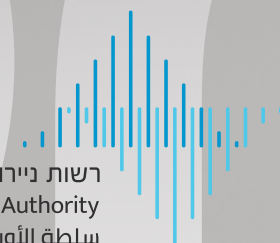


רשות ניירות ערך
Israel Securities Authority
سلطة الأوراق المالية



2023 ANNUAL REPORT



ANNUAL REPORT

2023

The following include selected data and information. The translation intended solely for the convenience of the reader. The ISA does not assume any responsibility whatsoever as to the accuracy of the translation and is not bound by its contents.

For the complete original text in Hebrew [click here](#).



Att:
MK Bezael Smotrich
Minister of Finance
Finance Ministry

Att:
MK Moshe Gafni
Chairman, Finance Committee
Knesset Israel

MESSAGE FROM THE CHAIRMAN

Greetings,

7 April 2024

Re: Report on the Activities of the Israel Securities Authority in 2023

I am honored to present you with this report reviewing the activities of the Israel Securities Authority (ISA) in 2023. Over the past year, Israel's capital market has had to contend with significant challenges – a global economic environment rife with challenging social and political events, high interest rates and inflationary concerns have generated substantial market volatility. In the final quarter of the year, Israel's market was influenced by one of the most severe security events in the country's history, in the form of the war in Gaza that was sparked by the events on October 7, as well as other threats, which continue to be a central feature of everyone's daily agenda. Even during this tumultuous period, however, the ISA has acted to promote its goals, as outlined in its 2019 strategic plan, while updating the plan and placing a number of new goals in our sights – safeguarding and enhancing the public market, promoting competition within the capital market and designing regulation adapted to the economic and technological trends unfolding before our eyes in Israel

and around the globe – while placing an emphasis on addressing the economic situation precipitated by the war and on the promotion of measures designed to have a fundamental systemic impact on the capital market for the long term. These goals were designed to drive the vision of an advanced, competitive and economically significant Israeli capital market forward. In order to meet these goals, the ISA has acted in several key areas, including the strengthening of market oversight and enforcement, the removal of regulatory barriers, the adoption of global standards, the promotion of innovative financial products, and the integration of advanced technology in the ISA's day-to-day operations and those of the parties it regulates.

The Israel Securities Authority has worked to increase competition within the capital market, inter alia, through regulatory initiatives. In this respect, several key initiatives are particularly noteworthy – completing the licensing of financial

information service providers, advancing innovative legislation on payment services, enhancing the money market through the encouragement of money market funds, in part, in response to rising interest rates. At the same time, the ISA conducted extensive oversight and enforcement activities towards public companies, financial institutions and securities exchange trading. With the outbreak of the Iron Swords War on 7 October 2023, the ISA transitioned into emergency mode. Numerous efforts were made to ensure the continuity and orderly operation of the financial system and to address the needs of supervised entities and investors alike in an effective and timely manner. The ISA was required to preserve full operational continuity despite the call-up of much of its work force to military reserve duty and despite the precarious security situation surrounding us all. The ISA acted to provide relief and make regulatory adjustments to accommodate the supervised entities, such as extensions of filing deadlines, the ability to remotely conduct certain activity and the extension on the validity of prospectuses, while balancing and considering the escalating need for the protection of the investing public.

As of the date of this annual report, the State of Israel still finds itself in the midst of the Iron Swords War, and despite this, one can state with confidence that Israel's capital market has demonstrated substantial resilience, while the investors in the market reacted in a reasoned and measured manner, avoiding an extreme reaction of massive redemptions as had been the case in the past and precluding the realization of losses caused by events which are expected to be temporary in nature.

A key issue that continued to occupy the ISA's agenda in 2023 is the promotion of technological innovation and the enhancement of the competitive stature of the capital market and the financial system

overall. The reform unfolding in the “world of open finance” continued to march forward towards the full implementation of the Account Information Service Law, which has opened the door for new players to enter the marketplace.

Over the course of the past year, more than 15 Israeli and international fintech companies have proposed advanced digital services, which are both concentrated and readily accessible to consumers, for the management, analysis and comparison of financial products. These services were designed to increase competition in the financial system, expand the range of opportunities open to clients and promote financial inclusion.

The goal of the reform is to fundamentally change the way the public consumes sundry financial services, such as ready access to concentrated personal financial information, the ability to compare costs and take advantage of more favorable value propositions placed before it, as well as the ability to easily mix and match service providers and to transfer services from one provider to another. The Israeli public will enjoy the ability to convert personal financial information into an asset that enables it to effectively optimize a portfolio of products, which is particularly well-suited to the personal needs of each investor. It is assessed that the opening the payment services market to competition will propel increased competition in other financial services in the future.

Alongside the actions undertaken for capital market development, the ISA continued to enforce the laws under its purview and oversee the activities of the various market players. The ISA enforcement departments have been reinforced, as new technologies have been promoted and integrated to assist the departments in pinning down

problems and improving the ISA's control and enforcement capabilities.

The investigations department has launched numerous technological upgrades with the assistance of the department's technology unit, in order to improve the efficiency of the investigation process. These upgrades and improvements are part of an ongoing mission to advance the digitization of the work on investigation case files, starting with intelligence-gathering and culminating with the transfer of the file to the district attorney and the complete digitization of case file processing.

In 2023, the ISA began implementation of the Regulation Principles Law that was ratified by the Knesset in November 2021. The law sets provisions pertaining to regulatory initiatives, requiring that a regulatory impact assessment (RIA) be prepared for all proposed new regulation. The law and the implementing guidance issued were designed to ensure that all new regulation put forward by the ISA undergoes a transparent and well-grounded process of assessing the anticipated impact of the proposed regulation on the market, on investors and on any other relevant party. The preparation of an RIA assures the promotion of reasoned and efficient regulation that contributes to the local capital market. Pursuant to the law, the ISA has formulated guidelines to implement the new provisions, which have been posted on the ISA website in advance of the law's entry into force in January 2023. Over the past year, the ISA implemented these guidelines and the required procedures for each piece of legislation it initiated and advanced.

In a nutshell, significant measures were undertaken throughout 2023 to propel Israel's capital market forward towards an innovative, sophisticated and open age. These and other ISA actions have laid the foundations for the market's continual development in the years

to come. With this forward-looking outlook, the ISA intends to continue its traditional activity, including its oversight of stock exchange trading, oversight of the entities that have issued securities to the public, the supervision of trading platforms and mutual funds, the licensing and supervision of investment advisors, marketers and portfolio managers, etc. At the same time, the ISA will continue to examine how to make the market more efficient and to develop additional investment instruments to address a dynamic economy and to expand the opportunities available to businesses to raise capital as well as the possibilities open to the public at large for savings and investment.

Several legislative initiatives that were advanced in the course of 2023 are expected to be completed in 2024, starting with – money market legislation, which deals with the development and increased accessibility of short-term, low-risk, money market products and the Encouragement of Capital Market Activity Law, legislation designed to improve capital market efficiency and encourage market activity as well as to diversify the channels of investment and financing accessible through capital market mediation. In addition, with the appointment of new enforcement committee members, the Administrative Enforcement Committee resumed its regular operations and is expected to deliberate on a significant number of administrative enforcement cases.

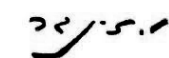
It is also worth mentioning that in anticipation of 2024, the ISA has placed several initiatives in its sights for the years to come. In the area of regulatory initiatives, the ISA will act to: update the concept of deterrence and enforcement; promote a law for improving regulatory efficiency; develop the securities exchange and improve the liquidity of trading on it; make additional instruments of financing more accessible to companies; and make the capital market more accessible

to retail investor. The ISA also intends to launch initiatives pertaining to regulatory infrastructure, such as the use of artificial intelligence as a tool of oversight and enforcement, and to develop and reinforce the ISA's human capital.

I would like to thank Ms. Anat Guetta, the Chairwoman of the Israel Securities Authority in the years 2018 –2023, for her leadership of the ISA in its numerous achievements during challenging years and for her innovative vision and foresight.

I would also like to thank all those supporting us in our efforts, starting with the Minister of Finance and his team, the Chairman of the Knesset Finance Committee and the teams from the government offices with whom we work in partnership, and to thank the dedicated ISA staff, which approaches its work as a mission rather than merely a job.

We will continue to lead and promote the local capital market and to protect investors, completing those goals are already in progress and tending to the new goals that we have set for ourselves for the coming years.



Seffy Zinger
ISA Chairman

Highlights of the ISA's Activities in 2023

**This chapter presents
a summary of the main
activities and initiatives
led by the ISA in the
reporting year**

* For enforcement decisions,
see the original version of
the report in [Hebrew](#).

Regulation and Supervision

Conducting Inspections

Inspections are one of the tools of oversight serving the ISA departments in carrying out their work. They complement the regular oversight conducted by the staff of the oversight departments and comprise an important instrument in the ISA's supervisory tool box, enabling examinations of the compliance of regulated entities to the legal provisions and regulatory rules applying to them, while enhancing deterrence and the overall level of compliance. In addition, the Inspections and Examinations Department conducts probing examinations with respect to specific areas or subjects, assisting the ISA in understanding and publishing best practices for regulated entities.

In 2023, the Inspections and Examinations Department, in conjunction with the oversight departments inspected public companies, corporate bond trustees, the Tel Aviv Stock Exchange, portfolio managers, non-bank stock exchange members, and (, trading platforms, on anti-money laundering compliance and other issues. Following some of the inspections, reports were or will be released summarizing the findings of the inspection as well as communications highlighting the insights gleaned to more effectively guide market activity.



Inspections Conducted in 2023

Type of Party Inspected	Subject of Inspection	No. Investigated Parties
Investment marketers	Hedge fund marketing	1
Portfolio managers	Cyber threats – follow up inspection	Approx. 20
Tel Aviv Stock Exchange	Stock exchange member oversight	1
Non-bank stock exchange members	Anti-money laundering compliance – use of trust accounts	4
Reporting corporations	Credit risk provisions	3
Bond trustees	Fulfillment of trustee duties	3
Reporting corporations	Environmental risk disclosures	Approx. 470
Reporting corporations	Credit risk provisions	2
Investment house	Business continuity and cyber threats	1
Trading platforms	Technological aspects of operating the platforms – follow-up inspection	4
Tel Aviv Stock Exchange and clearing houses	Corporate governance and risk management – follow-up inspection	3
Portfolio Managers	Potential conflicts of interest	2
Non-regulated entities	Unlicensed services through social media	Approx. 10

Inspections started in 2021-22 that concluded in 2023

Inspections conducted in 2023 (some to be concluded in the course of 2024)

Treatment of Unregulated Investment Schemes

Securities law sets the legal framework for the ISA's oversight of entities offering securities to the public, of institutions managing investments for the public (collective investments, investment advice and portfolio management), as well as other parties engaged in intermediating investments in securities and financial instruments to the public, such as offering coordinators, securities exchanges and trading platforms. The dividing line between activity requiring supervision and unsupervised activity is determined, as aforementioned, in securities law. A party interested in operating outside the

ISA's supervision must familiarize itself with this dividing line and implement the legal prescriptions diligently so as to avoid crossing it. The Inspections and Examinations Department examines whether the activities of various schemes in the areas under the ISA's purview conform to the legal requirements. If certain activity does not conform to these requirements, the ISA exercises its power to stop the violation. In 2023, the Inspections and Examination Department, together with the oversight departments, examined dozens of diverse schemes, issued warning notices in cases in which securities law violations were uncovered and, when warranted, initiated enforcement proceedings, in conjunction with the ISA's enforcement departments.



The Regulation Principles Law

In November 2021, the Knesset ratified the Regulation Principles Law, 5782–2021 (hereinafter "the Regulation Principles Law"), which contains various legal provisions pertaining to the initiation of new regulation and mandates the implementation of a "Regulation Impact Assessment" (RIA) that is to be conducted with respect to such regulation. The ISA formulated guidelines for implementing the law, which were posted on the ISA website prior to the law's entry into force in January 2023. In 2023, the ISA implemented this law for the first time, as well as the said guidelines, with respect to each legislative initiative it put forward.



Advancing a Directive on Opening Securities Accounts Online Using Visual Identification

In recent years, the transition to digital technology to conduct procedures, activities and public and private services has gained momentum. Non-bank stock exchange members are authorized to open client accounts remotely, without having to meet the client in person or receive original documents, provided that they identified the account in a closed system. This means that cash, securities and financial assets are transferred from another account belonging to the client ("original account") to an account held with the non-bank securities exchange member, managed by a banking corporation or another exchange member, and are ultimately returned to the original account.

In December 2022, the ISA issued a directive by the ISA Chairman, enabling non-bank securities exchange members, for the first time, to open client accounts remotely, without having to meet physically with the client, even when the account is not within a closed system, such that the client identification and the identifying document authentication processes are conducted using technological means online in real time, or offline. The release of this directive represents another step in implementing the recommendations of a joint Competition Authority and Securities Authority task force established to encourage competition in the brokerage market. In November 2023, following the vetting of the applications that were submitted, the ISA Chairman, by virtue of the directive, granted approval to four securities exchange members.

Amendment of the Permit Under Section 49A of the Securities Law

Section 49A(a) of the Securities Law, which was enacted within the framework of Amendment 63 of the law, prohibits the solicitation of investors in Israel to provide securities trading services over non-licensed exchanges in Israel. Section 49A(b) authorizes the ISA Chairman to permit a person to solicit the provision of securities trading services through a securities trading system operated by a securities exchange outside of Israel, under conditions to be determined, if he finds that this does not impinge on the interests of the investing public in Israel.

Following a process of public discussion, including the receipt of public comments on an exposure draft of the revised terms of the general permit, the ISA Chairman set the general permit's final terms, which were published on 27 December, 2018 on the ISA website. Among these terms, a minimal threshold was set for parties seeking to engage in soliciting the provision of securities trading services on exchanges that are not licensed as such in Israel. Accordingly, to date, permits under Section 49A were issued to ten Israeli banks and five non-bank securities exchange members, 80 foreign brokers, 28 foreign securities exchanges and 34 licensees licensed under the Investment Advice Law. The majority of the permit recipients submitted applications and were found to have met the criteria to be granted a general permit, while seven applicants received a specific permit.¹

In the Q&A file posted on the ISA website, it is made clear that the prohibition to operate without a permit applies to anyone offering trading services as stipulated in law, including those soliciting investors in Israel with the

intent of marketing trading services rendered by a third party that does hold a permit under Section 49A. The text clarifies that an employee of a Section 49A permitholder does not himself need a permit, however, a third party from the standpoint of the Section 49A permitholder, which seeks to solicit Israeli investors, will not be authorized to act without specifically being named in the permit.

At the end of 2022, the ISA released its proposed amendment to the terms of the general permit for public comment, in which it sought to make sweeping changes to the conditions applied to Section 49A permitholders soliciting retail as well as qualified investors through a third-party agent. Pursuant to comments received from the public, changes to the draft amendment were introduced, such that the regulatory requirements stipulated in it apply to foreign brokers operating through an individual or an entity that is not an employee of the permitholder, that nonetheless establishes contact with investors in Israel. It was clarified that the mere transmission of leads, i.e., details about potential clients, to a permitholder, without establishing verbal or written contact with investors in Israel does not necessitate compliance with these conditions.

The text of the amended permit was posted on the ISA website on 13 December 2023.

Proposal to Expand the List of Accompanying Offenses Set in the Securities Law

The Israel Securities Authority currently has the authority to investigate capital market offenses, among these, disclosure offenses, fraud and abuse of inside information. According to the definition of the term,

"securities offenses" in Section 1 of the Securities Law (hereinafter: the Law), the ISA is empowered to investigate, among other things, offenses committed under the Anti-money Laundering Law, as well as certain offenses pertaining to fraud, blackmail and obstruction of justice under the Penal Law. The ISA is authorized to investigate the latter offenses when they accompany a core offense for which it is responsible, and only when there is a reasonable suspicion that one of the core offenses has been committed. The accompanying offenses include, inter alia: bribery, obtaining something by deception, breach of trust and falsification of corporate documents. In the absence of the aforementioned authority, or in cases in which suspicion arises as to the commission of an offense not enumerated in Section 1 of the Law, the ISA must receive special authorization from the Minister of Justice, under the Criminal Procedure Ordinance (Evidence) for each case in which suspicion is raised. The ISA is advancing a proposal to expand the list of accompanying offenses, and to authorize its investigation of: suspected embezzlement, forgery, brokering bribery, and conspiracy to commit a crime, under the Penal Law as well as various offenses under the Computers Law, 5755-1995, if these were committed in connection with a core offense under the Law. The need for expanding the said authority stems from the fact that these offenses are often committed together with core offenses, for which the ISA is authorized to open an investigation. In addition, with respect to conspiracy to commit a crime and crimes under the Computers Law, their addition is necessary in light of the powerful influence of technology and cyberspace in the capital market and of expectations that the commission of these offenses in conjunction with core securities offenses will increase in the future. It is anticipated that the expansion of the said authority will improve the efficiency of investigative procedures into securities

offenses and will preclude potential harm to the suspects emanating from the current need to split the investigation between different agencies. The said proposal was published for public comment on the ISA website and was approved by the ISA plenum in May 2023 for further advancement in the legislative process.

Proposed Amendments and Regulations with Respect to Proving Securities Ownership

The ownership and proof of ownership of securities is currently regulated in a number of laws and regulations in which it is determined that the owner of a security is the person in whose benefit the security is registered with a securities exchange member. This arrangement reflects the traditional functional division pertaining to the registration of securities ownership under the assumption that securities exchange members will always be responsible for administering securities registration. Ownership arrangements are anchored in the Companies Law, the Securities Law, the Partnership Ordinance [new version], 5735-1975 and the Joint Investments Law. In addition to these, numerous regulations enacted under these laws also determine the said ownership arrangements. In light of the development of the Israeli capital market and its more extensive exposure to international markets, as well as recognition of the practices undertaken in various markets abroad, a need has arisen to recognize institutions that engage solely in holding securities, without trading them. For example, with respect to the operations of the Tel Aviv Stock Exchange (TASE), the TASE Clearing House has formulated definitions, features and eligibility criteria for custodial clearing house members (CSD), which do not operate as exchange members, such that in September 2019, the TASE Clearing House accepted its first member that is not

¹ See the [ISA website](#) for information pertaining to Section 49A, including the terms of the general permit, a Q&A table, a summary of the comments received prior to setting the final terms of the permit and a list of the parties that received a permit from the ISA.

a member an exchange member as well. The Companies Law, the Securities Law and the other laws mentioned above, however, do not address the situation in which a non-exchange clearing house member holds securities. Moreover, the projected use of distributed ledger technology (DLT) in the future is expected, among other things, to change the traditional functional divisions between the various parties participating in the chain of registration, clearing and settlement, and custodial holding of securities. In DLT-based markets, the clearing house itself or another party which is not a securities exchange member could administer the registration of the securities' beneficial ownership. In light of the above, in order to facilitate flexibility in adjusting the law pertaining to securities ownership to the changing facts on the ground, it is proposed to replace the term "securities exchange member" in the various existing laws with the term "custodian", which shall be defined as a securities exchange member and clearing house member. In addition, the proposal seeks to authorize the Minister of Finance, in consultation with the Securities Authority, to determine additional parties that can be included in this definition. The proposal was approved by the ISA plenum in February 2023 for continuation of its advance in the legislative process.

Sweeping Reduction of ISA Fees

In 2021, there was a significant, unanticipated increase in the revenues of the Israel Securities Authority, among other things, as a result of the recovery from the coronavirus crisis, which ushered in a large wave of public offerings and significant increases in mutual fund unit creation and the value of assets under management. In light of this, the ISA initiated temporary provisions to lower annual fees and to return excess amounts it collected, which are not essential to funding its activity, to the parties regulated by it.

Under these temporary provisions, which apply to all paying parties, annual fees are cut by 30% in 2023 and 2024 and by 15% in 2025. The current temporary provisions replaced previous temporary provisions that set fee reductions for 2021–2023, such that the rate of reduction rose, while the reduction period was extended. The temporary provisions were approved by the Knesset Finance Committee in July 2023.

Joint Investment Trust Regulations (Assets That Can Be Bought and Held in a Fund and Their Maximum Percentages) (Amendment), 5783–2023

The trading system for institutional investors (TASE UP), which launched operations in the Tel Aviv Stock Exchange (TASE) in 2004, was originally established for trading privately placed debt instruments. Trading on the TASE UP platform is accessible through TASE members and solely to qualified investors, such as institutional investors. In May 2020, the ISA authorized a limited expansion of the trading on TASE UP, as set in the TASE Rules, by allowing the listing of non-debt securities of companies and partnerships, primarily engaged in areas such as land development and investment real estate (provisionally), R&D companies, and companies engaged in providing solutions for business financing, including as part of government assistance programs on the institutional platform. Generally speaking, mutual fund managers are allowed to buy and hold securities publicly listed on a securities exchange. In addition, they may hold non-marketable assets, such as options, futures or bonds listed on TASE UP (up to 10% of the fund's total asset value), provided that said non-marketable assets meet the conditions set in the Joint Investment Trust Regulations (Assets That Can Be Purchased and Held in a Fund and their Maximum Percentages), 5744–1994 (hereinafter: the Regulations) are

met. In order to examine the impact of the expansion of the ability of mutual funds to buy and hold securities traded on the TASE UP platform beyond what is already permitted, the ISA has, pursuant to the Regulations, instructions regarding this issue as temporary provisions, by virtue of Section 65A of the Joint Investment Trust Law. These instructions entered into effect in October 2020 and expired in April 2023 (after being extended one year as designated in the Law as the maximum period they could be extended). In the time that has passed since the temporary provisions entered into effect, there have been no signs of added risk to the investing public resulting from expanding the range of securities traded on the institutional platform, and therefore, the ISA plenum approved anchoring the rules set temporarily in permanent regulations. Accordingly, mutual fund managers will be permitted to choose from a wider range of assets they can buy and hold for the funds under their management, while considering the attributes and risks derived from trading on the TASE UP platform. The amendment proposes replacing the eligibility requirements imposed on holding bonds traded on the TASE UP platform with quantitative caps that apply to all securities traded on this platform. In addition, due to their activity, the proposed amendment to the regulations restricts tracking funds and money market funds from holding securities traded on the TASE UP platform. The draft regulations were published in July 2023 on the government's legislation website for continued advancement through the legislative process.

Bill to Amend the Applicability of Securities Laws on Digital Assets

In recent years, a kind of alternative capital market in investment products has developed worldwide as well as in Israel. Investment intermediaries offer the public new financial products based on advanced technologies,

including digital assets based on distributed ledger technology (DLT), such as blockchain, or alternative technologies designed to digitally represent the transfer and storage of various types of rights. Unlike the world of traditional investments, this market currently operates without regulation or oversight. Alongside the opportunities which these assets and their underlying technologies generate, the investment in digital assets exposes the public to a high degree of risk. The complexity of the technology and the asymmetric information between the offerors of these assets or services related to them and the knowledge and comprehension of the general public, alongside the lack of comprehensive regulation, increases the risks engendered in this activity –uninformed decision-making, investor deception, manipulation of trading and fraud. As was analyzed in depth in a report published in March 2019 by a committee established by the Israel Securities Authority to examine the regulation of public cryptocurrency offerings, it is currently possible to apply existing securities laws to digital asset activity. In these cases, the regulation and oversight pertaining to public securities offerings in Israel (such as ICO offerings), trading on securities exchanges and trading platforms, mutual funds and financial intermediaries, such as portfolio managers and investment advisors apply to digital assets as well as to traditional securities. However, there are also cases in which, given their characteristics, digital assets are not covered by existing securities law as these laws are currently worded. In this situation, the general public may find themselves investing in digital assets that are neither properly regulated nor supervised.

In a report published by the Chief Economist Division of the Ministry of Finance – Digital Asset Regulation: A Roadmap for Policy – that was prepared with the participation all of Israel's financial regulators, including the Israel Securities Authority, the amendment

of the securities laws was recommended. The report proposes adopting a flexible approach to rule changes, such that they are adapted to investments of this type, which have unique features and are, by their nature, essentially dynamic and volatile. In light of the above, the ISA is in the process of advancing legislative amendments to make the necessary adjustments to integrate digital assets into Israel's various securities laws. Application of the relevant laws relate to public offerings, the operation of securities exchanges and clearing houses, the provision of investment advice and marketing services, portfolio management and to mutual funds. The legislative amendments are designed to create certainty with respect to the oversight of digital assets and to apply securities laws to the activities of intermediaries of those assets acquired for investment, and when warranted. The proposal was posted for public comment on the ISA website and was subsequently approved by the ISA plenum in August 2023, for advancement through the legislative process.

Financial Information Service Providers

The Account Information Law, which entered into force in June 2022, empowered the ISA to issue licenses to entities meeting the requirements set in the law for the provision of financial information services and to supervise the licensed financial information service providers. Within the framework of the law, a licensed financial information service provider, which has received explicit consent from its client, gathers information about the financial activity conducted by the client across the various financial institutions from which it receives financial services (hereinafter: information sources), such as

transactions (credits and debits) in current accounts, the costs of managing accounts (service fees), information pertaining to the client's credit, including the total amount of credit carried by the client and the interest it pays on it, information on the client's savings and the interest received for them, and information about the securities portfolio held by the client and the fees it pays to execute buy and sell transactions, or to manage its securities portfolio. Within the framework of the financial information provided, a licensee may offer its clients various services, for example: concentrating financial information from numerous information sources; conducting cost comparisons; transferring information to financial institutions to receive offers to enter agreements for financial services either consumed by the client or that it seeks to consume (i.e., competitive price quotes) or to facilitate contracting with them; providing advice regarding the client's financial management.

In the period between the law's effective date through 31 December 2023, the Israel Securities Authority has issued 17 licenses to companies providing financial information services.²

Regulation of Engagement in Payment and Payment Initiation Services

The Regulation of Payment Services and Payment Initiation Law, 5783–2023 (hereinafter: **the Regulation of Payment Services Law**), which was published in the Official Gazette on June 6th and will enter into force in June 2024, empowers the Israel Securities Authority to issue licensees and supervise companies engaged in non-bank payment services. The aim of this law is to encourage competition in payment services

by giving non-bank parties the ability to enter and develop in this field, while protecting client interests. The regulatory principles set in the law are based on adaptations made to two European Union directives, regulating payment activity – the Payment Services Directive (PSD2) and the Electronic Money Directive (EMD) (hereinafter: **EU Regulation**). The services regulated under the law that necessitate Authority licensing include: issuing means of payment; clearing payment transactions; managing payment accounts – all three of which are classic payment services. In addition, the law facilitates two new, advanced technological services – advanced initiation and basic initiation services, enabling convenient and seamless bank transfers, and creating a competitive alternative to credit cards for executing payment transactions. The law sets the criteria for receiving a license from the ISA, such as meeting capital adequacy requirements, technological requirements; data protection and risk management requirements and the submission of a business plan. In addition, the law regulates ongoing obligations that apply to licensees, the first of which being the safeguarding and protection of client funds. Similar to all the securities laws under the ISA's supervision, the Regulation of Payment Services Law also incorporates oversight, inspection and enforcement powers with respect to licensees, particularly the imposition of fines, as well as administrative and criminal enforcement mechanisms.

It should also be noted that the law sets the boundaries between the three financial regulators with respect to the licensing and supervision of payment service providers. Generally speaking, new payment service providers will be supervised by the Israel Securities Authority. With respect to existing activity – some of the parties currently providing payment services, which are licensed to provide services in financial assets

– have to date been subject to the supervision of the Capital Market Authority by virtue of requirements under of the regulations of the Law on the Supervision of Financial Services (Regulated Financial Services), 2016. These parties will need to obtain a license from the ISA, and, after a transition period set in the law, to transfer to the ISA's supervision following the law's entry into force. Additionally, other parties currently providing payment clearing services under a clearing license, which currently operates under the Bank of Israel's oversight, will be required to be licensed and supervised by the ISA following the law's entry into force. Within the framework of the Regulation of Payment Services Law, the ISA was empowered to set provisions for licensees providing payment services and payment initiation services regulated under the law, to ensure that licensed payment service providers fulfill their legal requirements and that their activity is effectively supervised accordingly and according to the deadlines inscribed in the law. In 2023, the ISA published a number of proposals of orders and directives which articulate in detail the essence of the regulation and the requirements that will apply to licensed payment service providers.

- On December 27, 2023, a draft directive to payment companies, licensed basic initiators, and licensed financial information service providers pertaining to capital adequacy, insurance or alternative collateral was posted on the ISA website for public comment. The capital requirements set in this directive are designed to ensure the stability and proper management of payment companies and licensed or permitted basic initiators, so that, even under extreme conditions, they can meet the obligations imposed on them by virtue of the law and the commitments to their clients. They also serve as a safety cushion in cases in which the risks inherent in their

2 For the list of financial information service providers, see the [ISA website](#).

activity should materialize and recovery becomes necessary. These requirements are primarily designed to reduce the probability that licensees will become insolvent and all that this involves, and to lead to a situation in which, if necessary, licensees will be able to wind down their operations in an orderly and proper manner.

- **On December 10, 2023**, the list of circumstances pertaining to impropriety in the conduct of licensed payment and payment initiation service providers was published, which closely resembles the lists applying to other parties regulated by the ISA. The list also applies to the controlling parties and senior officers of each service provider, with respect to the revocation or suspension of their license or permit, as applicable.
- **On November 30, 2023**, draft exemption regulations and an order to amend Part B of the Seventh Schedule were published for public comment – a proposal which includes two pieces of legislation dealing with the boundaries of a payment company's license from numerous perspectives. The draft regulation and the order were published on the government's legislation website on January 4, 2024. The aims of the amendments are as follows:
 1. Regulations under Section 3(a)(6) of the law exempt payment service providers from licensing for their payment activity, due to the nature of the service, its reduced scope, its limited monetary value, small number of clients or small number of transactions, as shall be determined in the regulations. The exemption is designed to facilitate the entry of new parties into the field, while increasing competition and avoiding the excessive burden imposed by mandatory licensing and the current obligations for payment activity which is limited in either its scope or nature, and for which the risks derived

³ Section 82 of the Regulation of Payment Services Law.

from it are minimal. A similar exemption exists in the PSD2 Directive. Under the law,³ the Minister of Finance must submit the said regulations and order to the Finance Committee within ten months of the date of the approval of the law, i.e., in April 2024.

2. An order under Section 60(f) of the law that amends Part B of the Seventh Schedule of the law, the purpose of which is to determine services provided by a payment company which do not require obtaining a financial asset service provider's license under the Regulation of Financial Services (Regulated Services) Law, 5776–2016, in accordance with Section 22(c) of the law. The Minister of Finance shall determine the order pursuant to a proposal by the ISA or in consultation with it, consultation with the Minister of Justice and the Supervisor of Financial Services Providers, and with the approval of the Knesset Finance Committee.

- **On November 28, 2023**, a draft of the proposed Anti-Money Laundering Order (Duties of Identification, Reporting and Record-Keeping of Payment Companies and Basic Payment Initiators for the Prevention of Money Laundering and Terror Financing) order was published. In order to facilitate the activity of payment services and basic initiator service licensees, it is essential to apply the anti-money laundering and terror financing regime to these licensees. Accordingly, within the framework of the law, the Prohibition of Money Laundering Law was amended, such that the Chairman of the Israel Securities Authority is designated as the supervisor of new licensees and the Minister of Finance is empowered to issue anti-money laundering orders with respect to them, with the consultation and consent of the Minister of Justice and the Minister of National Security, for the

purpose of enforcing the Prohibition of Money Laundering Law and the Counter-Terrorism Law. The draft order was published on the government's legislation website on January 10, 2024.

- **On November 28, 2023**, a draft of fee regulations was published – setting the fee levels imposed on companies applying for license applications and annually, according to the type of services for which they are applying to provide. This model includes fees under the Account Information Law. Following a period in which public comments were solicited on the ISA website but not received, the draft was published on the government's legislation website on January 4, 2024. Additional regulatory measures will be released for public comment in 2024, and will become effective when the law enters into effect.⁴

⁴ These include: provisions for safeguarding client funds; rules for submitting license applications; provisions for data protection, risk management and business continuity; provisions specifying the data protection, client privacy protection, risk management and cyber protection requirements that licensees must fulfill in its operations; reporting instructions; rules pertaining to the submission of notifications for exempt parties; as well as a circular on digital client identification under the Prevention of Money Laundering Order.

Relief for Reporting Entities During the Swords of Iron War

The war that erupted in October 2023 impacted the business activity of reporting entities operating in diverse industries. As reflected in public reporting, the operations of entities in sectors exposed directly and indirectly to the war, including hospitality and tourism, airlines, investment real estate, leasing and finance were hit by it. In the months following the war's outbreak, dozens of reporting entities operating in diverse industries issued "immediate reports" pertaining to the impact of the war on their business activity, and many others described in detail how the war influenced their periodic financial statements. Some of these reports included quantitative estimates of the current and anticipated impact of the war's events on earnings results. In order to assist reporting entities better meet the various challenges they face, such as maintaining functional and operational continuity and focusing resources on their business goals and challenges, while supplying the investing public with informative, quality quantitative and qualitative information, the ISA has put forward a series of relief measures with respect to meeting regulatory deadlines, and has worked to release notices regarding the clarifications and emphases that should be made in corporate filings, as follows:

1. Extension of the Filing Date of Financial Statements for the Third Quarter, 2023 (October, 2023)

The ISA approved a one-month extension in the filing date of third quarter 2023 reports for reporting entities, such that the deadline for publishing third-quarter statements is 31 December 2023 (rather than 30 November 2023). Companies electing to take advantage of the extension are required to file an "immediate report" informing investors of this decision.
2. Extension of Shelf Registration Validity (October 2023 and January 2024)

The Israel Securities Authority and the Ministry of Justice formulated a relief, according to which the validity period of shelf prospectuses expiring between 7 October 2023 and 7 January 2024 has been extended by three additional months, during which time, entities will be permitted to continue to use their current shelf prospectus. The extension is granted under the aegis of the Period Extension and Deadline Postponement

- Law (Temporary Order – Swords of Iron) (Contract, Verdicts or Payment to an Authority), 5784 –2023. Pursuant to this relief measure, a follow-on measure extending the validity period of shelf prospectuses expiring between 7 October 2023 and April 7, 2024 by six months, during which it is possible to continue using an existing shelf prospectus, was adopted.
3. Conducting Remote Board of Directors and General Meetings (October 2023)

The ISA released a clarification statement stating that under the Securities Law and the Companies Law, there is nothing precluding the holding of general meetings of shareholders, bondholders, board of directors' meetings or board committee meetings remotely, using telecommunication technologies, without physical presence of the participants, provided that all participants can hear each other in real time.
4. Access to the Reporting Site and the e-Voting System from Abroad (October 2023)

The ISA published a notice regarding its activities to reinforce protections on its online information and infrastructure systems during the war, and that these actions could include imposing temporary restrictions on the ability to access Authority systems from abroad. This includes the access of regulated parties to the reporting site as well as the access of securities holders to the electronic voting system from abroad. The notice clarifies that these restrictions do not affect neither the distribution site (MAGNA) nor the publication of guidelines to entities and securities holders as to how to act when encountering access problems.

5. Emphases with Respect to the Disclosure of the Impact of the Swords of Iron War by Reporting Entities (November 2023)

The ISA staff released a document of guidelines and areas of emphasis with respect to the financial statements published for the third quarter of 2023, as well as to "immediate reports" on the impact of the war's events on the business activity of reporting entities. The aim of the publication is to help these entities focus on subjects for which they are required to deliver to the investing public useful, exact and timely information regarding the impact of the war – in "immediate reports", industry information and the financial/business position that will be published in the third-quarter financial statements for 2023– in order to provide greater certainty and maintain high standards of quality, timely disclosure benefitting the public. With an emphasis on immediate reporting, the ISA published clarifications with respect to the importance of reporting the impact of the war on the business operations of reporting entities and on entities for which the effects of the war are or are likely to be material. These entities must take care to provide investors with informative, timely

information comprising both quantitative information and a qualitative analysis of the manner war events have influenced the entity's operational continuity and its financial position. In anticipation of third-quarter 2023 filings, the entities were requested to examine the need to include commentary in the financial statements and board of directors' reports on the war-related events that materially influenced the entity's financial position, its assets, its operating and functional performance, its workforce, and on the analysis of its financial position and its status as a going concern – including an assessment of the liquidity, financial stability, sources of financing at the entity's disposal and the ability of the entity to service its debt (while specifying the key underlying assumptions, the discretion applied and the various scenarios that were taken into account, in the entity's assessment of its debt-servicing capacity). In addition, the entities were requested to incorporate quantitative and qualitative information in their reporting with respect to the war-related events materially influencing their operations in accordance with the industry in which they operate. This information must include an explanation of the assessment of developing and anticipated trends and of the plans and actions undertaken by the entity or that it intends to undertake to address them. The document includes several examples of the required disclosure, according to key industries: real estate development, hospitality, infrastructure and construction, aviation, tourism, retailing, etc.

6. Clarifications Regarding the Publication of Projected Cash Flow and Attached Valuations (November 2023)

The ISA published a Q&A document to clarify the status of two subjects. The first clarification deals with providing

entities required to disclose cash-flow projections following warning signals the opportunity to also include in the disclosure, a sensitivity analysis about the key assumptions underlying the projected cashflow that pertains to non-market contingent variables. A similar clarification was published at the time of the coronavirus crisis. The second clarification deals with the relief granted with respect to the ability to refute quantitative tests in an attached valuation, when the threshold of 10% of the entity's total asset value is crossed, but the analysis of each reasonable possible change in the key assumptions used to determine the recoverable amount of the cash-yielding unit leads to the conclusion that the recognized loss of value would be immaterial.

7. Extension for Subscription Period of Offerings Conducted by an Offering Coordinator (November 2023)

The ISA approved an extension of 60 days to the subscription period set for offerings published by "offering coordinators" relative to the end of the subscription period published in the offering. The extension applied to offerings for which the publication date would be transferred to 7 October 2023, but as of 12 November 2023, the stated subscription period was still ongoing, and was subject to the offering coordinator responsible for deciding whether to implement such an extension, verifying with the offering companies whether there is a need to update material information in the offering documents or their attached documentation. Offering coordinators that had elected to implement the extension were required to immediately issue an update on the subject to the ISA, and to notify the offering's subscribers as to the updated deadline placed on the subscription period and the existence of any updated information.

8. Deferral Approval Expiration Dates Under the Companies Law (November 2023)

The Israel Securities Authority and the Ministry of Justice initiated relief measures pertaining to provisions of the Companies Law in order to ease the burden on reporting companies during the war. The relief measures dealt with the extension of periods and deadlines specified in the Companies Law, including a three-month extension of the tenure of outside directors and independent directors for whom tenure expired between 7 October 2023 and 7 January 2024 (hereinafter: the reference period), a deferral of the deadline to convene an annual meeting that applies to the reference period, an extension of the period of transactions or decisions allotted under the Companies Law, such as the approval of the dual tenure of chairman and chief operating officer, approval of remuneration policy, approval of controlling party transactions – should a certain date occur during the reference period, by three additional months.

These relief measures were approved in the Period Extension and Deadline Postponement Law (Temporary Order – Swords of Iron) (Administrative Decisions and Actions vis a vis a Public Authority, Fostering Children, Entities and Public Institutions, Administrative Courts and Construction Planning), 5784 –2023.

9. Department Director's Letter – Emphases for the 2023 Financial Statements and Anticipated Department Activity for 2024 (January 2024)

The ISA staff published a document covering the emphases that should be placed in disclosures and financial reporting in anticipation of the 2023 annual reports, as well as on issues on which the Corporate Finance Department is likely to focus with respect to upcoming filings in 2024. The document pertains primarily to issues which arose as a result

of the impact of the war on the business operations of reporting companies, including, inter alia, the following: the importance of including detailed, practical explanations in the board of directors' report with respect to the impact of the war; the care required when measuring items in the financial statements based on estimations (for example, checking the reduced value or fair value of investment real estate), the analysis of going concern assumptions, the accounting treatment of leasing and credit cost capitalization issues. The second part of the document also reveals issues that are expected to be the focus of Corporate Finance Department oversight in 2024, including: "immediate reports" concerning material events or issues; the importance of avoiding partial or filings containing marketing content; the timely disclosure of reportable credit-related events; reports on the acquisition of material assets; and the anticipated activity of the Inspections and Examinations Department on corporate issues.



Non-bank Credit Industry

As a part of the regular oversight of key capital market sectors, and in response to events that occurred in 2022–2023 among companies operating in the non-bank credit sector, the ISA staff decided to make a concentrated regulatory effort to increase the oversight of these companies by regulating disclosure as well as vetting the propriety of financial reporting of the companies operating in this industry (all these in tandem with the ISA's enforcement activities). The need for greater oversight became even more salient in 2023, given the challenging interest rate environment and the Swords of Iron War. The series of actions specified below and additional actions undertaken towards specific companies were designed to improve the quality of reporting by companies in the industry and to increase the protection of the interests of the public investing in these companies:

Staff Accounting Bulletin 9–13: Clarification Regarding the Manner Credit Losses in the Financial Statements of Non-bank Credit Companies Are Measured (July 2023)

Due to the interest rate hikes initiated over the past year, and expectations for their stabilization at a rate significantly higher than that prevailing in recent years, and following flaws revealed in several cases, particularly pertaining to debt roll-overs, the ISA staff decided to publish a number of clarifications pertaining to the measurement of credit losses and the disclosure given in the financial statements of non-bank credit companies. The quality of the loan portfolios held by these companies is a decisive parameter in the ability to analyze them on a quarterly basis from the perspectives of growth, liquidity, credit risk exposure, and other related issues. In this brief, the staff commented on the fact that during the current period of rising interest rates, it is not reasonable to use past experience when

measuring credit losses without making significant adjustments for today's prevailing economic conditions. In addition, the staff clarified that refinancing or rolling over a check with respect to a certain loan are indications of an increase in the borrower's credit risk, which should be reflected in the rate of the provisions for credit losses.

Inspections of Credit Loss Measurement Among Non-bank Credit Companies

In 2022, the Corporate Finance Department, in conjunction with the Inspections and Examinations Department began an in-depth examination of all the aspects related to the recognition and measurement of credit losses within the framework of a sweep of several companies in the non-bank credit industry. The inspection includes vetting the suitability of the methodology employed to measure credit losses and the suitability of the disclosure provided to investors about the loan portfolio, its attributes and the aging of credit days. The said inspection, was planned against the backdrop of a downturn in the ability of the companies' clients to service debt due to the coronavirus crisis, and its growing importance given continually rising interest rates in 2022. The inspection continued throughout 2023. For a more extensive discussion, see the chapter on the investigations conducted by the Inspections and Examinations Department.

Environment, Social and Governance (ESG) Disclosures

In 2021, the ISA published its recommendations regarding public company disclosures with respect to corporate responsibility and ESG risks. The recommendations included, inter alia, a call for voluntary ESG disclosures using accepted international criteria, such as the global reporting initiative (GRI) or the Sustainability Accounting Standards Board (SASB) standards. In 2023, the ISA's representatives continued to participate in various forums dedicated to the promotion of ESG reporting in financial statements. For example, the ISA's representatives participated in inter-ministerial discussions for environmental protection for the purpose of developing an Israeli classification system based on a taxonomy classifying various economic activities as "green" or "not green", pursuant to compliance with well-defined criteria. In addition, over the past year, the ISA has been continuously working to encourage public companies which file corporate responsibility reports based on internationally accepted GRI or SASB criteria, to publish them on the ISA website on a webpage dedicated for this purpose. To date, the corporate responsibility reports of 51 public companies have been posted on the webpage.

Gender Diversity

In February 2023, the ISA plenum approved a draft bill to amend regulations pertaining to the diversity of the boards of directors of reporting companies, mutual funds and large portfolio management companies.

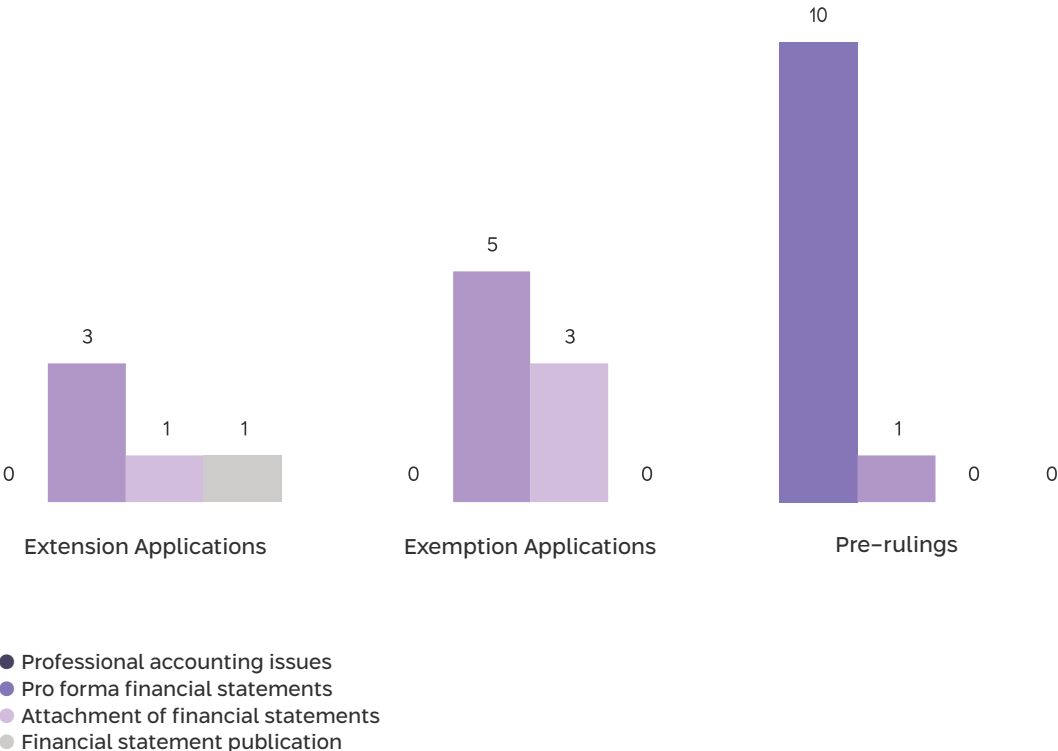
The draft amendment is pursuant to the provisions of the Companies Law regarding gender diversity (under obligations set in Section 239 of the law and as a recommendation in the first schedule of the law) and pursuant to a Ministry of Justice proposal to amend provisions pertaining to gender diversity in a schedule to the Companies law. The draft regulations seek to set a disclosure requirement for reporting entities, mutual fund managers and large portfolio management companies with respect to gender diversity on the board of directors, and, if applicable, to the gender diversity policy set by them for board composition. The bill deals with three aspects of the issue: statistical disclosure (data regarding gender diversity on the board); disclosure of the gender of each director at the time of his or her appointment, if he/she provided such information; disclosure of a corporate gender diversity policy, should indeed such a policy exist. The entity or the fund manager will be required to specify the main features of this policy and the manner in which the board of directors acts to implement it. Alongside the approval of this proposal, the plenum stated that the continuation of the advancement of the proposed amendment to the regulations, which deals with disclosure, shall be coordinated with the Ministry of Justice, which is concurrently examining the amendment of item 2 to the First Schedule of the Companies Law from the standpoint of gender diversity, and it is intended that both amendments shall correspond one to the other.



Staff bulletins on accounting and auditing issues

Pre-rulings

In 2023, the ISA staff handled 24 pre-ruling requests, exemption applications and applications for segmentation extensions as follows:



Staff Accounting Bulletins (SABs)

In 2023, the ISA staff published two Staff Accounting Bulletins and updated one staff bulletin as follows:

- **SAB 10-99:** Issues in the Implementation of International Financial Reporting Standard (IFRS) No. 17 (March 2023) – a SAB that deals with several issues of implementation that could emanate from the initial implementation of the standard.
- **SAB 9-13:** The Measurement of Credit Losses in the Financial Statements of Non-Bank Credit Companies (July 2023) – a SAB that deals with the manner in which credit losses are measured and with disclosures are given in the financial statements of non-bank credit companies under the provisions of IFRS9 – Financial Instruments. For more detail, see "Disclosure in the Non-bank Credit Industry".
- **Update of SAB 3-19:** Accounting Treatment of Rent Waivers Attributed to the Coronavirus Period (January 2023). In the update of the SAB, it is clarified that one cannot select the accounting policy presented in Section 18.1.1 of the SAB, in light of the publication of the International Financial Reporting Interpretations Committee (IFRIC).

Auditing and Accounting Enforcement Decisions.

- **Accounting Enforcement Decision 23-1:** the calculation of the fair value of shares acquired in exchange for newly-issued shares (February 2023) – an enforcement decision which deals with an entity that recognized shares acquired in accordance with the fair value of the investment based on the discounted future cash flow model, as opposed to the measurement of an investment in accordance with the consideration for it (cash and shares of the acquiring exchange-listed company).
- **Accounting Enforcement Decision 23-2:** the treatment of changes to the terms of

a lease (February 2023) – an accounting enforcement decision that deals with an entity that entered into an amended lease agreement, such that the company will pay variable leasing fees rather than a fixed leasing fee as set in the original agreement, which resulted in the deduction of the liability attributed to the lease from the financial statements.

- **Accounting Enforcement Decision 23-3:** Classification of cooperation between parties engaged in a joint venture (February 2023) – an accounting enforcement decision which deals with the 'joint control' between a company that serves as the general partner in a limited partnership and the partner responsible on its behalf for regular conduct vis a vis the limited partners.
- **Accounting Enforcement Decision 23-4:** Government grants (May 2023) – an accounting enforcement decision that deals with an entity that recognized earnings for government grants based on project completion rather than as a grant designed to compensate the company for project start-up costs. Consequently, a different accounting mechanism was used to recognize earnings attributable to the grants.
- **Accounting Enforcement Decision 23-5:** Pooling activity segments (August 2023) – an accounting enforcement decision which deals with an entity that pooled the operations of individual operating segments bearing different rates of profitability – in violation of the provisions of IFRS Standard 8 – Operating Segments.
- **Accounting Enforcement Decision 23-6:** Classification of financial asset investment by foreign operations (August 2023) – an accounting enforcement decision on the classification of financial asset holdings as foreign operations, in accordance with International Accounting Standard 21 – The Effects of Changes in Foreign Exchange Rates

- **Accounting Enforcement Decision 23–7:** Presentation of revenue segmentation by operating sectors (August 2023) – an accounting enforcement decision that deals with the presentation of revenues that are ineligible for recognition as sectoral revenues within the framework of the note on sectors.
- **Accounting Enforcement Decision 23–8:** Allocation of amounts among operating segments (August 2023) – an accounting enforcement decision that deals with an entity that improperly attributed costs among its various operations.

Staff Legal Bulletins (SLB)

- **Staff Legal Bulletin 105–34:** a no–action statement with respect to financial statement reporting in iXBRL without an attached PDF file (February 2023) – in this SLB, the ISA staff announced that it would not intervene in cases in which an entity that is participating in the voluntary stage (as defined in the bulletin) shall attach to the filing of its Statement of Financial Position (form 930) the set of financial statements in a format adapted to the iXBRL system, instead of attaching these statements in PDF format, despite the requirement set in Regulation 12 of Securities (Electronic Signature and Reporting) Regulations, 5763 – 2003. According to the ISA's staff's position, the transition to the iXBRL format engenders significant advantages for the investing public and does not harm investors, since all information that is required to be included in the PDF file shall appear in the iXBRL format as well, but will be more accessible to the public.
- **Update of Staff Legal Bulletin 104–15:** Reportable credit events (January 2024) – In this SLB, the ISA staff provides updates to the Q&As that are designed to clarify the manner in which one must examine the presumption of materiality of a material loan in investment entities, how

guarantees must be taken into account when vetting the materiality of the loans and the manner of vetting the quantitative materiality of loans and signed and binding credit facilities. In addition, commentary regarding the required disclosure when reporting non–binding credit facilities was added.

- **Pre–rulings**
The ISA staff handled approximately 19 requests for pre–rulings that dealt with a wide array of topics, including: the application of Section 15 of the Securities Law to the ventures offering investments to the public; the manner to approve transactions between entities and their controlling parties; candidate satisfaction of the eligibility requirements set for outside directors or independent directors, under the provisions of the Companies Law; materiality of a merger under Regulation 37C of the Securities Regulations (Periodic and Immediate Reports), 5730–1970.
- **Court briefs**
In 2023, the staff of the Corporate Finance Department formulated 56 professional legal opinions that were submitted on the ISA's behalf in legal proceedings pertaining to debt restructuring, requests for dividend distributions under Sections 303 and 350 of the Companies Law, as well as other petitions made by reporting companies, for which the court requested to learn the ISA's position.

Integration of the Most Advanced Electronic Reporting System in the World – iXBRL

The filing of financial statements using iXBRL, the world's most accepted reporting language, is designed to improve accessibility to corporate financial data, and in so doing, to increase the international exposure of the activity of reporting entities to analysts and investors.

iXBRL technology enables the tagging of the information included in financial statements according to internationally defined accounting terminology publish by the IFRS. The tags under these definitions create, in effect, a common language used by entities and investors, which can be translated to most of the world's known languages.

In 2023, the ISA acted to promote the initiative in the following ways:
In the course of this year, additional companies joined the trial group of iXBRL filers and in addition to the companies that joined in the past, completed more than 110 filings with the new technology (to date, 24 companies have filed during the voluntary stage).
Following public comments, the ISA plenum approved amendments to MAGNA rules pertaining to the registration, signature, filing and distribution of iXBRL filings (hereinafter: the Rules), which set the provisions governing the implementation of mandatory iXBRL filing and its staged integration in the market.
Under the Rules, mandatory iXBRL filing shall be conducted incrementally over a period of three years, based on company size and the scope of the tagging required. In the first year, entities with the highest market capitalization will make their initial filings, while in the final year, the entities with the lowest market capitalization will join suit. In the initial year of implementation, each group will file the main tagged financial statements, and in following years, will file the notes to the statements that are tagged in blocks as well.
During the course of the year, the data exploration system, which presents all iXBRL structured data, was made open for use. The system is available for free without having to register on the ISA website.
The ISA ran a webinar entitled: ISA is Switching to iXBRL. This was the second meeting in the series, providing legislative updates, implementation in Israel and a glimpse into the future of the project. The ISA

staff published additional publications on this subject in 2023, that were designed to assist the entities' relevant parties through the tagging process. In addition, the ISA staff and the advisory committee on iXBRL continued to provide responses to quandaries pertaining to the selection of appropriate tags.

Proposal to Amend the Access and Registration Rules for the Electronic Voting System

In August 2023, the ISA plenum approved the amendment of two sets of rules dealing with the access and registration to the electronic voting system – the first set pertaining to securities exchange members and the second to eligible voters. The electronic voting system enables investors holding shares, warrants, participation units and debt securities to vote online in the meetings for which they are eligible to vote. Following the technological system upgrade and its migration to the cloud, as well as the amendment of the Electronic Signature Law in May 2023, which included an indirect amendment of the Securities Law, obviating the need to use tokens and a certifying party, the ISA advanced the said amendments of the rules. The amendment pertaining to securities exchange members allows the members to interface with the system through a single rather than double interface – to the voting system and to the secondary back–up, disaster recovery plan (DRP) system – which was the method used up to this point. The amendment pertaining to eligible voters, primarily institutions voting on behalf of myriad institutional investors, enables eligible voters to identify themselves to the system through a multifactor authentication (MFA) mechanism, such as a one–time password (OTP), which enables authentication through a one–time password sent via e–mail or a SMS text message to a mobile phone. This mechanism replaces the use of electronic tokens. It is both more efficient and cost–effective for voters since it saves both time

and money. It obviates the need for dedicated token installations on the computer, as well as the need for coordinating with the certification authority .. In addition, it facilitates voting on additional types of devices, such as tablets and mobile phones. The amendment enters into effect with the conclusion of the technological preparedness period and the uploading of the system to the cloud.

Securitization

Starting in 2022, the ISA has acted, in conjunction with other government and regulatory bodies, to promote a bill on securitization, based on the recommendations of a public commission that dealt with this subject in the past, which were published in 2015. In the course of 2023, the ISA participated in discussions during which a final version of a Memorandum of Law was drafted and released for public comment in July, 2023, as well as in discussions held regarding the integration of these public comments in the final bill.

Amendment of MAGNA Rules Regarding Stopping a Corporate Filing Prior to Distribution

The rules governing the registration, signature, filing and distribution of information through the MAGNA system (hereinafter, the MAGNA Rules) determine the manner in which the submission of electronic filings on MAGNA by parties supervised by the ISA is to be conducted. The MAGNA system was constructed so that public filings sent through it are stored in an archive and are posted on the distribution website without human intervention, in order to ensure that the archived electronic documents shall forever be considered original documents, which are not given to alteration or further processing. In May 2020, the Magna Rules were amended, and among other things, Section 19, which deals with the possibility of hiding a filing on the distribution site, was

added. This section determines that the ISA Chairman or an employee authorized for this purpose may permit the hiding of electronic filings that were filed by mistake, under unusual circumstance and under certain conditions, as set in the rules. However, this section does not deal with stopping a filing that has not yet been distributed by MAGNA to the public. The ISA staff later applied the requirements set under this section for hiding files to such non-distributed filings as well, and as a consequence, in order to stop a filing, one must submit a special form to the ISA. In light of the above, the ISA initiated an amendment, according to which a filing party can act independently to stop a filing mid-course, without requiring the approval of the ISA Chairman or an employee authorized for this purpose, on the condition that the filing was filed solely to the ISA and was not publicly reported on the distribution site, such that there are no concerns that a portion of the public has already been exposed to the information contained in this filing. The amendment of the rules was approved by the ISA plenum in November, 2023 and was posted on the ISA website. Notice of the amended rules was published in the Official Gazette on 4 January, 2024 and entered into effect on 11 January 2024.

Amendment of Regulations Regarding Margin Limits and Leverage Limits for Derivatives and Options Transactions

Regulation 7 of the Joint Investment Trust (Options, Futures and Short Sales) Regulations, 5761–2001, (hereinafter: **the Options Regulations**) sets restrictions on the margin required for a fund's activity in derivatives. All derivatives activity shall be conducted solely by the fund manager and the required margin shall not exceed 20% of the fund's net asset value. The objective of the amendment is to limit activity in derivatives, while relying on the value of total margin demanded by the securities exchange to

place a ceiling on this activity. Regulation 3 of the Joint Investment Trust (Using Credit in Transactions and for Unit Redemption) Regulations, 5761–2001 (hereinafter: the Credit Regulations) set ceilings on the leverage a fund may exercise – 20% of the value of the fund's assets and 40% of the asset value of a leveraged fund. Leverage in a fund consists of, inter alia, the leverage intrinsic in derivatives activity, which includes pledging the total margin required for this activity. The managers of tracking funds use various covering techniques when tracking different indices. Among other things, publicly traded futures, or synthetic contracts providing exposure to the underlying asset are sometimes used. The acquisition of futures involves margin deposits, and is limited by the aforementioned ceilings on margin. Options activity for the purpose of creating synthetic contracts increases the fund's limited credit leverage, even though the creation of the synthetic contract is designed for tracking the underlying asset and does not entail the assumption of any additional risk. The quantitative limitations that were set for determining credit leverage and the value of margin, as aforementioned, were designed to limit the activity of actively managed funds and not to create barriers to the activity of tracking funds, which are obligated in any case to track the underlying indices serving as the tracked asset, in accordance with the leverage set in the fund's investment policy. In addition, given the directive issued by the ISA to mutual fund managers regarding the management of tracking fund investments, that was issued under Section 97(b) of the Joint Investments Law, it is not possible to increase the risk derived from the fund's tracked asset, and therefore, the limitations imposed on margin and credit leverage for derivatives activity lacks relevance for these funds. In light of the above, in December 2020, the ISA published a temporary directive by virtue of its authority under Section 65A of the law. The said directive states that tracking

funds will be excluded from the margin limitations set on derivatives activity, and from the portion of the fund's credit leverage attributed to options activity. This directive was extended in May 2022 for an additional year, and concurrently, the ISA plenum approved draft regulations which seek to anchor in regulations the provisions of the temporary directive in July 2022. Following the outbreak of the "Swords of Iron War" and the situation prevailing in Israel since, the Tel Aviv Stock Exchange raised its margin demands for MAOF options, in a manner that could result in a breach by tracking funds of the limits set in the regulations, as mentioned above. This situation necessitated an immediate advancement of the Options Regulations. The amendment of these regulations was approved in the Knesset Finance Committee in December 2023 and was published in the Official Gazette on 17 January 2024.

Development of the Money Market

This past year was characterized by the continuation of interest rate hikes by the Bank of Israel and the realization that interest rate conditions do not completely trickle down to the public. Currently, most clients elect to keep their money in current accounts, in which the value of their money is eroded by inflation. In effect, the public fails to take advantage of market conditions in selecting the optimal money market investment and savings products for them. The money market is defined worldwide as a market of liquid, short-term, up to one-year redemptions and low-risk instruments. The current situation, in which the money market does not enjoy adequate competition or adequate product depth, impinges on the public's ability to maximize market conditions and select the most suitable investment products at any given point of time and at any juncture of decision-making. Consequently, there is a need to create investment alternatives that facilitate the public's ability to maximize the value of its investments and savings. In

addition, the brokering of money market products has been subject to regulatory arbitrage, which makes it more difficult for the public to select the products most suitable to its needs; therefore, it is important to make all money market products more equitably accessible so that investors can take full advantage of the choices placed before them.

In August, 2023 the ISA plenum approved a proposal to amend legislation to promote the development of the money market. The proposal was expedited and was published as a Memorandum of Law. The Memorandum proposes to amend the Joint Investments Law and the Investment Advice Law, to launch new money market funds that will add to Israel's money market, facilitating conservative, transparent investment in terms of expected returns and expanding the funds' channels of distribution to make them more accessible to the public at large. In addition to developing these funds, the amendment is likely to encourage the entry of new players, which will now be supervised by the ISA into the money market mutual fund industry, and by rendering the field more competitive, will make opportunities for low-risk investments more accessible to the public and increase the public's return on investments.

Alternative Investment Funds

I With the expansion of the alternative investment market, its enhancement and accessibility to greater numbers of investors worldwide, retail investors in Israel will also seek to balance their portfolios or to maximize returns through alternative investments, particularly during periods when public confidence in traditional markets and their ability to yield attractive returns is lacking. For this reason, a need has arisen to advance regulated alternative investments. In light of the above, a series of immediate measures were proposed with the aim of promoting activity to enhance the capital market and market efficiency by

diversifying channels of investment and financing, including the establishment of the infrastructure for creating alternative mutual funds. In March, 2024 this proposal was approved in the Knesset by the Ministerial Committee for Legislation.

Hedged Mutual Funds

During the course of the report year, a temporary directive for mutual fund managers and trustees with respect to assets that can be bought and held by a hedged mutual fund as well as an amendment to the directive regarding the ability of funds to charge "success fees" entered into effect. As a result, it is now possible to establish a hedged mutual fund that will be managed like hedge funds in terms of their attributes and investment activity, but will be supervised like any other mutual fund. For this purpose, the management of a hedged mutual fund will be entitled to relief, (relative to other mutual funds) from the quantitative restrictions imposed on them. Dozens of hedged mutual funds were launched throughout the report year following a probing vetting and approval process. By the end of the year, stock exchange members completed developing the process for distributing these funds to the general public. The staff is currently considering anchoring the temporary directive in permanent regulations.

Amendment of on the Investment Management of Tracking Funds Directive
During the report year, the ISA plenum approved an amendment of the Investment Management of Tracking Funds Directive. This directive, which regulates the manner in which investments made by tracking funds are managed to ensure that the fund management conforms to the purpose of the fund, its investment policy and the duty of care imposed on tracking fund managers, was initially issued in 2018, as part of a legislative initiative accompanying Amendment 28 to

the Joint Investment Trust Law. The objective of the amendment is to allow tracking fund managers greater flexibility in managing these funds, without impinging on their obligation to maintain a high correlation between the tracking fund's performance and the performance of the underlying asset. The amendment also increases the disclosures fund managers must make about the funds under their management including, among other things, the fund's intraday net asset value (INAV) which provides an indicative value of a unit, information regarding the entire asset composition of the fund, the ten securities bearing the greatest weight in the fund and the spreads quoted by the fund's market makers. In addition, it sets the fund's obligation to adjust its performance to that of the underlying asset in full and repeals the possibility to define the fund as being structurally challenged in terms of its ability to fully track the underlying asset.

The Index Directive

In the report year, the ISA plenum approved the issuance of a directive regulating the manner in which a fund manager engages with a new index provider, and the way in which an index is approved as the underlying index of a tracking fund under its management. Under the approved directive, the fund management is required to thoroughly vet the suitability of the index provider to its position, while examining certain issues as set in the directive. With respect to the approval of an index as a new underlying asset, the directive mandates that the fund manager ascertain the existence of various types of hedging alternatives, verify that the index is sufficiently well diversified, that transparency and disclosure requirements apply to the underlying asset and to the methodology underlying it, and that the rules regarding the consistency of the name of the index and its constituent securities are upheld. These measures are designed to create a higher degree of

certainty among fund managers, index providers and trustees with respect to the vetting required prior to the establishment of a new tracking fund and the criteria that the indices and index providers must meet. They also serve to expand the information provided to investors with respect to the tracking funds' underlying assets.

Social Trading and Signal Services

In 2016, the Directive to Licensees on the Service Using Digital Advice Tools (hereinafter: the Directive) entered into force. The aim of the Directive was to adapt the implementation of legal provisions when services are provided digitally in order to simplify this activity, while protecting the benefits to clients. The services regulated in the Directive included, among others, a service called social trading, to which a separate chapter of the Directive was dedicated. The client of a social trading service, referred to as a "tracker", is able to view the composition of an investment portfolio of a third party, referred to as the "trackee", monitor the investment activity of it and receive information about it. Another chapter of the Directive deals with a service referred to as a "signal service" in which the service operator sends short messages containing specific immediate investment recommendations to its clients. In the time since the Directive came into force, the ISA staff was able to collect insights with respect to social trading and signal service. The staff even examined the current state of the regulation of these services abroad, and generally speaking, there currently is no specific regulation governing these types of services. In light of these insights, the Investment Department staff advanced an amendment to the Directive in 2023, in which the chapters dealing with social trading and signal service were amended. With respect to social trading, the amendment addressed the following issues: the ability of an authorized licensee to

manage trackee accounts; opening additional avenues by which to compensate trackees, while adding disclosure requirements about them; setting a disclosure mechanism regarding transactions for which conflicts of interest exist; adding an explicit prohibition on misleading information in representations made to clients; prohibiting trackees from marketing their tracked account; and regulating the conversation between trackees and trackers, taking care that it does not slip into what could be construed as personalized advice.

In addition, the chapter dealing with signal service was amended in which the signal service regulated in the Directive was replaced by "advisory services for independent trading". Within the framework of amending the Directive, key restrictions included in the previous version were removed, including the restriction of interaction with the client and the restriction on providing advice for independent trading to a client that receives traditional personal service as well. In order to maintain a balance and with the aim of continuing to ensure the protection of the interest of the investing public, another dimension of suitability to the client imposed on this service, on top of the suitability to the service overall, as stipulated in the original version of the Directive. As stated above, other than in the provision of investment recommendations to a client, the new version of the Directive allows for interaction with clients on a regular basis, as long as it is done in a way that precludes misleading representations as to the nature of the service, including the issue of suitability to the client's investment activity and the avoidance of providing personal advisory services or personal treatment with respect to the recommendations sent to the client. In addition to all these, the Directive also addresses: distinctions between different types of services, assurance of providing clear presentations to the client, mandatory display of returns to the client and the removal

of a restriction on executing transactions, subject to the provision of more than one service through which the transaction can be executed. The amendment of the Directive entered into force in August 2023, with the exception of Section 30 of the Directive, which is scheduled to enter into force in August 2025, in order to allow licensees operating in this field to prepare for the regulatory changes included in the amendment.

Encouragement of Capital Market Activity Law (Legislative Amendments), 5784–2023

The prolonged actions of the Swords of Iron War are expected to have a significant long-term impact on the Israeli economy. In light of the above, the ISA has initiated a bill for legislative amendments, which includes immediate measures to accelerate economic recovery and to develop the capital market following the war. The proposed Memorandum of Law contains several amendments on issues which the ISA has chosen to address in recent years in the areas under its purview:

1. Extending commercial paper as an instrument for financing corporate activity – Commercial paper (CP) is a short-term corporate debt instrument for periods of up to one year, which serves as an alternative to bank credit. The proposal would promote CP offerings by allowing issuers to extend redemption for an additional period of time, not to exceed one year for each extension, up to a maximum total period of five years, while creating mechanisms to ensure the requisite investor protection.

2. Expanding Opportunities for Dual Listings on the Securities Exchange in Israel – The Securities Law provides that companies listing shares in an initial public offering on an exchange in Israel maintain a single-class share structure. In recent years, in certain countries, large companies with multi-class

share structures have completed initial public offerings abroad, in accordance with what is permitted under the applicable law. As a result of this, however, these companies are unable to list their shares on a securities exchange in Israel under the dual-listing arrangement (Chapter H3 of the Securities Law). In order to give these companies the opportunity to dual list, it is proposed to exclude them from this legal provision and determine that in cases in which a foreign entity has more than one class of shares, the securities exchange will list the most marketable class of shares. The proposal would also empower the ISA with rule-making authority with respect to the conditions and restrictions on listing companies with multi-class securities on a securities exchange, in addition to the rules that may for set for the said listings in the rules of the exchange.

3. Establishing the Infrastructure to Create Alternative Mutual Funds – With the goal of diversifying the capital-raising opportunities open to companies as well as the investment products they issue, the ISA proposes to lay the foundations for a new type of mutual fund – 'private equity mutual fund'. This type of fund will be permitted to hold unlisted securities as well as assets that are not considered to be securities. The activity of these new funds will be subject to regulation in order to ensure investor protection.

4. Developing General Investment Advice, Particularly Market Analysis, Provided by Licensees or Other Parties Under Authority Oversight – The Regulation of Investment Advice, Investment Marketing, and Investment Portfolio Management Law, 5755–1995, is currently tailored to the activity of a licensed investment advisor towards a specific client, following a vetting of the client's needs. In recent years, technological

developments have created new tools for providing investment advice, which facilitate a more expedient and efficient solicitation of services to the general public. In order to adapt legislation to the developing reality on the ground, and in order to enable investors in Israel to enjoy a modern and developed investment analysis market, the ISA proposes a legal framework to facilitate the provision of general advice, which is not directed towards a specific investor. The amendment distinguishes between the provision of general advice and advice provided by supervised parties and will determine regulation adapted to each one of them, inter alia, on issues of conflicts of interest, remuneration for advisory services, and required disclosures. The Memorandum of Law for the Encouragement of Capital Market Activity Law (Legislative Amendments), 5784–2023 was released for public comment on the government's legislation website at the beginning of January, 2024.

Investment Advice, Investment Marketing and Portfolio Management

Engaging in investment advice, investment marketing and investment portfolio management is subject to licensing by the Israel Securities Authority. This license is granted an individual who has successfully completed the licensing exams conducted by the ISA, an internship as set in the Law (or was exempted under certain circumstances) and following the vetting of the license applicant's "fitness and propriety", including checking for a criminal record.

Total Portfolio Management, Investment Advice and Investment Marketing Licenses Granted to Individuals, 2015–2023

Year	Portfolio managers	Investment advisers	Investment marketers
Up to 2017	3,176	7,697	1,933
2018	115	319	112
2019	111	302	94
2020	111	266	103
2021	102	211	94
2022	93	231	68
2023	96	103	81
Total licenses issued	3,804	9,123	2,485

As of the end of December 2023, 2,950 licensed individuals, of which 793 portfolio managers, 1,680 investment advisers and 477 investment marketers were actively engaged in the said professions.

License Grants, Conversions and Revocations in 2023

	Total	Investment Advice	Investment Marketing	Portfolio Management
Valid licenses as of 31.12.2022	177	11	39	127
License grants	9	0	3	6
Added by conversion	0	0	0	0
Voluntary revocation	5	1	1	3
Revoked by ISA	0	0	0	0
Deducted by conversion	0	0	0	0
Valid licenses as of 31.12.2023	181	10	41	130

Licensing – Exams and Internships

Through the Investments Department, the ISA is responsible for administering the license exams for investment advisors and portfolio managers. Licensing exams are conducted semi-annually – in summer, which is in May–June, and winter, October–December. In 2023, the ISA initiated a pilot program, holding a make-up round of tests in the basic subjects (securities law and professional ethics, economics, statistics and finance and accounting) with the aim of shortening the process of obtaining a license. The pilot was held in the summer and was scheduled to be held in the winter as well, but, due to the Swords of Iron War and pursuant to guidelines issued by the Home Front Command, the make-up round was not held as planned. The ISA nonetheless decided to hold a special round of tests in 2024 that took place in February.

In addition, in light of the security situation and its impact, the ISA acted to lower the burden of candidates taking the licensing exams, particularly reservists and their spouses as well as residents of the conflict areas, by allowing, among other things, their deferment to a later date without additional payment, the cancellation of registration for the exams with a full refund and recognition of internship days. The relief was designed to assist exam-takers during this period, without impinging on the professional level of the exams or of the prospective licensees' providing professional services to the investing public.

In 2023, a total 4,769 exam units were given as opposed to 4,740 units in 2022.

In 2023, approval was given for the launch of 117 internships (59 in portfolio management, 31 for investment advice and 27 for investment marketing).

Percentage of Licensee Candidates Passing Licensing Exams in 2023

Exam Subject	No. Exam-takers	No. Exam-takers per Exam	No. Exams with Passing Grades	Percentage of Exam-takers Passing
Securities Law & Professional Ethics	626	537	404	68.5%
Accounting	1,464	1,012	545	37.2%
Statistics & Finance	1,165	899	502	43.1%
Economics	1,337	1,026	585	43.8%
Professional A	1,575	1,214	686	43.6%
Professional B	81	81	49	63.1%

As part of an effort to increase demand for licenses and the provision of regulated investment services to the public, the criteria for exempting candidates from exams and internships for special reasons has been expanded. When the ISA is convinced that special circumstances exist, given the educational and professional background of the applicant, including his proven experience in adjacent occupations, and in accordance with its relevance to the exemption sought, a candidate can be considered eligible for receiving a license.

Supervision of Licensees

In the course of 2023, the staff held meetings with licensee companies to identify relevant regulatory roadblocks to the development of the industry as well as potential risks to clients, to improve the services given to clients and to deepen the understanding of their ongoing activity with clients. In the meetings, the staff met with various functionaries in the company, including licensees and relevant managers and members of the operations, investment and compliance staff. In addition, the staff met with 30 investment advisors who provide client services through the advisory systems in the various banks.

Additionally, in light of the security situation due to the Swords of Iron War, the staff conducted conversations with licensee companies, with self-employed licensees and with the bank investment systems to determine problems in providing continual services to customers exist. From these discussions, it was found that despite changes in the composition of human resources following the call-up of reservists, the provision of services continues as normal. At the same time, the ISA published a series of relief measures with respect to the filing of quarterly reports to it and to clients and with respect to compliance to the Anti-money Laundering Order pertaining to remote client identification.



Innovation

Data Projects

Seeking to preserve a fair capital market and to advance technological innovation in it, the Information Systems Department advanced several data-related projects:

- **Completion of the launch of a data proof-of-concept (PoC) project – Accessibility of principal shareholder data;**
- **Data collection for AI usage in oversight and enforcement;**
- **Running Gen AI tests and feasibility analyses of an applied AI project.**

The implementation of these and future projects in the field will provide an advanced response to overseeing filings and identifying the level of compliance with the legal requirements set in the regulations and Authority publications. In addition, these tools are expected to improve the decision-making process in analyzing and auditing filings, to save precious time and manual intervention in the regular labor of workers, while presenting insights and relevant information, and will assist in financial risk management, such as identifying companies facing possible insolvency. In addition, within the framework of projects managed by the Information Systems Department, steps were undertaken to migrate ISA systems to the cloud and upgrade them in the cloud using advanced tools. These measures enabled the completion of the migration of the Yael and MOACH 10 systems to the cloud, advanced the migration of the MAGNA and e-voting systems and jump started the upgrade and migration of the AVIEZER system to the cloud. In addition, in order to support the regulation and oversight of companies providing

payment services, and in anticipation of law and regulations on this matter becoming effective, oversight capabilities were developed for payment service providers based on the infrastructure previously developed for the oversight of financial information providers.

Fintech Regulatory Innovation Hub

The goal of the Fintech Regulatory Innovation Hub is to assist and give informal direction to fintech (financial technology) companies interested in operating in Israel. The innovation hub helps parties seeking to operate in the local market comprehend the legal framework in Israel and determine if it is suitable to their field of operation. From the ISA's perspective, the regulatory innovation hub has another goal as well – to learn and become better acquainted with the different players in the ecosystem, the barriers confronting technology companies and to deepen its expertise and knowledge. The companies applying to the innovation hub are, generally speaking, in the early stages of their operations, with business-to-consumer (B2C) business models and they prefer, at least initially, to be well-versed in the existing legal framework so that they can adapt their planned activities to it. The fintech team at the ISA running the innovation hub consists of representatives from various departments and is able to provide these companies with a quick, dynamic and integrated response to their queries. It is important to note that the ISA does not provide economic assistance or guidance with respect to legislative issues not under its purview, and that the activities of the hub do not replace specific advice, when necessary, legal or otherwise.

Fintech Pilot Projects

At the beginning of 2020, the Innovation Authority in conjunction with the Israel Securities Authority launched a project that enables Israeli fintech companies to conduct pilot projects with their end users (the Israel Securities Authority, financial institutions or the general public). This joint project is designed to advance the strategic goal set by the ISA to promote financial innovation in the Israeli capital market, integrate financial technology that will render the capital market more accessible to Israeli consumers and to improve the ISA's operational efficiency as well as that of the entities regulated by it.

The participating fintech companies are offered access to ISA data bases and Tel Aviv Stock Exchange market data. In addition, the companies selected for the project receive financing of 30%–50% of the pilot costs as well as assistance by the ISA staff on all regulatory issues relating to it. In 2022, the Bank of Israel joined the program as an observer, assisted in preparing the applications that were submitted in its field of expertise and provided professional assistance to the selected companies. In 2023, the following challenges were placed before the fintech companies:

- integrating solutions generated by Israeli technology companies into the traditional financial system, particularly in the field of consumer payments, including the digital onboarding of clients through virtual accounts,⁵ which integrate eKYC (digital know-your-customer) solutions for client identification. This includes establishing direct connectivity between the fintech company to the supervised payment services in Israel, such as the ZAHAV (real-time gross settlement) system, MASAV (Bank Clearing Center, Ltd.) and SHVA (Automated Banking Services, Ltd.);
- enhancing public access to financial information, innovative services and products, through open APIs (application programming interface) with financial institutions, particularly to conduct cost comparisons between the greatest possible number of parties, in a manner that benefits consumers, with an emphasis on solutions for ultra-Orthodox Jewish and Arab communities;
- creating incentives to lower bid-ask spreads or to increase transparency with respect to the effective prices of exchange-traded closed-end mutual funds (ETFs) from the standpoint of the public;
- developing technological solutions that facilitate direct, easy and expedient purchases of mutual funds from the creator or from any other relevant party;
- identifying and effectively analyzing financial discussions held in Hebrew on social networks, news sites, blogs as well as other relevant public information sources.

In 2023, the Investment Committee of the Innovation Authority, which includes representatives from the Israel Securities Authority, selected five companies that received financing totaling NIS 2.7 million to carry out the pilot projects: Feezback Technologies, Ltd., Amplifier, Ltd., I.A.T. Technologies (Internal Audit Technologies), Ltd., Fair Financial Technologies, Ltd. and Citizen Impact, Ltd.

⁵ Virtual accounts are a type of special, innovative account, which allows global technology companies to offer payment management operations for global clients, such as those operating through e-commerce as virtual shops. This activity does not currently exist in the traditional financial system, and its integration will enable the same companies to offer their clients in Israel diverse financial services.

Fintech IL – Innovation Community

At the beginning of 2022, the Fintech Innovation Community launched operations. Members of the community include the Ministry of the Economy and Industry, the Ministry of Finance, the Israel Securities Authority, the Bank of Israel, the Innovation Authority and the Israel National Digital Agency. A non-government organization, Fintech Israel, was selected to operate the community. The community's vision is to promote innovation in Israel's financial sector and make a wide variety of advanced, high-quality, competitive services more accessible to the general public in Israel and its business community, and to realize the potential of the fintech industry as a source of economic growth and high-quality jobs and as an export industry.

The goals of the community are:

- help financial institutions adopt, promote and manage innovation processes;
- help Israeli governmental agencies in adopt, promote and manage innovation processes in their financial activity;
- grant fintech entrepreneurs the tools they need to move their innovation projects forward;
- promote efficient working interfaces between the various financial regulators and the industry;
- map out barriers hindering the adoption of financial innovation in Israel or slowing down the pace of their adoption;
- reduce the gap in the use of technological means by various special demographic sectors of the society;
- initiate cooperation and collaboration in know-how between the various players in the ecosystem;
- For additional information about the community's activity and to join its ranks – <https://fintech-il.org.il>

Interministerial Task Force to Examine Use of Artificial Intelligence in the Financial Sector

In 2023, an interministerial committee, comprising representatives from the ISA, the Ministries of Finance and Justice, the Bank Supervision Department, the Capital Market, Insurance and Savings Authority and the Competition Authority, was convened to examine the uses of artificial intelligence (AI) in the financial sector. Generally speaking, the use of AI and machine learning technology has spread in recent years, particularly in the financial sector, and today it encompasses a wide array of activity. Various AI-enabled applications and tools assist financial institutions in risk management and decision-making pertaining to recommendations for

capital market investments, automated portfolio management, credit or insurance underwriting, customer service, the presentation of value propositions to clients, the settlement of insurance claims, etc. The use of AI and machine learning engenders many benefits, including the ability to offer clients better products and services, improve fraud detection, encourage competition, realize cost savings and improve the operating performance of and risk management in financial institutions. At the same time, however, AI can pose considerable regulatory and legal challenges, some of which bear unique characteristics, ranging from the need to address privacy

and data protection concerns, distortions in decision-making, issues of consumer protection and competition. In addition, potential regulatory and other barriers exist, which hinder the ability to maximize potential benefits.

The task force was instructed to: analyze in depth potential AI activity, its benefits, barriers and risks; draft a situation report regarding the use of artificial intelligence in Israel's financial services sector (including the use of "simple" AI, i.e., computerized processes assisting decision-making); assess the impact of AI on financial activity and financial services in Israel today and in the near future; formulate recommendations pertaining to the need for appropriate regulation (if necessary) and its design and the need to remove of barriers to desired activity; and examine legal clarifications (if necessary) with respect to existing legislation, accentuating policy considerations and other interests related to the financial system.

Memoranda of Understanding in Fintech and Innovation

In recent years, the ISA has been active through its International Affairs and Market Development Department in increasing cooperation in the field of innovation through the conclusion of Memoranda of Understanding (MoU) with foreign authorities dedicated to fintech. The MoUs lay out principles for cooperation and information exchange in order to encourage and cultivate innovation in the financial services industry. Inter alia, the MoUs regulate referral mechanisms between the authorities, which facilitate the mutual exchange of inquiries by entrepreneurs for the purpose of providing assistance and guidance from the respective authorities. These and other arrangements also facilitate entrepreneurs in offering innovative financial services in the respective foreign markets, while receiving support from the authorities and adapting the accepted

regulation. In September 2023, the ISA signed a fintech cooperation agreement with the Central Bank of Bahrain. The purpose of the MoU is to provide a framework for cooperation between the ISA and the Central Bank of Bahrain on matters related to capital markets, fintech and innovation.

Intraorganizational Innovation

In 2023, the ISA launched an intraorganizational professional innovation community, a value-creating strategic instrument for stimulating innovation in the ISA. The innovation community acts to identify challenges facing the ISA and the investing public and find innovative solutions to these challenges, spearhead change-making projects, promote a culture of innovation within the ISA and expand interactivity and cooperation with the ecosystem, in an attempt to turn the ISA into an innovative body and preserve its status as a relevant leading institution.

The community's membership comprises the employees of all ISA departments are. Yael Weiss, Innovation Manager, heads the community. During the course of the year, the community held three challenger sessions, and its members underwent training with respect to how to identify and define solutions to challenges, ideation, how to define a challenge, attentiveness to clients, leading change, and more.

Research

The Department of Research, Development and Strategic Economic Consulting (the Economics Department) continues to monitor new market trends influencing trading patterns and investor behavior (such as changes in liquidity indices, developments in cryptocurrency markets, updates in the fields of fintech and "regtech" (regulatory technology), institutional investor activity and the growing trend of algo or high-frequency trading (HFT). Trends such as these require that regulators develop the analytical tools necessary to efficiently respond to developments and their anticipated outcomes. For this purpose, the department is working to create the foundations on which to develop tools to capitalize on innovative technologies that facilitate the analysis and identification of information: Big Data, Natural Language Processing, Artificial Intelligence, etc. Their work is based, inter alia, on databases the department creates, acquires, regularly updates, expands and maintains and on the development of tools and programs to work with the databases, including tools that facilitate the use of large-scale data to conduct complex intraday analyses over varying time periods.

In addition, the Economics Department conducts research in cooperation with academic researchers on important issues, such as the effects of passive trading on market quality, the assessment of mutual fund performance on the Tel Aviv Stock Exchange, e-voting systems and the participation of non-institutional investors. The department also acts to recognize and understand the trading traits of some market players, such as in the research it conducted which examines intra-day trading patterns during the sounding of the siren on Holocaust Remembrance Day.

The department gathers the expertise in the ISA on the subject of digital assets and assists the various departments and other government ministries in the processes related to this subject. In addition, the department monitors market conditions during emergency events, generates insights from market data and distributes daily monitoring reports. For example, at the end of 2023, it coordinated the monitoring of market developments following the outbreak of the Swords of Iron War.

International Activities and Involvement in Committees and Forums

The ISA – through the Department of International Affairs and Market Development – is an active participant in committees and working groups of international organizations dealing with securities and corporate law. The goal of its involvement is to become thoroughly familiar with regulatory processes, oversight and enforcement in different markets in order to improve similar processes in the local market, influence policy formation regarding securities regulation and corporate law at the international level, consult with foreign regulators in these fields and present them with different perspectives gleaned from Israeli regulation and Israel's public capital market.

The ISA conducts most of this activity within the framework of the International Organization of Securities Commissions (IOSCO). IOSCO is the preeminent forum for cooperation between securities authorities worldwide, with 238 members from over 130 jurisdictions. Its membership primarily comprises financial regulatory authorities and several securities exchanges. To a great extent, IOSCO sets the agenda among regulators in the financial world. The organization acts to set unified international policies and rules, and its principles are recognized as the leading standard in the analyses and financial assessments of international bodies, such as the reports of the International Monetary Fund, and as the foundations for financial legislation. In 2023, the ISA continued play an active and significant part in the deliberations of the organization's following committees:

Accounting, Audit and Disclosure Committee (C1)

The Accounting, Audit and Disclosure Committee deals with various issues pertaining to these subjects. It primarily deals with formulating a focused position of the world's securities authorities on proposals for new accounting standards and interpretations of the IFRS Interpretation Committee. The ISA is represented on the committee by a member of the Corporate Finance Department, who coordinates the discussion group on emerging accounting issues.

Committee on the Regulation of Financial Intermediaries (C3)

The Committee on the Regulation of Financial

Intermediaries deals with various issues pertaining to this subject. This year, the committee discussed issues such as artificial intelligence, cross-border digitization, leveraged loans and risk management in dynamic macroeconomic environments. In addition, working groups were established within the framework of the committee to focus attention on addressing conflicts of interest that may arise in the work of broker-dealers, against the backdrop of the situation currently prevailing in financial markets. The ISA – represented by the International Affairs and Market Development – is a member in some of these working groups.

Committee on Enforcement and the Exchange of Information (C4)

In 2022, the ISA started to advance a course of

action towards large international technology companies in the areas of online search and social media operating paid advertising services in an attempt to avoid the advertising of financial services that are not regulated by a relevant regulator, including the ISA. Alongside the ISA's approach to the relevant parties in Israel, it became a member of a working group established under the committee to find a global solution to this issue.

Committee on Investment Management (C5)

The Committee on Investment Management deals with various issues pertaining to investment instruments sharing the features of collective investment. This year, the committee held discussions and conducted surveys on several key issues: liquidity risk in open-end funds and tools for preventing illiquidity in a fund; leverage; index creator activity; and the valuation of fund assets. The discussion on liquidity risks in open-end funds was held against the backdrop of past events involving massive redemptions of fund units during periods of market pressure, which could vindicate the fund manager's use of liquidity management tools. The discussion on the activity of index creation emanated from the growth of passive investment products held by the most powerful index creators. It sought to examine inter alia: the proper treatment of potential conflicts of interest between index creators and fund managers; liability issues in cases involving injury to the investing public; and the manner oversight should be imposed on the various parties.

Committee on Retail Investor Education (C8)

The primary mandate of this committee is to recommend to the IOSCO Board the appropriate policy pertaining to retail investor education and financial literacy. The committee serves also as an advisor to the

IOSCO Board on anticipated problems related to the protection of the investing public, and is responsible for the implementation of the IOSCO Board's policy on these matters. The ISA is represented on this committee by the Spokesperson's Unit, which heads the field of financial education at the ISA. During 2023, the committee started work on two key projects – the first on the subject of crypto assets and the second on "Finfluencers" (in conjunction with the C3 and C4 committees). The ISA's representatives on the committee also head the Finfluencer Working Group together with the representatives of the Spanish (CNMV) and the French (AMF) Authorities. Final reports are expected to be released in the current year.

Assessment Committee

The Assessment Committee deals with processing and updating the principles of appropriate securities law regulation developed by IOSCO. These 38 principles create the key for comparing the suitability of regulatory activity. In addition, the committee conducts assessments of the member securities authorities and examines to what extent these principles have been integrated into local regulation, in accordance with a methodology developed by the organization. The committee also examines the extent to which member states have implemented the recommendations of prior IOSCO reports. In this respect, it is worth noting that in order to advance the Israeli public capital market, as part of its membership on the committee, the ISA, through the International Affairs and Market Development Department together with the professional departments, is conducting a self-evaluation of Israeli legislation to identify gaps that the ISA and Israeli regulation must reduce to meet the highest standards of capital market supervision. This year, the implementation of IOSCO principles with respect to risk management and to regulatory scope were examined, as well as the implementation of recommendations pertaining to the

supervision of trading in light of recent technological developments.

European Regional Committee (ERC)
The ISA is a permanent active participant in the European Regional Committee, which deals with diverse sweeping issues occupying the European countries and its environs. The primary IOSCO projects are presented and discussed in the committee, along with other policy issues and subjects of special importance. The representatives of the member authorities in the committee also present updates and regulatory innovations in their area of responsibility, as well as additional developments and events occurring in their respective capital markets.

Committee on Emerging Risk (CER)
The CER deals with the identification, analysis and assessment of emerging and nascent risks in capital and securities markets worldwide. The aim of this committee is to help the organization's members better understand potential new risks on the horizon and to develop policies and the appropriate regulatory tools to address them. In addition, the committee deals with the early detection and monitoring of trends, financial products and developing technologies that could influence the global financial system. It identifies select issues requiring regulatory attention and publishes reports and recommendations to the organization's members on these matters. The ISA's Economics Department represents the ISA in the committee and is also active in the Regtech Working Group, and this in addition to its other ISA duties as lead actor on the treatment of systemic risk and on the cooperative inter-Ministerial initiatives in this field (the Committee for Financial Stability under the leadership of the Governor of the Bank of Israel and the steering committee created under it). The CER constitutes a platform for cooperation between the securities

authorities worldwide, and its contribution to advancing a shared policy and united regulatory response as adapted for emerging risks.

Other International Organizations and Forums in Which the ISA is Active:

OECD – Corporate Governance Committee
Throughout 2022–2023, the International Affairs and Market Development Department has been deeply involved in a project to update the OECD's principles of corporate governance. The objective of these principles is to assist policy-makers to assess and improve the regulatory framework of corporate governance in their respective countries. The OECD's initial principles document was drafted in 1999, and the leaders of the G-20 countries approved it in 2015. The principles serve to identify and improve regulation in the member states and are relevant for a very wide range of areas – digitalization; institutional investor involvement; corporate governance in public companies; investment funds and financial intermediaries; the importance of public capital markets; regulation of the operations of business groups; and its reference to ESG. It is anticipated that the OECD member states will adapt local laws to the organization's corporate governance principles. The International Affairs and Market Development Department continued its active involvement in the process of updating the principles together with the Ministry of Justice. In 2023, the representatives of the Department also participated in the committee meetings in which issues such as corporate sustainability, "green bonds", private bond issues, and strategies for implementing corporate governance principles. In addition, this year, the International Affairs and Market Development Department also participated in preparing the Israeli section of the Corporate

Governance Factbook – a bi-annual summary that provides a deep and comprehensive survey and comparison of corporate governance perspectives in securities regulation in various countries.

Global Financial Innovation Network (GFIN)
The ISA is a member of the Global Financial Innovation Network (GFIN) – an international network for the promotion on financial innovation. The network brings together more than 80 organizations, such as the International Monetary Fund and the World Bank, which have committed themselves to supporting financial innovation, while preserving the welfare of the public at large. The British regulator, the Financial Conduct Authority (FCA) initiated the international network's establishment, alongside other organizations. The network is designed to create a new framework for cooperation between financial services regulators on matters related to innovation in order to share divergent approaches and experience. In addition, GFIN aspires to provide innovative companies with an efficient way to communicate with various regulators and to assist them to navigate between countries. In 2022, the ISA was chosen to be a member of the network's Coordination Group. As part of its membership in the Coordination Group, over the past year, the ISA initiated and led a working group on artificial intelligence and machine learning. The working group conducted a survey between the authorities and the member organizations of the Coordination Group pertaining to AI applications used by capital market players and my regulators. The survey's findings were released to the network members and currently aid the network in projects in this field.

Market Promotion and Development Activity
A highly significant part of the International Affairs and Market Development Department deals with the promotion and enhancement of Israel's capital market, such that it will attract leading large global market participants. From the ISA's perspective, the entry of these parties to the Israeli capital market supports the global development of the market, encourages competition and raises the standard of local market operations. Over the past year, the department's staff continued its efforts to enhance the Israeli capital market's exposure among significant global players, including, investment banks, underwriters, investment funds and publicly traded companies, by holding physical and virtual meetings with senior personnel of these institutions, lectures, webinars, various gatherings in Israel and abroad, and by maintaining an on-going conversation designed to raise awareness of the Israeli capital market's vast potential. One of the main reasons for these gatherings is to identify regulatory barriers hindering the entry of these parties to the Israeli market, and to advance regulatory initiatives to remove these barriers.

EU Recognition of the Tel Aviv Stock Exchange Clearing House
In March 2023, the European Securities and Markets Authority (ESMA) announced its decision to recognize the Tel Aviv Stock Exchange Clearing House (TASECH) as a Tier 1 Third Country CCP under the European



Market Infrastructure Regulation (EMIR). EMIR, which deals with OTC derivatives trading and clearing houses, was enacted to reduce systemic and operational risks and prevent a future collapse of the financial system. The significance of this decision is that ESMA and the European Commission recognize the high quality of Israeli regulation and oversight of the clearing house, as well as the quality of its risk management and the investor protection it affords. Consequently, TASECH is now authorized to offer clearing and settlement services for financial instruments to European market participants. This is a very important recognition for TASECH, particularly with respect to its dealings with remote members as well as other foreign parties.

The decision was made after concentrated efforts by the Stock Exchange and the ISA's Department of Stock Exchange and Trading Platforms Supervision as well as the Department of International Affairs and Market Development departments vis a vis the European Commission and ESMA, which included providing detailed responses to a questionnaire on legal, structural, risk management issues with respect to the clearing house, holding discussions with representatives of the Commission and ESMA, as well responding to further rounds of questioning and the submitting additional materials.

This announcement summarizes the work on the subject. Prior to it, in July 2022, the European Commission made a positive decision as to the equivalence of Israeli regulation to EU regulation with respect to clearing house rules, and to ESMA's signing an MoU for cooperation in clearing house oversight, which was ultimately signed in February 2023.

International Investment and Trade Agreements

Within the framework of its work in the international arena, the ISA participates in

inter-ministerial discussions as part of Israeli negotiations to sign international investment and trade agreements. These agreements, led by the Ministry of Finance and the Ministry of Economy and industry, include sections dealing with financial services. The agreements are designed to create a framework for encouraging trade between Israel and other countries and to remove trade barriers pertaining to discriminatory practices against foreign service providers, such as restrictions on national treatment, market access, local presence, and representation in executive management and board members.

Expansion of Dual Listings to Additional Securities Exchange

The ISA is constantly evaluating the need for expanding the dual-listing arrangement, which currently extends to six key foreign securities exchanges (New York Stock Exchange, NASDAQ, London Stock Exchange, Toronto Stock Exchange, Singapore Exchange and Hong Kong Exchanges). The focus is placed on developed and advanced capital markets, characterized by leading, high-quality regulation, which often serve as a standard for comparison in Israel and in the international financial community. The evaluation process includes an examination of various market characteristics from the standpoint of the quality of their regulation, scope of corporate activity, equality, securities exchange liquidity, and the existence of companies linked to Israel, etc.

Promotion of the Inclusion of Israeli Companies in International Indices

In recent years, the ISA has continued to advance processes towards the large index companies with the aim of strengthening the presence of the Israeli capital market in significant global indices, and to support the flow of foreign investment in the Israeli capital market and in Israel overall. The ISA staff continued to meet and talk with the key index companies in order to promote the

exposure of the Israeli capital market in the global arena to foreign investors and others.

Cooperation with Economic Attaches of the Ministry of the Economy and Industry

Over the past year, fruitful cooperation between the ISA and the Foreign Trade Administration of the Ministry of Economy and Industry and with Israel's economic attaches to relevant countries with the goal of supporting the development of Israel's capital market and opening it up to international parties for the benefit of the Israeli economy. Within this framework, professional meetings and discussions, gatherings with foreign investors as well as face-to-face discussions with investment banks and senior investment managers abroad were held. Over this past year, training sessions (alignment) on aspects of the capital market were conducted for freshmen economic attaches. The activity in 2023 was a continuation of measures undertaken in 2022, creating concrete foundations for the continued engagement with attaches in 2024 as well.

Offering of Foreign Fund Units in Israel

In the past year, the ISA published an informational pamphlet on its website that briefly describes the process of dual listing on the Tel Aviv Stock Exchange. The pamphlet is targeted at the issuers of international foreign funds interested in offering their units to the public in Israel. In addition, the ISA holds meetings and discussions with international fund managers about the current regulatory framework and to further develop the market for foreign funds offered in Israel, as part of its mission to promote competition and increase the supply of financial products available to the Israeli investing public.

Investor Education

The good of the investing public lies at the foundation of all of the ISA's activity. The ISA invests in initiatives designed to promote the general public's familiarity with the capital market and to distribute the knowledge and tools necessary for responsible financial consumer practices. The ISA's position is that the capital market should be accessible to the public at large and, in 2023, it continued to invest its resources in developing a unmediated ties with the investing public, producing inviting and user-friendly content for it.

ISA Website and Social Media

In recent years, social media has served as a central channel through which the public consumes information. Consequently, the ISA acts consistently to maintain an active presence on this channel to better reach its two key target audiences – the professional audience and the investing public. With respect to companies supervised by it and the business community, the ISA endeavors to increase exposure to its activity and to increase the availability of information and content in the most accessible way possible to professionals and regulated parties.

With respect to the public at large, the ISA published content pertaining to reforms and the benefits derived from them, to the investment products available on the capital market and to efforts to raise public awareness of the warning signs one should heed to avoid fraud. The character and style of the information published over social media helps break through the public's "psychological barrier" with respect to financial education.

"KAMKAMA?" Campaign

In 2023, the Israel Securities Authority together with the Ministry of Finance, the Bank of Israel and the Capital Market, Insurance and Savings Authority embarked on a joint financial regulators' campaign about an important reform of financial services – information services, payment services. In its initial stage, the goal of the campaign was to raise public awareness of the existence of the reform, which had already come into effect, and of the services offered by financial information service providers under the Account Information Service Law – to recognize the potential to enhance the efficiency of the public's financial conduct and increase household savings; to understand what the proposed service does and which regulator oversees which services.

The campaign aired on all platforms – television, radio, social media and newspapers. Due to the war, an additional stage of the campaign did not come into fruition in 2023, and in the current year, the ISA together with its partners in the campaign, will prepare for the continuation of this activity.



World Investor Week

The World Investor Week is an international campaign led by the IOSCO C8 Committee, the committee dealing with financial education. The initiative was launched with the aim of raising public awareness of the importance of financial education. Securities authorities around the globe take part in the campaign, which takes place annually in October–November (each local authority in accordance with its own constraints).

In 2023, World Investor Week was held as the Swords of Iron War unfolded, and accordingly, the ISA held a limited campaign adapted to messaging for the emergency period. At the end of November 2023, the ISA held an online lecture for the general public featuring the Israel Securities Authority's Chief Economist, which included a survey of markets and of ISA activity since the outbreak of the war.



Key Activities Planned for the Current Year

Below is a summary of central issues on the ISA's desk, according to its goals and work program, and in addition to its regular workload of regulation, oversight and enforcement, as well as the issues described in detail in the pages above, the work on which is still in progress.

Supervision and Enforcement

In 2024, the Corporate Finance Department will invest most of its resources and efforts in the regular oversight of reporting entities as well as on the promotion of the initiatives for capital market development. At the same time, the department will continue to track developments in the war in order to identify and handle, insofar as necessary, issues requiring special treatment. Alongside its regular oversight, the department will continue to check new investment schemes, vet prospectuses, and examine the estimates and measurement of fair value appearing in economic valuations and real estate appraisals. Given the ongoing uncertainty and the somewhat greater severity of the financial difficulties encountered by entities operating in various sectors, inter alia, as a result of rising interest rates and the war, the department will continue to focus on the execution of financial assessments carried out by the reporting entities and on their compliance with financial standards. The department will examine the need for a proper foundation on which to manage discrete debt rescheduling and restructuring arrangements in order to assist the entities that have met with specific, temporary liquidity problems due to the impact of the war on business activity. In 2024, the Inspections and Examinations Department will, among other things, conduct

inspections of reporting entities, investment portfolio managers and trading platforms for proprietary trading. The department will also examine, through the inspection of regulated parties, various aspects of information technology risks. In addition, it will continue to check, together with the oversight departments and the relevant parties in the ISA's enforcement systems, 'proactive' and 'monitored' information and to deal with unregulated ventures that violate the law. In 2024, the Administrative Enforcement Department will deal with managing administrative cases that have been and will be submitted over the course of the year in front of the Administrative Enforcement Committee as well as preparing new administrative inquiry cases brought for its consideration. It is anticipated that the Securities Department at the District Attorney's Office will hold evidentiary hearings on seven cases brought before different courts. In addition to its regular handling of cases, the ISA's enforcement departments and the Securities Department at the District Attorney's Office will work to advance strategic processes in the area of securities law enforcement, including: shortening the handling time of cases; encouraging internal enforcement mechanisms in supervised entities; formulating policy dealing with

various perspectives of securities law enforcement; and improving the working interface between the Administrative Enforcement Department and the Securities Department at the District Attorney's Office with the Investigations, Intelligence and Market Surveillance Department with respect to the digital transmission of investigation and administrative inquiry materials, as applicable, and to the improvement of work processes.

Market Development and Expanding the Range of Financial Products

In 2024, pursuant to its objectives and its work plan, the ISA will continue to act to expand the range of financial products available to the investing public, such that it will be possible to more accurately match investment products to the personal needs of each investor. Among other things, the Investment Department will continue to: advance anchoring in regulations the rules pertaining to hedged mutual funds, which are characterized by the employment of active investment strategies to hedge market volatility or to maximize returns not correlated with overall market behavior; develop money market funds as part of Israel's money market, which facilitates conservative and transparent investment with respect to expected returns, while widening the distribution channels for these money market funds with to make them more accessible to the entire market. In addition, pursuant to the Memorandum of Law, the Encouragement of Capital Market Activity Law (Legislative Amendments), 5784–2023, which was published in the course of the report year for public comment, the ISA will promote the development of private mutual funds. The sustained damage caused by the uncertainty shadowing the market due to the war and high interest rates underscores the need for additional sources of capital,

particularly for small and medium size enterprises (SME), which must raise capital but find bank financing to expensive, as well as for large institutional bodies, for which the limited scope of the debt required for SME financing is not sufficiently attractive. Mutual fund managers can help provide a solution for this economic problem through the establishment of mutual funds that specialize in alternative investments, based on professional experience and expertise. In addition, the absence of a regulated infrastructure leaves individual investors lacking the protective buffer they deserve, since they are deprived of the services of an appropriate, regulated professional investment intermediary. The establishment of a regulated infrastructure for retail investment in alternative investments will lower client risk stemming from similar investments that are not currently covered in the Joint Investment Trust Law. In 2024, the ISA will continue to advance projects to develop the market in terms of the disclosures provided by reporting entities – through the examination of industry-wide disclosures and the creation of a suitable foundation for unified, comparable disclosures for key industries, and in the development of new instruments of corporate financing – an instrument to finance infrastructure development through debt and equity raised on the public market, the promotion of securitization and the development of commercial paper.

In-depth Analysis of Algorithmic Trading vs. Trading by Human Dealers on the Israeli Capital Market During the Coronavirus Crisis

In 2013, the Economics Department published research on algorithmic and high-frequency trading. The research revealed that an improvement in liquidity indicators (bid–ask spread) was concurrent with the entry

of algorithmic trading into the market. The study also found, however, that various parameters of market quality (the orders–transactions ratio and the cancellation rate) fell. Similarly, the study discussed various regulatory approaches to algorithmic and high frequency trading. This research will be updated in 2024. The new study will examine algorithmic trading activity during the time of the coronavirus crisis.

The aim of the study will be to learn about the behavior of algorithmic players, while employing a unique case study characterized by the sharp volatility in the various asset market during this period.

Comparative Research Between Tracking Funds and E.T.F.s – a Perspective on Amendment 28

In the fourth quarter of 2018, exchange–traded notes (ETNs) were replaced by exchange–traded mutual funds (ETFs) within the framework of Amendment 28 to the Joint Investment Trust Law.

Within the framework of ongoing analysis of the impact of regulatory processes, through a new study, the Economics Department will examine the impact of this amendment. It will test whether the amendment had an effect on the preference of traders to buy exchange–traded tracking products as opposed to non–traded products (open–end mutual funds). The study will analyze the cross–effects between the amendment, product feature changes, visible and hidden management fees and risk characteristics.

Survey of Market Behavior as Influenced by the Swords of Iron War

The surprise attack on 7 October had a serious impact on the capital market. On Sunday, the day after the attack, the Tel Aviv Stock Exchange opened to plunging prices across the market. The market decline continued for the next three weeks, but subsequently began to recover, a recovery that has continued until today.

The Economics Department continually tracked market developments and prepared numerous analyses to support the ISA's decision–making during this period. Similar to the [Analyses Binder](#) that was published in July 2020, which examined developments surrounding the coronavirus crisis, this survey seeks to present the public with selected analyses undertaken by the ISA.

The survey will include: a status report of the capital market on the eve of hostilities, relative to prior events; an analysis of trading trends in the various asset classes during the time of the war and their implications; an analysis of the activity of various categories of investors throughout the war; an analysis of liquidity indicators in the various markets; a comparison of the capital market's performance relative to similar past events, etc.

The ISA assesses great importance to the publication of its data and analyses to the general public, investors, companies and academics to a better understanding of the implications and trends prevailing in the Israeli capital market.

