be calculated using the TWR method, without tax expenses taken into account. As detailed below:

Definitions:

π – product of the expression included in the parentheses following it.

i – index for the period in which there was no cash flows in the account, except for the end of the period.

n – the number of such periods (a period is defined as the period of time in which there was no cash flow, except for at its end).

v_i^T – value of securities deposit at the end of period i .

v_i^0 – starting value of securities deposit in period i .

M_i – total money or assets deposited in the customer’s deposit net of the sums of assets withdrawn or removed from the customer’s deposit at the end of period i .

R_i – the rate of return for period i , shall be calculated as follows:

$$R_i = \left[\frac{v_i^T - M_i}{v_i^0} - 1 \right]$$

R_i – the cumulative rate of return for period i shall be calculated as follows:

$$R = \left[\prod_{i=1}^n (1 + R_i) - 1 \right] * 100$$

11. The types of assets that will be taken into account for calculating the return and calculating the level of exposure shall be in accordance with the types of assets traded on the stock exchange in Israel or 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. In the matter of a customer who had ceased to receive investment consulting services before the structured deposit expiration date in their account, the structured deposit shall continue to be included in the calculation of the return until its redemption date in practice.

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 calculated. These definitions will be reported to the customer within the framework of the periodic information.

* * *

Updates

Circular no. 06	Version	Details	Date
2685	1	Original directive	December 26, 2021
2717	2	Update	June 13, 2022

Addendum – Activity Data and Securities Deposit Yield

Customer’s name:
 Account number:

Telephone no. for enquiries:

Securities Deposit – Data as of [xx/yy/20zz] ¹

The value of the securities deposit and additional assets and movements in the account in the report period (from date to date):

Note: These sums are deposited directly to your account.

Note: The tax paid is deducted directly from your account. The tax sums are accurate as of the report date.

Balance of assets at the beginning of the period [date]		XXXX
Acquisitions less sales of securities and financial assets	YYY	
Dividends, coupons and interest, before commissions² and tax	(PPP)	
Profits (losses) from increase (impairment) of value³	XXX	
Balance of assets at the end of the period [date]		XXXX
Tax paid	(TTT)	
Total commissions collected for securities activities	(XXX)	

Note: Regarding X% of the balance of the assets, difficulty may arise upon divestment when necessary.

Deposit Yields by Period (%)⁴

	From the beginning of XXXX	XXXX	XXXX
Deposit yield (before netting out fees)			
Deposit yield (after netting out fees)			

Note! The yield is accurate for funds that were in deposit for the full duration of the calculation period, and therefore in extreme situations where there are significant withdrawals and deposits, over the course of the rate of return calculation period, which are accompanied by irregular fluctuations in capital markets, the rate of return calculated may not match the profit/loss in NIS deriving from the deposit.

Details of fees collected due to activities with securities.

¹ The securities deposit includes... (to be filled in by banking corporation) and does not include... (to be filled in by banking corporation).
² Fees, including third party expenses paid by way of securities activity. This note is relevant to any place in which the word “fees” is used.
³ Balance sheet data. Calculated as the difference between the balance of the assets at the start and end of the period, net of purchases less sales, dividends, coupons and interest, and reflecting an increase/decrease in the value of assets not divested as of the end of the period, before tax.
⁴ The yield is calculated according to the TWR method, with tax expenses not taken into account.

Links to existing reports – the annual report or the semiannual reports on fees, as set in Proper Conduct of Banking Business Directives no. 414 and no. 425 or the Banking (Service to the Customer) Law, 5741-1981, as the case may be.

In addition, the following shall be presented to a customer receiving consultation:

1. Name of consultant and name of the consulting unit/center, in accordance with how the consulting is provided.
2. The risk level as well as additional information, inasmuch as they have been agreed on with the customer in this regard.
3. The level of exposure to assets and foreign currency in the securities deposit.
4. A note that will be integrated alongside the presentation of Data 2 and 3 shall be worded as follows – “Please note! Calculation of the rate of return and the exposure level is carried out for the same assets. The risk level and the assets included in it are as agreed upon with you.”
5. A note that will be integrated under the title of the chapter “Periodic Rate of Return” shall be worded as follows – “Please note! In the event that activity has also been carried out not in accordance with the investment consulting provided by the Bank, the return also reflects the results of this activity”.

Instructions for filling out the information in the addendum:

1. For “**Securities Deposit Return**” – present the data for the current year in the right-hand column, the data for the previous year in the middle column, and the data from two years ago in the left-hand column. If there is no data for one or more of the two full fiscal years prior to the last year—this must be noted.
2. To calculate “**Assets for which a difficulty may arise in their immediate divestment**”—take into account any tradable asset the volume of trade in which in the three trading days prior to the report date indicate that there may be a difficulty in divesting it in a reasonable period of time regarding the customer holding it and at a price compatible with its value. In addition, for customers receiving consultation, structured deposits must be taken into account.
3. For the “**Degree of Exposure**” – the information shall be presented in a chart that details the level of exposure as of the report date in the securities deposit by assets and by currencies, the manner of presentation is at the discretion of the banking corporation.