

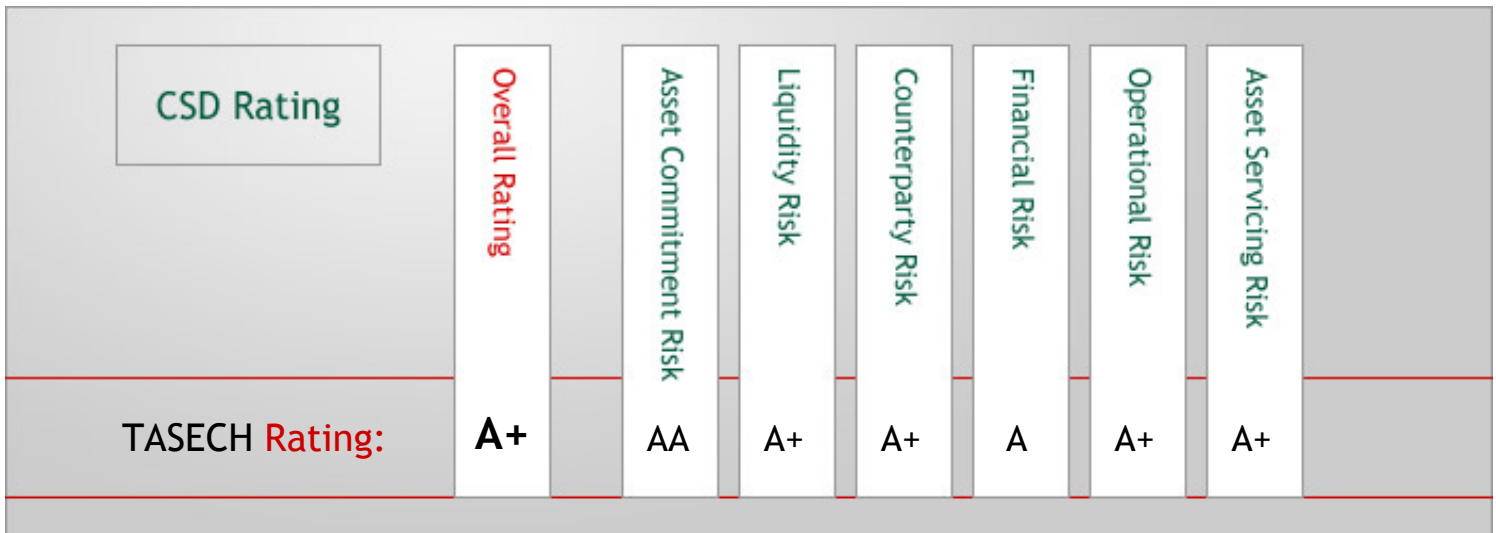


Public CSD Rating Report

The Tel Aviv Stock Exchange Clearing House Limited

Publication Date: January 2011

Thomas Murray CSD Public Rating for: The Tel Aviv Stock Exchange Clearing House Limited is A+



The outlook for the rating is: Stable

Overall Risk Summary

Thomas Murray has upgraded the Overall Central Securities Depository risk rating of the Tel Aviv Stock Exchange Clearing House (TASECH) from 'A' to 'A+', which translates as low risk. The rating is a weighted average of six different risk components comprising of Asset Commitment risk, Liquidity risk, Counterparty risk, Financial risk, Operational risk and Asset Servicing risk. The Overall Risk upgrade has been triggered by upgrades to two component risk criteria: Financial Risk which has been upgraded from 'A-' to 'A'; and Operational Risk which has been upgraded from 'A' to 'A+'.

Key areas of improvement in TASECH operations and key controls include: the completed transition of corporate debt from a T+0 to a T+1 cycle; the introduction of SWIFT for DVP/RVP and FOP instructions; replacement of one-sided (semi-manual) matching with a dual-sided (automated) matching process; provision of additional secured credit facilities for TASECH from a commercial bank; automation in corporate action instruction capture; automation of key settlement and corporate action reports; introduction of a Risk Officer and development of a company risk policy; and enhancement in Disaster Recovery and Business Continuity facilities.

TASECH operates settlement guarantee, central counterparty and settlement services for TASE and MTS traded securities and settlement services only (i.e. not central counterparty for OTC transactions). The settlement guarantee/CCP function is backed by a sizeable Risk Fund of NIS 945 million (~USD 248 million) as at 1 September 2010 but this is only re-sized semi-annually (calculated on historical activity) and therefore may not be as efficient as the daily margining models used by other CCPs. However, TASECH is due to review the methodology and develop stress testing for the Fund in 2011. Settlement is on a TD basis for equities and on a T+1 basis for corporate debt, government debt and MAKAMs (Treasury Bills), although TASECH is due to migrate equities to a T+1 cycle by the end of 2011. Foreign investors generally settle on T+2 meaning local brokers often employ stock lending and credit lines to settle client orders with the market (particularly for equities). Brokers source funding from local banks and recover the costs through their commission, which is adding to the transaction costs in the market.

Settlement is on an inter-dependent DVP basis for client-side and market-side transactions on a BIS Model 3 basis (i.e. net securities and cash). Cash settlement is via the Bank of Israel's ZAHAV RTGS payment system on the morning of T+1. TASECH does not have access to a traditional stock borrowing and lending facility for equities, but employs a method of 'technical

lending' akin to a securities overdraft facility which is not in line with best market practice. However, TASECH is due to discontinue this upon transition of equities to the T+1 cycle in 2011.

According to TASECH's By-Laws safekeeping of certificates of corporate securities is the responsibility of four banks known as 'Coordinating Banks' (being Bank Hapoalim Ltd, Bank Leumi Le-Israel Ltd, Israel Discount Bank Ltd, Mizrahi-Tefahot Bank Ltd. There are no certificates for government bonds and MAKAMs. Although issuers choose their Coordinating bank upon initial issuance of securities, not all securities within each issue are immobilised within the Coordinating bank, and the decentralised model results in varying standards of safekeeping practices across the market.

TASECH is able, through its close association with TASE, to provide timely primary-sourced corporate action information. All corporate events information has to be routed through TASE by law. Information on corporate events are now being electronically sent to participants, but some paper reporting still exists (primarily for tax withholding information). Although many standard corporate actions can be executed automatically, some voluntary corporate events require manual intervention by TASECH staff involving re-keying and data input. TASECH has not disclosed the level of liability it would assume over the quality of event notifications or incorrect or non-execution of corporate actions.

TASECH was, until 2006 a company owned by its members and limited by its members guarantee, without share capital. During 2005-2006 a reorganisation of the TASECH was completed. As a result, TASECH became a company limited by shares and its ownership was changed so it became a wholly owned subsidiary of TASE, with its own capital, amounting to NIS 36.9 million (USD 9.7 million) as at 31 December 2009. TASE and TASECH share operating resources and as such, all operating revenues are attributed to TASE. The revenues of TASECH are only derived from its investment portfolio, which has varied in profitability over the years, achieving a net profit of NIS 3.7 million (USD 971,500) in 2009 after a loss of NIS 424,000 (USD 111,987) in 2008. TASECH acts as settlement guarantor/ central counterparty (CCP), so it is theoretically possible that it may need to call upon its capital in the event of a significant default in the market. However, the size of the Risk Fund combined with a risk model which mutualises risk amongst TASECH members should render this possibility remote. TASECH carries substantial insurance policies covering Professional Indemnity and Directors & Officers conditions which should be sufficient to set-off against even large claims against them.

Although TASECH operates a highly automated clearing and settlement environment, improvements are still being made in the operational areas around voluntary corporate actions and reporting. A Disaster Recovery plan is in place which includes the real-time mirroring of all computer data, the storage of data off-site, the use of an off-site facility (business continuity site) and the requirement that all back-up files are safely stored.

Outlook Summary

Thomas Murray has assigned an Outlook of 'Stable' to the Overall Rating. However, there are several changes scheduled for 2011 which have the potential to significantly alter several different risk exposures. These include the transition of equities to the T+1 cycle; further roll-out of SWIFT messaging, new liquidity and capital requirements for Non-Bank clearing Members (NBCMs); and an enhanced version of Extranet which will provide participants with full online access to their account and transaction information.

Role of the Depository

The Tel Aviv Stock Exchange Clearing House Ltd (TASECH) is a wholly owned subsidiary of the Tel Aviv Stock Exchange Ltd (TASE). Until 2006 TASECH was a company owned by its members and limited by its members guarantee, without share capital. During 2005-2006 a reorganisation of the TASECH was completed. As a result, TASECH became a company limited by shares and its ownership was changed so it became a wholly owned subsidiary of TASE,

Though TASECH is a separate legal entity functionally, it was and is an integral part of the TASE. Both TASECH and TASE are private limited liability companies. Under the Securities Law, TASE is not allowed to distribute its profits amongst its members, so any profits made are retained by TASE.

TASECH started operations in 1962. It is governed by its articles of association and its by-laws. TASECH is subject to the supervision of ISA and the TASE. The by-laws of TASECH are the result of decisions made by the TASECH board of directors, subject to the approval of TASE's board of directors.

The depository works according to an immobilised model whereby securities are registered in the names of the nominee companies belonging to one of the four largest local commercial banks that have been appointed by the issuer for this purpose. Physical jumbo certificates are issued by the company, registered in their appointed nominee company name and are held in safe custody by the bank concerned, for the account of TASECH.

In addition, the Bank of Israel (Israel Central Bank) acts as a nominee company for MAKAMs (T-Bills) while the Ministry of Finance acts as a nominee company for all Israeli Government Instruments. There are no certificates for government bonds and

MAKAMs.

Securities traded on the TASE (equities, corporate bonds, government debt, and treasury bills), government bonds traded on MTS-Israel and mutual fund participation units are eligible for custody and settlement at TASECH. Derivatives traded on the TASE are cleared via the MAOF Clearing House, a fully-owned subsidiary of the TASE.

TASECH has a link with the Depository Trust Company (USA), for selected Israeli dual-listed securities. In order to enable its members to receive custody services in the US market, TASECH has entered into an agreement with Citibank according to which Citibank provides TASECH members, who wish to receive such services, custody services for investments in the US market.

Risk Summary	Risk
Overall Risk	A+
<p>Asset Commitment Risk</p> <p>Overall, asset commitment risk for equities is balanced between significant exposure for sellers and minimal exposure for buyers. Sellers are exposed to a high asset commitment period of 14 hours and 30 minutes, between 7.00pm on T+0 until 9.30am on T+1 when the payment process has completed, while purchasers appear to only suffer a minimal asset commitment risk of a few minutes between the cash clearing process and finality of securities transfers. All trades executed on the TASE are conditional until the cash leg clears on T+1.</p> <p>Asset commitment risk for corporate bonds, government bonds and MAKAM transactions is around 15mins which is the period of the settlement window with the ZAHAV payment system on T+1. Around 65% of transaction value now settles through this process.</p>	AA
<p>Liquidity Risk</p> <p>BIS model 3 settlement is used for settlement of all transactions, with most settlement occurring through the morning batch. Fails in the T+1 markets can be recycled in subsequent batches in the day. Fails in the T+0 are not permitted. If an error was made, whether by the member or by the client, and it caused a security to be sold short, then the member shall cover the negative balance of the security within two trading days after the day on which the error occurred. The sale of a security shall not be deemed as a short sale, but as a "technical short". A commercial stock lending market exists for equities although of varying quality and lending across custodians' programmes is not developed. A lending programme for government bonds is provided by the Ministry of Finance. Securities that are not registered under TASECH's nominee name cannot be traded.</p> <p>Fails management procedures for securities settling on T+1 include daily penalties, (there is no partial settlement), a buy-in procedure which is initiated on T+4, and cash compensation on T+21. The market settlement rate for equities is 100% and for government bonds/MAKAMs around 99.8% as of September 2010.</p>	A+
<p>Counterparty Risk</p> <p>TASECH acts as settlement guarantor for TACT and as central counterparty for MTS-Israel transactions, with the backing of a pooled risk fund re-valued twice a year. In September 2010, the value of the fund stood at NIS 945m (USD 239m) which should be sufficient to cover replacement cost risk in most cases, but stress testing of the fund will only be implemented for the fund from 2011. TASECH does not act as central counterparty for off-exchange transactions. For off-exchange transactions, the conditional settlement of securities until cash settlement is confirmed ensures non-simultaneous DVP, thereby reducing counterparty exposure.</p> <p>All TASE members are entitled to become a clearing member of TASECH. However, the membership criteria for TASE includes minimum liquidity, capital, operational and risk control standards and these are regularly audited by TASE's Membership and Surveillance department.</p>	A+
<p>Asset Servicing Risk</p> <p>Issuers are legally obliged to supply TASE with all corporate action information which becomes nearly simultaneously accessible on the ISA secure website called MAGNA. The reports sent to the ISA are simultaneously received by TASE computer system. It takes about 2 to 20 minutes to be published in MAYA, the TASE website for companies' reports. TASECH publishes corporate event information in the daily 400 Report as well all of the payments information sent in batch files as follows: batch file number 151 (payments) and 152 (securities and companies index) sent on a daily basis which include all payments details and modifications. Corporate actions instructions are received via the Extranet (proprietary communication) system with few exceptions. Entitlements are paid on due date. The depository has not disclosed whether it accepts any responsibility for any execution deadlines missed when instructions are sent within the deadline. However, TASECH is subject to the general civil law although specific liability has not been tested in court.</p>	A+
<p>Financial Risk</p> <p>TASECH is a wholly owned subsidiary of the TASE. Although TASECH is a separate legal entity, its revenues and expenditures are directly attributed to the TASE, as they are affiliated operationally.</p>	

<p>The main area of Financial Risk is TASECH's exposure as a settlement guarantor/central counterparty whereby should other resources such as the Risk Fund be insufficient to cover the obligations of a defaulting counterparty, at some point the capital of TASECH may be called upon. However, TASECH now also has access to around NIS 80 million (USD 22 million) of credit lines which can be used to settle their obligations.</p> <p>TASE has previously experienced (in 2009) operational losses, mainly due to losses made in the company's investment portfolio, although it has recorded net profits over the past year. Given TASE's heavy dependence on trading income, revenues have historically been unstable, mirroring variations in annual trading volumes. TASECH has not suffered any operational claims against them in the last five years, and TASE carries substantial insurance policies to protect it.</p>	A
<p>Operational Risk</p> <p>TASECH has reasonably good controls in place and a methodology to identify risks through its risk officer. There is no external operational audit although an outsourced internal audit exists in line with the conventional Israeli model. However, the audit does not cover all the activities on a regular basis but only every five years.</p> <p>Although some manual intervention is still required in some cases, processes are largely automated. The implementation of SWIFT messaging and a new Extranet version are expected to further enhance communication channels with participants.</p> <p>Robust Disaster Recovery and Business Continuity procedures are in place and tested regularly with participants. However, testing in a live environment has never been conducted.</p>	A+
<p>CSD on CSD Credit Risk</p> <p>TASECH's sole CSD link is with the Depository Trust Company (DTC) in New York.</p>	Links Exist

Asset Commitment Risk

Summary

Overall, asset commitment risk for equities is balanced between significant exposure for sellers and minimal exposure for buyers. Sellers are exposed to a high asset commitment period of 14 hours and 30 minutes, between 7.00pm on T+0 until 9.30am on T+1 when the payment process has been completed. Purchasers appear to only suffer a minimal asset commitment risk of a few minutes between the cash clearing process and finality of securities transfers. All trades executed on the TASE are conditional until the cash leg clears on T+1.

Asset commitment risk for corporate bonds, government bonds and MAKAM transactions is around 15mins which is the period of the settlement window with the ZAHAV payment system on T+1. Around 65% of total market transaction value now settles through this process.

Processing Cycles

A decision to gradually move from T+0 to T+1 settlement began with the transition of government bonds to T+1 in September 2006, followed by MAKAMs on 22 April 2007. Corporate debt, deposit certificates, structured notes, ETFs linked to a bond index and warrants on bonds transitioned to the T+1 cycle on 28 November 2010. Equities still settle on a T+0/T+1 cycle but are due to move to T+1 in 2011.

Because of the very tight settlement time scale (particularly in equities of T+0/T+1), it is common for foreign investors to negotiate a different settlement period for the broker-to-custodian leg of the settlement (commonly T+2). It should also be noted that banks and some non-banking TASECH members debit and credit their customers with cash considerations on the transaction date (T+0) and they bear the differences which derive from accelerating the value dates. Receive FOP transactions mainly settle on T+1, unless the counterparty submits the instruction to TASECH before 2.00pm during the normal operating days or by 11.00am on Fridays and Holidays; and the TASECH member clearly requests to settle on the same day.

The transfer of a trade from the investor's broker to the investor's custodian can take place on T+0 on the condition that the investor has a Tri-Party agreement in place between all three entities.

Securities

Matched on-market trades are received into the TASECH system from TACT at the end of the trading day at 4.30pm. MTS trades are communicated by SWIFT in real-time to TASECH throughout the day. Off-market trades and transfers to custodians can be matched either through SWIFT (since June 2010) or Extranet (TASECH's proprietary communication). The matching process was changed from a single-sided (from deliverer) affirmation process to a full dual-instruction matching process in December 2009, at which time the matching process also became fully automated. Despite this enhancement, many custodians still practice pre-matching manually (telephone/fax) although this is more due to limitations in their own procedures/organisation than issues with TASECH's system.

Settlement instruction deadlines for TACT trades are 4.30pm, and for off-exchange and 'transfers to custodians' 6.30pm. Equities traded both on-exchange (TACT) and off-exchange (via Extranet), are cleared during batch processing after 7.00pm on trade date. This processing leads to netted securities positions being moved from the selling participant's account to the buyer's account on a conditional basis during a batch process commencing at around 7.00pm on T+0. TASE trades and settlements between brokers and custodians are netted. Securities are credited to buyer participants' accounts after the trading day during the overnight run with value T+0, on a conditional basis, until T+1 when the cash consideration is transferred.

Government bonds, Corporate bonds and MAKAM transfers are settled on a simultaneous DVP basis during batch processing completed at 9.30am or 4.00pm. The window at 6.00pm is for marked-to-market freezes of government bonds, corporate bonds and MAKAMs, corrections of corporate action payments between Sunday and Thursday, and 9.30am or 12.45pm on Fridays and holiday eves.

All repo transactions settlement is conducted through TASECH. When a repo transaction is received by TASECH, its balance and first leg is cleared in the first cycle on the next business day after being received by the Clearing House. The second leg will be cleared in the first clearing round on the day set in the Repo transaction for clearing the second leg, provided it is a business day. If the day set for clearing the second leg in the Repo transaction is not a business day, then the second leg will be cleared on the first business day thereafter. Notwithstanding the aforesaid, the first leg of an overnight transaction will be cleared in the second clearing round on the day on which the Clearing House received the transaction.

Mutual Fund Units (aka Trust Fund Units)

Mutual fund units are not listed or traded on the TASE, but are cleared by TASECH. Each day TASE members send to TASECH details of units being created and redeemed by them. TASECH transmits details of total creations and redemptions to representative members (these are TASECH participants who provide an interface to one or more funds for the clearing house). These members relay this information to the fund managers and pass details of unit price changes which have been calculated by the fund manager to TASECH. Based on this data TASECH issues credits or debits to its participants.

Cash

RTGS (ZAHAV) was introduced by the Bank of Israel in July 2007. For securities transaction-related payments, TASECH calculates the net value for each bank and transfers the results to the ZAHAV System for debiting/crediting of the bank's relevant accounts at the Bank of Israel. TASECH settles the transaction in the ZAHAV system during fixed settlement windows during the business day. There are three settlement windows during the business day (9.15am, 3.45pm and 5.45pm) which each last 15 minutes. Settlement banks receive cash settlement confirmations on a real-time basis from ZAHAV. If the transaction is not settled during the settlement window, the window is closed automatically and the transaction is cancelled. The settlement transactions are multilateral, i.e., TASECH sends one transaction which includes instructions to debit or credit each bank. Therefore, if one participant does not have enough credit in its settlement account, the whole TASECH multilateral transaction is 'on hold'. TASECH is also able to send bilateral transactions to the ZAHAV system. These do not settle in settlement windows and can settle during all business day hours.

For corporate bonds, government bonds and MAKAMs, the cash settlement occurs on a near-simultaneous DVP basis on T+1. However, for equities, securities are moved conditionally at 7.00pm T+0 meaning the seller loses access to these assets for a prolonged period prior to receipt of cash countervalue. Monetary clearing runs according to the following schedule:

Sundays to Thursdays

- 9.15am - 9.30am: for shares and corporate bond trades conducted on the TACT trading system, MTS and Extranet as well as government bonds and MAKAMs;
- 3.45pm - 4.00pm for pending transactions related to government bonds and MAKAMs;
- 5.45pm - 6.00pm for marked-to-market freezes of T+1 trades, corrections of corporate action payments.

On Fridays and holiday eves, there are only two batches:

- 9.15am - 9.30am.
- 12.30pm - 12.45pm.

TASECH sends the multilateral cash payment orders to Zahav about 15mins before the opening of the clearing windows. The manager of the clearing house can ask the Bank of Israel to postpone or extend the clearing window (as much as necessary), as appropriate, as well as open an additional clearing window (emergency window) if necessary.

TASECH members, who are not banks, obtain cash clearance through certain banking members, who offer this service. TASECH is able to directly debit and credit the cash amounts due to and from each participant using these accounts, without the prior permission of the participant concerned. TASECH sends its participants a statement of the cash clearing, before they are sent to the Bank of Israel, to be settled. This allows participants to notify TASECH on the morning of T+1 of any disagreements they might have in the calculation of these amounts.

Asset Commitment Periods

Equities are credited to buyers' accounts on T+0 on a conditional basis pending completion of the payment on T+1. This results in an asset commitment period for sellers of up to 14 hours and 30 minutes, between 7.00pm on T+0 until 9.30am on T+1. Buyers suffer a minimal asset commitment risk exposure of around 15 minutes, from the deadline (by market practice) for cash funding of accounts (at the start of the settlement window), to the end of the settlement window when finality is achieved for both securities and cash.

Asset commitment risk for corporate debt, government bonds and MAKAMs is a maximum period of 15 minutes for both buyers and sellers from the start to the finish of the settlement window.

Irrevocability

Once the trading order has been completed, the parties' obligations to settle the transaction are irrevocable. Securities transfers become both final and irrevocable when the underlying cash transfer is successfully completed on T+1 at 9.30am. Securities transfer at 7.00pm T+0 and are conditional until final cash transfer on T+1. Government Bonds, MAKAMs and corporate bonds transfer on T+1 in two batch runs with transfers being final and irrevocable at 9.30am (first batch run) or at 4.00pm on T+1 (second batch run).

Finality

Securities transactions in shares are cleared conditionally on trading day until the cash becomes final at 9.30am on T+1. For corporate bonds, government bonds and MAKAMs, clearing is final when cash clearing has occurred in the settlement window.

Cash payments through the RTGS system shall be deemed final and shall not be liable to cancellation after being cleared through the system.

The finality of monetary clearing is established by Chapter Six Part Two of the By-laws, and in the Payment Systems Law. The finality of securities clearance is established in the Clearing House By-laws.

Asset Commitment Risk - Key Indicators			
<i>Irrevocable commitment to the processing cycle</i>			
	<i>Transaction Type</i>	<i>Start</i>	<i>Finish</i>
Securities	Equities	7.00pm T+0	9.30am T+1
	Corporate Bonds, Government Bonds & MAKAMs	Sunday to Thursday 9.15am T+1 3.45pm T+1	Sunday to Thursday 9.30am T+1 4.00pm T+1
		Friday and holiday eves 9.15am T+1 12.30pm T+1	Friday and holiday eves 10.30am T+1 12.45pm T+1
Cash	Cash	Sunday to Thursday 9.15am T+1 3.45pm T+1 5.45pm T+1	Sunday to Thursday 9.30am T+1 4.00pm T+1 6.00pm T+1
		Friday and holiday eves 9.15am 12.30pm	Friday and holiday eves 9.30am 12.45pm

Comments (i.e., on pre-funding and irrevocability)

Equities are credited to the buyers' account on a conditional net basis value trade date pending settlement of funds the following day. Corporate bonds, Government bonds and MAKAMs are credited to buyers' accounts on T+1 with simultaneous transfer of cash.

Securities processing cycle outlined

Equities processing takes place at the end of the day in a single net batch process on T+0. All trades executed on the TASE are considered conditional until the cash leg of the trade clears on T+1. However, corporate bonds, government bonds and MAKAMs processing takes place in the securities cycle on T+1.

Cash processing cycle outlined

Cash amounts are netted and settled during batch processing in the RTGS payment system operated by the Bank of Israel. The RTGS system is used for the processing of all cash settlements.

Liquidity Risk

Summary

BIS model 3 settlement is used for settlement of all transactions, with most settlement occurring through the morning batch. Fails in the T+1 markets can be recycled in subsequent batches in the day. Fails in the T+0 environment are not permitted and are handled through the Risk Fund providing cash liquidity or by the running of 'technical shorts' for securities positions which are permitted until T+5. A commercial stock lending market exists for all securities types although of varying quality and lending across custodians' programmes. A lending programme for government bonds is provided by the Ministry of Finance. Securities that are not registered under nominee company name cannot be traded.

Fails management procedures for securities settling on T+1 include daily penalties, a buy-in procedure which is initiated on T+4, and cash compensation on T+21. There is no partial settlement. The market settlement rate for equities is 100% and for government bonds/MAKAMs around 99.8% as of September 2010.

Processing Model

The settlement rate for equities on the T+0 cycle is 100% as settlement is forced. Settlement rates for corporate debt settling on the T+1 cycle are not yet available. For government debt and MAKAMs settling on T+1, the settlement rate for 2010 (up to 30 September) was 99.7% and 99.8% (by volume) respectively.

TASE Rules require that brokers check securities positions with custodians before trading, but this is not practised. Each member is responsible for their clients not selling short, unless it is a "technical short" or custodian transaction. Enhancements and automation in the matching process have benefited all participants in increasing settlement efficiency, however there is still no tolerance limit in the matching process (although this is planned).

Fund clearing for securities transactions is made during the multilateral clearing windows on the ZAHAV system. Members who are not banks (Non-Bank Clearing Members (NBCMs)), are debited through their accounts with the clearing banks (called MPMCs - Members that Perform Monetary Clearing). MPMC's are responsible to TASECH in respect of the NBM's obligations, up to the debit ceiling. If an NBCM exceeds their limit, then the bank that clears for it must, by fax, approve the NBCM's net debit for the window. The certification by fax must reach TASECH at least fifteen minutes before the beginning of the clearing window to which it relates (i.e. by 9.00am, 3.30pm and 5.30pm).

TASECH does not have access into the accounts of the MPMCs within ZAHAV prior to the opening of the windows, hence do not know when the window opens if the MPMC will be able to honour its obligations (although settlement banks have real-time online access to their accounts and can actively manage their liquidity positions accordingly). Since, TASECH must ensure all obligations in ZAHAV are cleared before they are able to close the window, this has previously led to delays in the closing of the windows (and consequent late settlement within the day). To avoid this, TASECH has instigated a fining regime, whereby MPMCs who delay the closing of the window are fined (NIS 3,000). MPMCs can notify TASECH prior to the opening of the window (by fax) that they are experiencing liquidity issues and request that the clearing window be delayed. TASECH is also working with the Bank of Israel to provide them with direct access into the ZAHAV system and/or extending the settlement window period to around 30mins.

Fails Management

Buy-in arrangements only apply to transactions in Corporate Bonds, Government Bonds and MAKAMs (i.e. T+1 settlements) for which TASECH provides a settlement guarantee. TASECH will undertake a buy-in on T+4 if the transactions are not cleared by that time. The defaulting member is fined NIS 3,411 for transaction handling. Partial buy-ins are allowed, until the buy-in is completed. If the buy-in is unsuccessful, instructions can either be cancelled by the buying member or cash compensation is offered on T+21. The defaulting party is charged NIS 6,822 for the cash compensation handling.

If securities are not delivered for transactions pertaining to shares for which TASECH provides a settlement guarantee (i.e. T+0), the cash is frozen. The seller falls into a technical short which is permitted up to T+5. The short may also be covered by securities loans between members.

There are no buy-in procedures for equities due to the T+0 cycle and the preferred use of this technical short system. There are also no buy-in arrangements for OTC and Transfer to Custodian transactions. If the seller does not have the securities, the transaction is cancelled.

Credit Facilities

All TASECH participants have debit caps set and monitored either by the Supervisor of Banks, or in the case of a non-bank member, the TASE. Commercial banks can provide short-term credit facilities to brokers in order to prevent fails. Banks are able to obtain liquidity from the inter-bank repo market operated by MTS Israel, but at present there is very little repo trading in this market. Repo transactions are cleared through TASECH. The trading of repos on MTS began in March 2009.

Banks are also able to obtain liquidity from the ICS collateral system which TASECH operates on behalf of The Bank of Israel. This provides for intraday secured liquidity to be obtained from the central bank on an automated basis.

Securities Lending

TASECH does not offer open market equity lending but it does operate an arrangement that allows technical shorts. Should any broker have a shortfall of equities on SD, TASECH credits the buying broker's account with the securities, debiting their cash account with the funds due. TASECH does not pay these funds to the selling broker, but holds the funds until sufficient securities are in the selling broker's account to complete the settlement.

Members can also borrow securities from bank members to cover a technical short which is governed by a specific set of rules and conditions. Technical shorts can be run up to a maximum of five days ("technical short"), and evidence must be supplied to TASECH showing the reason for the technical short and where the securities coverage is coming from. Custodians run securities lending programmes but there is no interbank lending market, limiting the depth of the lending pool to that of the custodian. Although there seems to be sufficient liquidity in these pools for TASE25 securities, the depth of liquidity pools outside of these securities is questionable.

TASECH operates, on behalf of the Ministry of Finance, a lending and borrowing reservoir for government bonds.

Registration Model

Securities traded on the TASE are registered securities.

Registered securities are immobilised at one of four local banks, plus the central bank for MAKAMs and the Ministry of Finance (for government bonds only) although it only holds government securities which are both immobilised and dematerialised. The Companies Law dictates that equities must be issued with a physical certificate which is now mainly in jumbo certificate form. Since debt is issued under a different law it can be issued in dematerialised form. When a company issues securities which it wishes to list on the TASE, it must first appoint a Nominee Company, which is wholly owned by one of the four local commercial banks, who will hold the securities concerned in its vaults. These banks, known as Coordinating Banks, currently are:

- Bank Hapoalim Ltd.
- Bank Leumi Le-Israel Ltd.
- Israel Discount Bank Ltd.
- Mizrahi-Tefahot Bank Ltd.
- Bank of Israel -the Central Bank (For MAKAMs).
- Ministry of Finance (For government bonds only).

Certificates are issued by the company in the nominee name of the Nominee Company concerned and are then held in the vaults of the parent bank for the account of and on behalf of TASECH. Securities are then held in the name of participants and their nominees in the books of TASECH. The nominee concept is recognised in Israeli law, which permits the underlying investor to be both legal and beneficial owner of securities. From November 2001, it has been mandatory for TASECH participants to register client securities in a client omnibus account, separate from their proprietary positions. All Israeli banks carry insurance policies covering loss of security certificates. Should a security certificate be lost and the issuer of the certificate is an Israeli institution, the Israeli institution would issue new certificates to replace them.

When investors buy or sell shares on the TASE, no change is made in respect of the share certificate in the books of the Nominee Company. If the transaction is performed through the same TASECH member, there will only be a change in the books of that member, and the balances of the other TASECH members will remain unchanged. If the transaction is made between customers of different members, the balances of the involved TASECH members will be changed in the TASECH records.

The length of time it takes to re-register shares in nominee name depends on the issuing company. Shares that are not registered in nominee name cannot be traded on the TASE. Therefore, they cannot be sold in the market before completion of the re-registration. A restriction on liquidity is the TASE rule which requires brokers to have securities registered in TASECH's nominee name at one of the four nominee companies prior to settlement. Deposited securities cannot be used to cover sales until the issuing company has confirmed the registration.

The Bank of Israel acts as the nominee bank for treasury bills and the Ministry of Finance for government bonds. Most of these securities have been issued in dematerialised form, thereby preventing any physical withdrawals.

Deposited securities

All securities listed for trading on the TASE are registered in the name of nominee companies and held in the vaults of the coordinating banks. However, not 100% of all issues are necessarily held by the nominee company, since beneficial owners may

register the securities in their own name and hold them outside the nominee. Government bonds, funds and ETFs are fully dematerialised.

Deposit and Withdrawal of securities

The majority of most issues are held by the nominee companies on behalf of TASECH. TASECH registers the securities in the name of the nominee company to the credit of its members. The securities are deposited by the nominee company with a coordinating bank to the credit of TASECH. According to TASECH By-Laws all corporate companies must register all their securities through nominee companies, and the system prohibits the deposit of total holdings above 100% of the issue. The securities must be deposited by the nominee company with a coordinating bank to the credit of TASECH. The coordinating bank and the nominee company shall act as trustee for TASECH. Securities cannot be traded on the TASE until they have been registered in the nominee company name.

A client does not have the right to withdraw shares (except as indicated at TASECH By-laws), from the securities registered to his credit with a member and to have them registered in his name in the issuer's register of share holders. However if a client asks to withdraw securities that are not shares from the securities registered to his credit with a member and to have them registered in his name in the issuer's register, then the following provisions shall apply:

The client's request must be delivered to the member in writing and must be accompanied by a transfer document. If the client acts through an NCHM (Non Clearing House Member), then the request must be given to the NCHM, and it must transmit it to the member that clears for it. Within three trading days after the member receives the request from the client, it must give TASECH a withdrawal order. Within two trading days after it receives the withdrawal order with the request, TASECH must transmit the request together with a copy of the withdrawal order to the nominee company and order the nominee company to transmit the request to the issuer. Within three trading days after it was ordered to do so, the nominee company must transmit the request to the issuer, together with an appropriate certificate. Hence, the whole withdrawal process can take up to eight trading days (nearly two calendar weeks), although it should be restated that withdrawals are prohibited except for exceptional circumstances.

Liquidity Risk - Key Indicators

Settlement Models

BIS Model 3

- Equities: Net transfer of securities followed by net settlement of funds.
- Corporate and Government Bonds, and MAKAMs: Net transfer of securities with simultaneous transfer of cash.

Processing Periods

Overnight (by batch)

No

End of day

Yes

Batch daylight processing

Yes

Real-time and on-line

No

Other

No

Comments

Equities are initially processed (transferred and pending) in a batch process at the end of the day on T+0 (from 7.00pm on T+0). The cash leg is settled in the first batch RTGS window on T+1.

Corporate and Government bonds, and MAKAMs settle during the first and second batches on T+1. Securities and cash settle simultaneously.

Credit Facilities

Central bank money used to settle cash elements of trades

Yes

Credit facilities provided by the CSD

No

Credit facilities provided by commercial banks

Yes

Comments

-

Stock Lending

Is stock lending permitted in the market

Yes

Are stock lending facilities provided by the CSD?

No

Are stock lending facilities provided by commercial banks/brokers?

Yes

Comments

-

Transfer of Securities

Are securities deliveries achieved by book-entry?

Yes

Comments

-

Registration of Securities

Period of time required to register a holding?

TASECH's part of securities registration (only effected upon initial deposit) takes up to 2 business days. The entire process of registration may take several more days, but as stated in TASECH by-laws is not on TASECH's liability.

Comments

-

Counterparty Risk

Summary

TASECH acts as settlement guarantor for TACT and as central counterparty for MTS-Israel transactions, with the backing of a pooled risk fund re-valued twice a year. In September 2010, the value of the fund stood at NIS 945m (USD 239m) which should be sufficient to cover replacement cost risk in most cases, but stress testing of the fund will only be implemented for the fund from 2011. TASECH does not act as central counterparty for off-exchange transactions. For off-exchange transactions, the conditional settlement of securities until cash settlement is confirmed ensures non-simultaneous DVP, thereby reducing counterparty exposure.

The membership criteria for TASE includes minimum liquidity, capital, operational and risk control standards and these are regularly audited by TASE's Membership and Surveillance department.

Participant Counterparty Risk

There is little inter-participant counterparty risk between brokers who settle TASE and MTS Israel transactions as TASECH guarantees the settlement of each trade. Counterparty risk for custodians is controlled by the conditional transfer of securities pending receipt of payment. If a seller fails to deliver the securities, the cash would not be debited from the buyer's account. This ensures non-simultaneous DVP such that the failure of a counterparty would generate only replacement cost risk, which is covered by the Risk Fund.

The introduction of an RTGS payment system in September 2007 has enabled the closure of the time gap between securities and cash settlement, introducing simultaneous DVP for transactions of corporate bonds, government bonds and MAKAMs on T+1. However, the gap between delivery of securities on the evening of T+0 and delivery of cash on the morning of T+1 still remains for equities (although securities transfers are not final until cash is cleared).

Participants of TASECH are obliged to separate their client's securities from their proprietary securities. In August 2001, TASECH implemented limited sub-accounting functionality which permits participants to separate client and proprietary held stock within the depository, rather than just in their own records. This has been mandatory since November 2001, and by May 2002, all participants had implemented the segregation.

The operation of the Risk Fund is organised around a 'defaulter pays/survivor pays' model, in which in the unlikely event that a defaulter's contribution to the Fund was insufficient to close out the defaulter's position, the other participants in the Risk Fund could be requested to contribute on a pro-rata basis.

Risk Containment Model

TASECH guarantees the successful settlement of all TASE and MTS transactions. In the case of an equities sale, where a broker does not have the securities available, TASECH initiates a technical stock loan if the technical short is to be covered by transfer of the securities from another source, i.e. ADR. The technical short must be reported to the TASECH and documentation provided regarding the method and timing of the coverage. The TASECH will then notionally debit the account of the failing broker with sufficient securities to cover their short position and credit the buying broker with the securities concerned and debits their cash account with the cash consideration. The TASECH retains this cash until the failing broker has deposited sufficient securities into their account to cover the fail. This effectively grants the failing broker an overdraft on their securities account secured against the cash held by TASECH. Intentional shorts are not permitted and must be covered by the offending member within 24 hours of their creation.

For repos, members provide TASECH with collateral and charge it to TASECH's benefit (i.e. charged as a pledge for fulfilling the member's obligations towards TASECH). TASECH calculates the total amount of collateral required of each member after the conclusion of trading on each business day (or after the first multilateral clearing window on business days on which there is no trading on TASE).

Corporate bond, Government bond and MAKAMs sellers short of securities are subject to a pending put for up to three days. During this period, TASECH takes collateral from the member to cover the short amount until the transaction is finally cleared. TASECH imposes a safety factor haircut on all government bonds and MAKAMs, The TASECH haircut calculation is: 3% plus 1% per each year of redemption, TASECH evaluates government bonds and MAKAMs for risk management purposes by deducting a haircut from the market value. If the transaction is still pending on T+4, a buy-in is initiated after the 1st cycle.

Should a broker subsequently default, the TASECH can call on the Risk Fund, valued at NIS 945 million (~ USD 250million) as of 1st September 2010, to make good any outstanding deliveries. Given the current level of floor trading on the TASE and T+1 settlement, the pooled fund should be sufficient to cover the failure of a TASE member, given that the cash should still be in the control of TASECH. It is understood there has not been a history of TASE broker defaults in the last 10 years.

The Bank of Israel does not guarantee payments settling through the ZAHAV system. However, in the event of a settlement bank encountering financial difficulties such that they are in default, their payment obligations may (by mutual consent) be transferred to another settlement bank. Alternatively, The Bank of Israel Bill, 5770-2010, defines the Bank of Israel as the lender of last resort. And the Governor may decide to act as such. The BoI does not require the commercial banks to maintain a minimum level of reserve in the settlement account.

Delivery Versus Payment

Currently in Israel, there is no simultaneous DVP for equities since conditional transfer of securities occurs on T+0 and cash settles on T+1. However, for settlement of corporate bonds, government bonds and MAKAMs on the T+1 cycle, settlement is simultaneous with both securities and cash moving within the same 15min settlement window.

Role of Central Counterparty (CCP)

TASECH acts as settlement guarantor to all TASE transactions include broker-to-broker and broker-to-custodian equity, corporate bond, government bond and deliveries stemming from trades executed on the TACT trading system and central counterparty and MTS Israel. TASECH is also CCP for transactions in Government Bonds, Repos and MAKAM transactions conducted on the MTS system. Combined, these represent around 90% of total traded value in the Israeli market. OTC trades are not covered by a CCP.

Please note that TASECH does not become the legal counterparty to transactions executed on TACT (or their reliant custodian transfers) in the way that a conventional CCP would. Rather, by TASECH by-laws, the clearing house has a responsibility to fulfil the deliveries of transactions it has agreed to clear, regardless of whether the member delivers the asset. However, for MTS transactions, the contractual agreement between MTS and TASECH states that the clearing house novates the trades from the original bilateral counterparties, and hence can be legally considered a central counterparty. It does this upon receipt of the trade feed from MTS which is on a real-time basis. Practically, there is very little difference between the two positions, since TASECH utilises the same resources and fails management processes to guarantee settlements in both markets and TASECH capital could ultimately be used to fulfil their obligations in both markets.

TASECH formed the Risk Fund in May 2002, backed by solid collateral such as T-bills, government bonds and cash. It is valued at NIS 945 million (approximately USD 250 million) as of 1 September 2010. Risk Fund members have been obliged to deposit 25% of their contribution in cash from December 2008. In the event of losses, it will be utilised between participants on a pro-rata basis, based on participants' volumes. In the case of non-payment, the securities are transferred to the control of TASECH who arranges the payment to the seller, using funds from the Risk fund, if so required.

Participant Criteria

TASECH procedures, set by the TASE, relating to membership specify a list of criteria referring to good standing, knowledge, number of customers, volume, insurance coverage, participation in the Risk Fund, equity, a risk management framework including risk surveillance, and the ability to provide data processing services. The operating requirements of participants are the same for all participants including those which hold assets for foreign investors. Any new TASE member must wait at least two years before being eligible to become a TASECH member. All TASECH members must be TASE members, with the exception that remote trading members cannot be clearing house members.

TASECH by-laws state that brokers must have a minimum capital of NIS 12 million (USD 3.2 million). According to the requirements determined by the Bank Commissioner in the Bank of Israel, a minimum capital requirement for a bank is NIS 50 million (USD 13.89 million). Bank credit limits are also set by the Supervisor of Banks. Each Bank is required to deposit certain funds as a reserve requirement in respect of deposits that its customers deposited with said Bank:

- 6% for deposits up to one week;
- 3% for deposits from one week up to one year.

The reserve funds are deposited to the bank's cash account at the Bank of Israel. For the Repo market, a member wishing to receive Repo clearing services from TASECH, should equally have net capital not less than the capital required as indicated by TASECH By-Laws.

Should the member wish to provide clearing services for a Non-Clearing House Member (NCHM), they are required to have additional equity of NIS 5 million (USD 1.4 million) per NCHM they are servicing. For each additional client sub-account (after the first client sub-account) the member should have additional equity of NIS 5 million (USD 1.4 million). Should the member wish to provide clearing services for a Repo participant, they are required to have additional equity of NIS 120 million (USD 33 million) per Repo participant they provide clearing services to.

A new capital adequacy and liquidity model is being introduced which will require NBCMs to maintain an internal mechanism for daily control of its compliance with the capital adequacy and liquidity requirements (the Membership and Supervision Department has already begun receiving daily reports based on the new model on a voluntary basis). Additionally, the minimum capital for

NBCMs will be NIS 20 million (USD 5.2 million) which increases as the NBCM is more exposed to operating risks and financial risks. It is noted that the equity requirement of most NBCMs pursuant to the new model is materially higher than the minimum requirement (NIS 20 million). However, those that are not compliant (currently 3 firms) will have until mid-2012 to adequately capitalise themselves.

Participant Concentration

The membership of TASECH comprises 10 Israeli banks (among them the Bank of Israel), 2 foreign banks (Citibank and HSBC) and 9 brokers (NBCMs) from the TASE. The remaining brokers, who are not participants of TASECH, employ a TASECH member to clear their business. 10.5% of transactions by value cleared through the largest participant in 2009 (13.3% in 2008), around 31% by value cleared through the largest 3 participants in the same year (33.7% in 2008).

Financial Compliance/Surveillance

Members of the TASE are monitored by the exchange for continuing capital adequacy and their ability to continue to operate in a safe manner. Member's must provide a range of reports to the TASE Membership and Surveillance department on a quarterly and annual basis, which the TASE Membership and Surveillance department analyses against a number of compliance criteria (including broker stability). On a quarterly basis, the department examines NBCMs' compliance with capital adequacy and liquidity requirements, while the Bank of Israel supervises bank Stock Exchange members similarly on capital adequacy and liquidity requirements. The Membership and Surveillance department conducts multiple audits on both NBCMs (average 35 a year) and banks (average 9 a year). The department has full access to all NBCMs' books and records as well as their external audit reports. There are currently 13 people in the surveillance team, and local accountants are used to outsource some of the more straightforward tasks.

Guarantee Funds

TASECH formed the Risk Fund in May 2002, backed by solid collateral such as T-bills, government bonds and cash. It is valued at NIS 945 million (approximately USD250 million) as of 1st September 2010. In the event of losses, it will be utilised between participants on a pro-rata basis, based on participants' volumes. In the case of non-payment, the securities are transferred to the control of TASECH who arranges the payment to the seller, using funds from the Risk fund, if so required.

TASECH mark-to market the collateral in the Risk Fund on a daily basis. TASECH members are required to cover 100% of their obligation toward the 'Risk Fund' with liquid assets (cash and/or government bonds). Although a variable proportion is possible in terms of the mix, there has been an obligation for 25% of the Risk Fund value to be held in cash (NIS 189 million) since December 2008. TASECH imposes a haircut on all government bonds and MAKAMs (3% plus 1% per each year of redemption). Any deposited collateral should be free of any charge, attachment, lien or other third party right at all times.

TASECH members do not hold the concerned collateral such as government bonds and Shekel deposits in their individual accounts. Rather, as stated in chapter 3 of the TASECH regulations: "The said collateral shall be deposited in an account of the Tel Aviv Stock Exchange Clearing House with a bank that is a Clearing House member or with a bank with a high short term rating". The account name is: "TASECH as a trustee of... (each specific member)". Only TASECH is authorised to use this account (i.e., to release collateral or exercise the assets in case of a member's failure, etc). Interest gained by the cash contribution is paid back to the member-contributor.

The initial level of funding was NIS 150 million (USD 30.3 million) which is the minimum permitted balance. The appropriate value of the Fund is reviewed on a semi-annual basis, with the value of the fund as at 1 September 2010 being about NIS 945million (~USD 239 million). Any refunding required is an obligation falling on all TASECH participants. The size of the Risk Fund is based on the amount of the average daily turnover in the previous six months of all the members, other than the five big banks. A clearing member's contribution to the Risk Fund is one half of the gross monetary consideration of the following: 100% of the volume of transactions on TASE in shares and in securities convertible to shares, 12.5% of the volume of transactions on TASE and MTS, in debentures and in securities convertible to debentures, and 6% of the volume of transactions on TASE in MAKAMs.

Individual contributions are calculated twice a year at 1st March and 1st September each year. When a member is in violation of their obligations, the TASECH is entitled to exercise the collateral for the Risk Fund that the member who is in violation has provided in order to pay all the members obligations. If this is insufficient, the remainder will be appropriated to the survivors on a pro-rata basis.

No stress-testing of the Risk Fund has been carried out, but a stress test methodology is planned to be designed and applied during 2011. There are also plans to enhance the fund contribution calculation methodology along more risk-based principles.

Counterparty Risk - Key indicators

Capacity of CSD

Principal for settlement of MTS-Israel trades, otherwise as Agent.

Surveillance of participants by CSD

By the TASE on behalf of TASECH. Banks by the Bank of Israel

Settlement assurance

Yes

Participation criteria

Consistent criteria for all members

Minimum Capital (local currency)

Banks: NIS 50 million

Brokers: NIS 10 million

Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions))

The value of the Risk fund as of 1st September 2010 was NIS 945 million (USD 250 million).

Does the CSD act as a central counterparty

Yes

Comments

The TASECH steps in as settlement guarantor for failing trades on TACT, and acts as central counterparty for MTS transactions. Off-exchange transactions are not covered by this facility.

Participant Concentration (Local Currency Millions)

Value of transactions in the market by top 10% of participants

31% in 2009

Volume of transactions by top 10% of participants

N/A

Volume of largest individual participant

10.5% in 2009

Asset Servicing Risk

Summary

Issuers are legally obliged to supply TASE with all corporate action information which becomes nearly simultaneously accessible on the ISA website. TASECH publishes corporate event information in the daily 400 Report. Corporate actions instructions are received via the Extranet with a few exceptions. Entitlements are paid on due date. The depository has not disclosed whether it accepts any responsibility for any execution deadlines missed when instructions are sent within the deadline. However, TASECH is subject to the general civil law although specific liability has not been tested in court. TASECH does not provide corporate governance services since Israeli Law establishes that voting can only be exercised in person.

Information processing

According to regulations, issuers must submit to the ISA all reports required by law including all corporate action information through the ISA secure site called MAGNA. The reports sent to the ISA are simultaneously received by TASE computer system. It takes about 2 to 20 minutes to get published in MAYA, the TASE website for companies' reports, and in MAGNA. This slight delay gives TASE time to halt trading in case very sensitive information is being disclosed (e.g., financial report, full tender offer, dividend yield of greater than 10%).

The information is entered into TASE's computer database automatically, although TASE will add a subject line to the information when it publishes on MAYA. This header is added at the time the information is received during the day, or if the information is received overnight, the header will be added to the information in the morning, but the information received overnight will still be published on MAYA automatically when it is received. The only information that is entered manually and double checked is information that originates from TASE. All information becomes available to TASE, TASECH and all participants instantaneously. Members and traders are also alerted via a pop-up window in cases of fundamental information.

Corporate action information from MAGNA is manually entered into the TASECH mainframe. Details of payments are also entered into the TASE mainframe computer on a manual basis with the information derived from the prospectus and from current reports. This information is double checked by TASECH. TASECH will contact the paying nominee company in cases where the information seems to be incorrect or incomplete.

All corporate action events are summarised in the 400 Report compiled by TASECH and picked up by members from the TASECH office at the end of the day as well all of the payments information and modification sent in batch files as follows: batch file number 151 (payments) and 152 (securities and companies index) these batch files sent on a daily basis. A list of all corporate action events details is sent to TASECH members on a monthly basis. Members also receive reports on record date. Nominee companies receive the exact amount to be transferred to TASECH 2 to 3 days prior to pay date. The nominee company can inform TASECH regarding non-payment that due at the same day until 11:00am.

TASECH does not support SWIFT for corporate action notifications but plans to pursue this in 2011. The clearing house also intends to automate the importation of data from MAGNA into the mainframe by 2011.

TASECH will advise participants on the day prior to record date about mandatory and voluntary corporate action entitlements where the participant has a position. In addition, TASECH will publish a report on the 16th day (after the CPI publication) of each calendar month detailing all relevant corporate action events to all members.

Custodians can manually capture information from MAYA using Smart Agent, which can then be filtered according to events and disseminated to their clients.

Instruction processing

Under the new Companies Law, the right to vote in shareholders' meetings (not corporate bonds) is based on the beneficial owner's holdings as of Record Date. Investors that attend general meetings are not restricted from selling their shares (partially or entirely) after Record Date.

An investor wishing to vote, or appoint a Proxy, must receive a certificate of ownership from the Custodian holding their account/s. The certificate of ownership will include the number of shares in the account as of the Record Date for the meeting (i.e. the number of shares that the customer can vote at the meeting). Under the provisions of the Companies' Law 1999, the TASECH participant can issue an ownership certificate, as of the record date of the meeting and the owner can use this to exercise their voting rights. There is no need for the nominee company to validate these ownership certificates. The investor is free to sell the securities after the Record Date as the entitlement date for the meeting is the Record Date.

Holders of other type of securities (Corporate bonds and warrants) may vote by proxy and TASECH provides the nominee company with a written confirmation of the participants' positions as of Record Date for convertible assets such as warrants and

convertible bonds. As with equities, holders of these instruments that confirm attendance undertake not to sell the securities before the meeting.

In order to encourage shareholders to participate and to vote in General Meetings (GMs), shareholders are not required to be present at the General Meeting (GM) and can vote by proxy, as well as by way of a voting paper (mail/email). A certificate of ownership must be provided. However, this facility generally does not impact foreign investors since most companies do not publish information in English.

Proxy Voting

Under the new Companies Law, the right to vote in shareholders' meeting (not corporate bonds) is based on the beneficial owner's holdings as of Record Date. Investors that attend general meetings are not restricted from selling their shares (partially or entirely) after Record Date.

An investor wishing to vote, or appoint a Proxy, must receive a certificate of ownership from the Custodian holding their account/s. The certificate of ownership will include the number of shares in the account as of the Record Date for the meeting (i.e. the number of shares that the customer can vote at the meeting). Under the provisions of the Companies' Law 1999, the TASECH participant can issue an ownership certificate, as of the record date of the meeting and the owner can use this to exercise their voting rights. There is no need for the nominee company to validate these ownership certificates. The law stipulates that the investor is free to sell the securities after the Record Date as the entitlement date for the meeting is the Record Date.

Holders of other type of securities (bonds and options) may vote by proxy and the TASECH provides the nominee company with a written confirmation of the participants' positions as of record date for convertible assets such as warrants and convertible bonds. As with equities, holders of these instruments that confirm attendance undertake not to sell the securities before the meeting.

In order to encourage shareholders to participate and to vote in General Meetings (GMs), the Government has amended the Companies' Law, removing the requirement to be present at the general meeting. The changes took effect from 2 April 2006 and allow shareholders to receive information or send their voting instructions by proxies (mail/ e-mail). Companies willing to receive voting instructions via proxies should have announced it at their general meeting. Afterwards, investors will be allowed to send their voting instructions to the company, but a certificate of ownership must be provided. However, the change will generally not impact foreign investors since most companies do not publish information in English.

Other services

TASECH offers additional services such as subscription and redemption services for funds when requested as well as exercising warrants, converting convertible debentures and exercising rights.

The TASECH also provides a tax reclaim service although it is restricted to crediting a members' account if the reclaim is paid via the TASECH. The actual interface with the Israel Tax Authority (ITA) is through the local custodian who holds the final beneficial holdings.

Asset Servicing Risk - Key indicators

Information processing

Securities covered

Depository-eligible securities

Information sources used

TASE

Information provided in English

No

Number of Events during last full year

Dividends

NB. All figures below are for 2009.

Dividends - 575

Dividends of mutuals - 93

Interest & Redemptions

Interest - 2,162

Redemptions - 1,135 (Early - 31; Partial - 897; Final - 207)

Corporate actions

Rights allocations - 32

Lapse of options - 82

Lapse of rights - 34

Notification via

Proprietary electronic, fax and email

SWIFT message types

No

Notification within

Same Day

Information processing comments

Information is provided in English on the English version of TASE's website.

Instruction processing**Use of depository**

Market Practice

Settlement on due date

Yes

Optional corporate actions supported

Yes

Cash account credited

Yes

Central paying agent

N/A

Entitlements based on

Traded Positions

Instruction processing comments

-

Proxy voting services**On-line**

No

Outsourced

No

Announcement of meetings

Yes

Elections (Voting)

No

Results reporting

No

Proxy voting services comments

Corporate companies are obligated by law to publish their meetings through the ISA website, as well as MAYA (TASE website).

Financial Risk

Summary

TASECH is a wholly owned subsidiary of TASE. Although TASECH is a separate legal entity, its revenues and expenditures are directly attributed to the TASE, as they are affiliated operationally.

The main area of Financial Risk is TASECH's exposure as a settlement guarantor/central counterparty whereby should other resources such as the Risk Fund be insufficient to cover the obligations of a defaulting counterparty, at some point the capital of TASECH may be called upon. However, TASECH now also has access to around NIS 80 million (USD 22 million) of credit lines which can be used to settle their obligations.

TASE has previously experienced operational losses, although it has recorded net profits over the past year. Given TASE's heavy dependence on trading income, revenues have historically been unstable, mirroring variations in annual trading volumes. Neither TASE nor TASECH have suffered any operational claims against them in the last five years, and TASE carries substantial insurance policies to protect itself.

Financial and other Resources

Capital Structure

Shareholder's equity for the financial year 2009 was NIS 36.9 million (USD 9.8 million). TASECH issued 30 million ordinary shares, with a nominal value of NIS 1.00 to increase its capital in 2006. The clearing house is authorised to issue 100 million shares.

TASECH is a wholly owned subsidiary of TASE. TASE Shareholder's Equity made up of Capital Reserves and Retained Earnings only (as it has no issued capital) totalled NIS 393.2 million (USD 103.5 million) in 2009, up 20% from NIS 328.2 million (USD 86.4 million in 2008).

Earnings Performance

In 2009, TASECH reported a net income of NIS 3.69 million (USD 1 million) after a net loss of NIS 424,000 in 2008, mainly due to losses made in the company's investment portfolio. Financing income was high in 2007, resulting in a net profit of NIS 2.69 million, up from NIS 909,000 in 2006 and NIS 129,000 in 2005.

For TASE, the trading and clearing commissions accounted for almost 60% of revenues from services in 2009, while clearing house services provided for 10% of the revenues from services. TASE posted a net income of NIS 65 million in 2009, up from NIS 54.5 million in 2008.

It is important to note that the income of TASECH is limited to financing income (mainly income from cash deposits). TASE and TASECH share operational resources and all operational costs are shouldered by the exchange, including the clearing house costs, and as such, all operating revenues are attributed to TASE.

At least 80% of the portfolio of TASECH must be invested solid assets such as Israeli bonds and bills, bank deposits, and bonds and T-bills of OECD countries. The remainder can be invested in TASE or other regulated markets or in foreign stock exchanges in shares, basket certificates, funds, corporate bonds and derivatives.

Under the law, the stock exchange is not allowed to distribute its profits amongst its members, so any profits made are retained by TASE.

Any change in the fee structure requires the approval of the board of TASE and is subject to the approval of the Israel Securities Authority.

Guarantee Funds (Central Counterparty Funds Only)

A pooled risk fund was introduced in May 2002 with an initial funding of NIS 150 million (USD 30.3 million), which is also the lower limit for the fund. The value of the fund as at 1 September 2010 was about NIS 945 million (USD 250 million). The value is updated twice a year on the basis of the average daily cleared amount in the preceding six months. The members deposit either cash (minimum 25%) or government bonds to fund their share in the Risk Fund.

Access to Credit

The clearing house has a standing line of credit of NIS 50 million with TASE. TASECH has arranged a secured credit line worth NIS 30 million from Ubank.

Insurance

TASECH is insured under a joint Insurance Program, as described below, maintained by the Tel Aviv Stock Exchange with the Phoenix Insurance Company Ltd. of Israel for the 1 August 2010 until 31 July 2011 except for the Financial Services Professional Indemnity and the Directors & Officers Indemnity insurances which are insured with the Clal Insurance Co. Ltd. of Israel in force for the period 1 July 2010 until 30 June 2011 (both of the above days inclusive):

Financial Services Professional Indemnity insurance with a Limit of Indemnity of USD 50 million per claim and in the aggregate covering legal liability as a result of any claim filed against the Assured during the Period of Insurance, arising out of any negligent act, error or omission in the conduct of the Assureds' business (including any dishonest, or fraudulent act or omission) as well as covering financial loss sustained by the Assured due to any dishonest or fraudulent act by employees of the Assured. The policy is subject to a deductible of USD 50,000 in respect of each and every claim.

Directors & Officers Liability Insurance with a Limit of Indemnity of USD 50 million per claim and in the aggregate covering the legal liability of directors and officers of the Company (i.e. TASE and its subsidiaries, including TASECH) as a result of any claim filed against them during the period of insurance due to any wrongful act committed by them in the conduct of their duties as directors or officers. The policy is subject to a deductible of USD 25,000 per claim, in the event that the directors or officers be entitled to indemnity from the Company, otherwise nil.

There is also an Extended Fire Insurance including Earthquake and other Natural Perils that cover buildings and contents (other than IT systems), subject to a deductible of USD 5,000 for each and every insured event other than those due to earthquake and other perils of nature. The latter are subject to standard deductibles practices in Israel not exceeding USD 1.25 million per insured event.

A separate insurance policy covers all IT systems (including the DR site systems), which has a deductible of USD 2,500 for each and every insured event other than an event due to earthquake and other perils of nature for which the above deductible shall apply.

The Terrorism Property Damage Insurance covers property upon a first loss basis up to USD 10 million, subject to a deductible of USD 25,000 for each and every insured event.

The Mechanical Breakdown Insurance covers major electro-mechanical systems such as lifts, central air-conditioning, and stand-by generators, with a USD 2,500 deductible for each and every insured event.

There is also General Third Party Liability Insurance subject to a limit of USD 10 million in any one occurrence and in the aggregate, with a deductible of USD 1,500 for each and every insured event.

The Employer's Liability Insurance has an indemnity limit of USD 10 million on any one occurrence or in aggregate, subject to a deductible of USD 1,000 for each and every insured event. The All Risks Property in Transit Insurance is subject to a USD 1,000 deductible for each and every insured event.

TASECH has not claimed against any insurance over the past five years.

Potential Claims on Financial Resources

Credit Loss

TASECH does not provide credit facilities or advance loans to its participants. 'Technical shorts' on securities could be considered as a securities overdraft and are covered by the purchase price plus a margin. Any discrepancy between the original transaction value and the buy-in price is covered by the Risk Fund.

Central Counterparty Exposure

In order to avoid failures, TASECH acts as settlement guarantor to all TACT and central counterparty to all MTS transactions. TASECH's liability as settlement guarantor/central counterparty in the case of a settlement fail is limited to price risk, which is backed by the Risk Fund. In the event of non-payment, control of securities is transferred to TASECH who arranges payment to the seller, using funds from the pooled risk fund. In this role, it is theoretically possible that there could be a call on TASECH's capital to fulfil its obligations to the market as settlement guarantor/central counterparty. However, this would only be in the extreme case where the replacement cost of the defaulting party's open obligations could not be covered by the defaulter's Risk Fund contribution, TASECH's credit lines, and the remaining shared value of the Risk Fund.

Liability for Operational Losses

TASECH is subject to the general civil law although specific liability has not yet been tested in court.

TASECH carries insurance policies covering Professional Indemnity and Directors & Officers liability however, there is no cap to the value of a claim against TASE/TASECH, hence it is not guaranteed that insurance would be sufficient to cover any claim.

There have been no claims against TASECH in the last 5 years.

Investment in Infrastructure

TASECH plans to completely automate its interaction with its members, including but not limited to transfers, withdrawals, deposits and corporate actions services. Since 1 January 2011, tax exemptions regarding interest are handling directly through TASECH members and in the near future tax exemptions on dividends will also be handles through TASECH members. However, it should be noted that TASECH uses TASE's infrastructure, including their staff and computers.

TASE (including TASECH) is also planning to construct a new building to house its operations. This is being rolled-out in a three-year plan starting in mid-2008. The budget for the building is estimated at NIS 172 million (USD 40million), to be funded by reserves and possibly by loans from banks.

TASE is in the middle of a project to establish a hot DRP site which should be completed in 2011.

Financial Risk - Key indicators

Ownership of the CSD

	Number - Domestic	Number - Foreign	Total Percentage
Central Bank	0	0	0
Stock Exchange	1	0	100
Participant banks	0	0	0
Broker/dealers	0	0	0
Mutual funds	0	0	0
Private clients	0	0	0
Others	0	0	0
-	-	-	-
-	-	-	-
-	-	-	-

Comments

TASECH became a 100% owned subsidiary of TASE in September 2006, after TASE bought out the shares held by TASE members.

Statistics

	Capital structure Local Currency
Issued capital	30,000
Surplus	-
Reserves	(2,841)
Retained earnings	9,734
Total	36,893

Comments

Statistics (in NIS thousands) as at 31 December 2009

Lines of stock

	2006	2007	2008	2009	2010

Lines of stock	N/A	1,545	1,551	1,381	-
% Stock Exchange transactions cleared & settled through CSD	100	100	100	100	-
Total value of securities under custody	NIS 790 billion	NIS 1,017 billion	NIS 1,188 billion	-	-

Comments

Lines of stock for 2009 include 611 shares, 594 corporate bonds and 38 government bonds listed on both TASE and TASECH, as well as 138 bonds only listed on TASECH.

Equities

	2006	2007	2008	2009	2010
Market Value	681,900	904,700	507,900	867,600	-
% of issued securities in the CSD	-	-	-	-	-
% of market capitalisation in the CSD	-	-	-	-	-

Comments

Statistics as at December in NIS

Fixed Income

	2006	2007	2008	2009	2010
Market Value	417,800	582,300	645,000	769,700	-
% of issued securities in the CSD	-	-	-	-	-
% of market capitalisation in the CSD	-	-	-	-	-

Comments

Statistics as at December in NIS

Money Markets

	2006	2007	2008	2009	2010
Market Value	88,200	69,600	72,000	85,500	-
% of issued securities in the CSD	-	-	-	-	-
% of market capitalisation in the CSD	-	-	-	-	-

Comments

Statistics as at December in NIS.

Expenses

	2006	2007	2008	2009	2010
Expenses as % total operating revenue	N/A*	N/A*	N/A*	N/A*	N/A*

Comments

N/A* - Since income and expenses for TASECH are not separated from those of TASE, it is not possible to calculate expense/income ratios for TASECH.

Operational Risk

Summary

TASECH has reasonably good controls in place and a methodology to identify risks through its risk officer. There is no external operational audit although an outsourced internal audit exists in line with the conventional Israeli model. However, the audit does not cover all core activities on an annual basis but only every five years.

Although some manual intervention is still required in some operations, processes are now largely automated. The implementation of SWIFT messaging and a new Extranet version are expected to further enhance the communication channels with participants.

Robust Disaster recovery and business continuity procedures are in place and tested regularly with participants. However, testing in a live environment has never been conducted.

Depository controls

The depository works according to an immobilised model whereby securities are registered in the name of a nominee company belonging to one of four local commercial banks (known as 'the Coordinating Banks'). Physical jumbo certificates are issued by the company, registered in their appointed nominee company name and are held in the vaults of the Coordinating Bank concerned, for the account of TASECH.

In addition, the Bank of Israel (Israel Central Bank) acts as a nominee company for MAKAMs (T-Bills) while the Ministry of Finance acts as a nominee company for all Israeli Government Instruments. There are no certificates for government bonds and MAKAMs

Each of the nominee company is responsible for ensuring that the certificates are retained according to acceptable standards and are liable for any damages resulting from their failure to achieve this. The nominee companies are also responsible for handling corporate actions. It must be noted that the nominee company concerned are the leading Israeli banks, who have never sustained major losses. The nominee companies are appointed by the issuer, who is likely to have to take on any resultant losses, although this has never been tested. Safekeeping standards at the nominee companies are of variable standards.

All TASECH members are required to segregate proprietary and client assets in their accounts. Foreign and domestic clients are commingled in the omnibus client accounts maintained at TASECH.

Access to the TASECH building is controlled by armed guards and electronic keys with personal ID cards.

Documented procedures of all the operations appear to be in place, although flowcharts are only available in a limited number. A risk officer has been appointed by TASE in February 2010. A risk methodology, based on the impact and the likelihood of occurrence of each risk, has been completed and errors are reported and documented to the risk officer. These are then addressed or escalated to senior management.

The internal audit of TASE, where TASECH operations are included, is conducted at a specific point of time by an external company (Sharony-Shefler & Co). A full operational audit of all the processes is not conducted on an annual basis as the audit programme is structured on a rolling five year basis. There is no other operational audit conducted. However, TASE is undergoing the risk assessment process of Israeli Sarbanes-Oxley (ISOX), which includes controls and procedures around all operations contributing to financial items in accordance with the US federal law enacted in 2002.

Clearing controls

In order to settle cash, TASECH has a direct linkage with the RTGS payment system operated by the BOI. Their systems communicate through SWIFT messages to enable movement of cash, with no manual intervention.

It is mandated by the TASE Rules that brokers check the securities positions before trading and there is a process of occasional checking by the Surveillance and Membership department of TASE to ensure this happens.

Pre-matching of OTC trades can occur via telephone. Since December 2009, the matching of OTC trades using Extranet utilises dual-sided confirmation, whereby both parties input their trade details which are then matched by the system. Participants receive settlement confirmation reports which include reason codes for failed settlements after each batch.

Every month, TASECH also electronically transmits data to members and nominee banks which are then used to reconcile with data they hold on a per-security basis.

Data processing controls

TASECH data processing and recovery facilities are provided by the TASE. There is a separate back-up site with all records being backed-up and stored at a separate location.

Security for internal systems for TASECH staff is augmented by a random pin generator complementing designated user access profiles which segregate available system functionality by role. This segregation also applies to external system users. A system log and monitoring application called SIMSOC reads users' applications usage to assess whether any irregular activities take place in the systems. The application also monitors system job schedules and timings to validate that they are triggered on time.

The IT department contracts outside auditors to conduct IT security tests, code review, and ethical hacking (penetration tests). The latter is done at least on an annual basis. The trading systems are tested more frequently using the expertise of several external companies. In 2007, a risk manager was hired in the IT department. Systems, procedures and operations are regularly audited. Furthermore, HP also offers ongoing HP critical support hired to check HP systems for stability and redundancy.

Communication between TASECH and its participants is largely automated via three ways: file transfer (private IP-VPN network), Extranet system and SWIFT. Each channel has redundant lines both at the main site and at the DRP site.

SWIFT Project

ISO-standard messaging is currently being implemented in phases. The first phase has recently been completed which allows the transfers of instructions for DVP/RVP transactions via SWIFT. Three other phases are expected to be implemented within the next two years and include corporate action notification/confirmation and end of day statements.

Reporting

TASECH provides a mixture of reports via file transfer through Extranet and physical reporting. The '300' and '400' reports relate to movements of securities and corporate actions respectively. The '300' reports are provided in file transfer form for T+1 settlements, but are still currently in paper form (although their size has been reduced) for T+0 settlements. However, these will be totally removed when the settlement cycle moves to T+1 for equities (expected end 2011). The '400' reports are provided in physical form and posted in participants' mailboxes. The operational risk surrounding this paper-based reporting mechanism is due to be addressed when legislation is passed to remove TASECH's tax agency status, allowing the automation of the remaining report content. An enhancement to the Extranet system is to be implemented in 2011 and would give online access to view transactions, balances, corporate actions etc.

Disaster Recovery/Business Continuity Procedures

A Disaster Recovery and Business Continuity plan is in place which includes the backing-up of all computer files, the storage of data off-site, the use of an off-site facility (disaster recovery site) and requiring that all back-up files are safely stored.

TASE has a DR site that is located in Netanya (IBM facility), about 35 Km from Tel-Aviv. TASE conducts a real-time, on-line back-up of all relevant data to the storage machine in the DR site. TASE backs-up another copy of all operational data every 24 hours (end of day copy) and has a third copy on tapes in a third location.

As the data is stored at the DRP site in synchronised mode, no data would be lost in the event of a disruption of the main processing systems. However there is a need to reboot the systems (warm site), which means that following a disruption, it would take within 4-8 hours to recommence processing (worst case scenario).

The DR site also has working space and all the necessary hardware and office equipment to let TASE staff work in the case they need to work from the site. The site contains pre-defined dedicated work space and hardware for about 80 employees. Working procedures and other relevant documentation is kept in a safe in the DR site. If the DR site needs to be activated, the employees and customers are notified according to the TASE BCP plan.

The DR site is tested twice a year. In the event of a failure, the main services including clearing and settlement and Extranet system could be re-activated within 4 hours and full systems within 24 hours. All members have a live connection to the DRP site. The last DRP test was conducted in July 2010, just after the move to the new site. Testing involves the market entities and participants, however, it is not conducted in a live environment.

The business recovery plan was last tested in July 2009 and the policy is to conduct a full test annually. The next test is scheduled for December 2010.

TASE is in the middle of a project to establish a hot DRP site. This project should be completed in 2011 and then TASE will review its DRP and BCP tests.

Depository Liability

TASECH is subject to the general civil law although specific liability has not yet been tested in court.

Systems Performance

The mainframe IT systems had an uptime of 99.99% in 2010. Systems capacity is constantly monitored and reviewed, and hardware updated or replaced as appropriate.

Operational Risk - Key indicators

Control objectives identified by the CSD match standard objectives

Yes

Key controls and procedures are identified by the CSD

Yes

Independent evidence exists that key controls and procedures have operated effectively through the last year

Yes

Material errors have been identified

No

Comments

-

CSD on CSD (Credit) Risk

Summary

TASECH's sole CSD link is with the Depository Trust & Clearing Corporation (DTCC) in New York, however a European link is planned with Euroclear Bank.

CSD - CSD Links

TASECH maintains a two-way FOP link with the Depository Trust & Clearing Corporation (DTCC), USA. The link is used to facilitate the settlement of Israeli firms' dual-listed securities.

In order to enable its members to receive custody services in the US market, TASECH has entered into an agreement with Citibank according to which Citibank provides TASECH members, who wish to receive such services, custody services for investments in the US market.

TASECH is considering the possibility of a future link up with Euroclear and Clearstream to facilitate clearing and settlement of securities that are traded both in Europe and Israel.

Processing Cycles

-

CSD on CSD (Credit Risk) - Key indicators

International Links: List of international links established and/or planned by the CSD

Depository Trust Company (USA).

European Central Bank logo



ECB Monetary Operations

-

Governance and Regulation

Management and governance of the depository

TASECH began operating in 1962 but was registered as a company limited by its members guarantee, in 1966. Though TASECH was (and still is) a separate legal entity functionally it was (and still is) an integral part of the TASE. The Board of Directors made a decision in March 2005, to change TASECH from a limited by its members guarantee company with no share capital into a company with share capital wholly owned by TASE. The first phase of the plan was completed in August 2005 when the court of law ratified the arrangement between TASECH and its members and TASECH became a company with share capital. The second phase was completed in October 2006 whereby the TASE bought the shares of the TASECH from the shareholders, and TASECH became a wholly owned subsidiary of TASE.

The board of TASE appoints seven directors to the board of TASECH and the members appoint a further seven directors. Also the general manager of TASE is appointed as a director ex officio, thus there is a maximum of 16 directors in total. The board of TASECH sets its by-laws which are subject to the approval of the board of TASE, which also approves all TASECH principal and policy decisions. The board of directors officially meets at least 6-10 times a year.

The staff of TASECH are all employees of TASE. Staff members are required to have appropriate qualifications (a BA in Economics, with preference for an MA in Finance) and TASECH will help its employees achieve an academic qualification. There is a budget for guidance and management development in the organisation including the ability to take advanced study courses abroad. Although no risk-specific training is carried out, the Chief Risk Officer is slated to develop a specific risk-based training module for staff.

Regulatory and independent examination of the depository

TASECH is regulated by the Israeli Securities Authority according to Sections 50B and 50C of the Israeli Securities Law. TASE acts in the capacity of a self-regulatory organisation (SRO). ISA has regular formal meetings with TASE, at least four times per year, and ISA representatives may be present at TASECH Board of Directors meetings . Any change in fees sought by TASE is subject to the approval of ISA.

Deloitte & Touche have been appointed external auditors for the financial accounts. The IT department selects specialists to provide an IT audit on specific applications. Reports are presented to the Finance Committee, Audit Committee and Board of Directors of the Stock Exchange.

Internal controls and procedures for safeguarding investments

TASECH does not directly hold any securities. All eligible securities are registered in the name of one of the four nominee companies plus the Bank of Israel and Ministry of Finance for government bonds. These nominee companies hold the certificates which represent the nominee holdings of securities in the vaults of the custodian banks which are the parent companies that fully own the nominee companies. However, TASECH assumes no responsibility for the actions of these banks. An amendment to the law has been proposed to make the nominee companies (or their parent companies) liable for the securities they safekeep.

Government debt has been dematerialised in the systems of the Bank of Israel and Ministry of Finance.

Other legal protection mechanisms

The use of nominees is common in Israel, with the law recognising the concepts of beneficial and legal ownership.

From 1 November 2001, it has been mandatory for participants to operate separate depository accounts for proprietary and client asset.

About the Depository

Name and Address

The Tel-Aviv Stock Exchange Clearing House Limited
54 Ahad Ha'am Street
Tel Aviv 65202
Israel

Website

www.tase.co.il

Date of establishment

1962, but not incorporated until 1966

Segregation of Assets at the Depository

Depository assets from participants

N/A

Participant assets from clients

Yes

Eligible Securities Depository under SEC Rule 17f-7

System of central handling of securities

Yes

Regulated by a financial regulatory authority

Date commenced operations 1962	Yes									
Legal status Incorporated under Companies Law 5759 - 1999	Holds assets of all participants on equivalent terms Yes									
Type of legal entity Wholly owned subsidiary of TASE	Identifies and segregates participant assets Yes									
Regulated by Israeli Securities Authority	Periodic reports to participants Yes									
Is use of the CSD required?	Periodic examination by a regulator or independent accountant Yes									
<table border="1"> <thead> <tr> <th></th> <th>Settlement</th> <th>Safekeeping</th> </tr> </thead> <tbody> <tr> <td>By Law</td> <td>No</td> <td>No</td> </tr> <tr> <td>By Market Practice</td> <td>Yes</td> <td>Yes</td> </tr> </tbody> </table>		Settlement	Safekeeping	By Law	No	No	By Market Practice	Yes	Yes	
	Settlement	Safekeeping								
By Law	No	No								
By Market Practice	Yes	Yes								
How securities are held Mainly immobilised in nominees of four co-ordinating custody banks. All government debt is dematerialised within a system operated by the Bank of Israel for MAKAM and the Ministry of Finance for government bonds.										
Domestic eligible participants 10 banks and 9 brokers										
Foreign eligible participants 2 banks										
Ownership Fully owned subsidiary of TASE.										

Internal Safety Measures

<i>Participant Eligibility Criteria</i>
Minimum Capital Standards Yes
Comments -
<i>Financial Aspects</i>
Ability to raise capital/borrow Yes
Committed lines of credit in place Yes
Publish audit financials Yes
Take lien on stock held Yes
Central Bank Guarantee

Services Provided

<i>Matching</i>
Pre-matching services No
Matching services Yes
Comments -
<i>Clearing</i>
Clearing services Yes
Comments -
<i>Securities Settlement</i>
Book-entry settlement Yes

No
Other third party guarantee
No
Third party insurance
Yes
Comments
-
<i>Safeguard Facilities</i>
Offsite Backup
Yes
Comments
-
<i>Disaster Recovery</i>
Disaster Recovery Plan
Yes
Back-up power generator
Yes
UPS (Uninterruptible power supply)
Yes
Comments
-

Fails management
Yes
Comments
-
<i>Cash Settlement</i>
Internal cash settlement
No
Comments
-
<i>Stock Lending</i>
Securities lending for fails coverage
No
Comments
-
<i>Asset Servicing</i>
Notifications
Yes
Securities processing
Yes
Paying agent
No
Central registrar
No
Proxy voting services
Yes
Comments
Proxy Voting services limited to as described in Asset Servicing.
<i>Communications</i>
Electronic communications
Yes
Comments
-
<i>Reporting Services</i>
Electronic reporting
Yes
Reporting of every movement
Yes
Regular statement of securities deposited
Yes

Definition

Public Rating. This assessment has been compiled from information provided by third parties and the CSD and has been verified by Thomas Murray analysts during an on-site visit to the CSD. The report has been reviewed by the CSD. The ratings that have been assigned to the risks that are reviewed in the report have been determined by Thomas Murray analysts and approved by the Thomas Murray Rating Board. The ratings have been assigned in accordance with the process outlined in the published methodology as developed by Thomas Murray and on the basis of information confirmed by Thomas Murray analysts during a site visit to the CSD.

Publication Date

The publication date represented here is **January 2011**. This is the date that the assessment report has been reviewed by third parties including the CSD. The report is updated on an on-going basis throughout the year as new information is received and should be read in conjunction with the relevant newsflashes issued since the publication date.

RISK EXPOSURE DEFINITIONS

Asset Commitment Risk - The period of time from when control of securities or cash is given up until receipt of countervalue. This risk concerns the time period during which a participant's assets, either cash or stock, are frozen within the CSD and payment system pending final settlement of the underlying transaction(s). Following settlement, the risk period is extended until the transfer of funds and stock becomes irrevocable. It excludes any periods when assets, cash or stock, are committed to a market participant including brokers, banks and custodians, not caused by CSD processing.

Liquidity Risk - The risk that insufficient securities and or funds are available to meet commitments; the obligation will be covered some time later. This is where for certain technical reasons (e.g., stock out on loan, stock in course of registration, turn round of recently deposited stock is not possible) one or both parties to the trade has a shortfall in the amount of funds (credit line) or unencumbered stock available to meet settlement obligations when due. These shortfalls may lead to settlement 'fails' but do not normally lead to a default.

Counterparty Risk - The risk that a counterparty (i.e., a participant) will not settle its obligations for full value at any time. This is simply the total default of a direct participant of the CSD. This is the event when a participant is unable to meet its financial liability to other participants. This risk only goes as far as direct participants of the CSD and excludes clients of direct participants that default on liabilities to such participants, even if such a default should systemically cause the direct participant to subsequently default.

Asset Servicing Risk - The risk that a participant may incur a loss arising from missed or inaccurate information provided by the depository, or from incorrectly executed instructions, in respect of corporate actions and proxy voting. This risk arises when a participant places reliance on the information a depository provides or when the participant instructs the depository to carry out an economic transaction on its behalf. If the depository fails either to provide the information or to carry out the instruction correctly then the participant may suffer a loss for which the depository may not accept liability. The depository may provide these services on a commercial basis, without statutory immunity, or it may provide the service as part of its statutory role, possibly with some level of protection from liability. This risk is likely to become much higher when international securities are included in the service.

Financial Risk - The ability of the CSD to operate as a financially viable

RATING SCALE

AAA	Extremely low risk
AA+	Very low risk
AA	
AA-	
A+	Low risk
A	
A-	
BBB	Acceptable risk
BB	Less than acceptable risk
B	Quite high risk
CCC	High risk
N/R	No rating has been given due to insufficient information

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Names of analysts available on request.

company. This risk concerns the financial strength of the depository and if its financial resources are sufficient to meet the on-going operation of the organisation. This risk also includes where the CSD may act as central counterparty, or otherwise acts in a Principal capacity.

Operational Risk - The risk that deficiencies in information systems or internal controls, human errors or management failures will result in losses.

The risk of loss due to breakdowns or weaknesses in internal controls and procedures. Internal factors to be considered in the assessment include ensuring the CSD has formalised procedures established for its main services. The CSD should have identified control objectives and related key controls to ensure operation and proper control of established procedures. Systems and procedures should be tested periodically. There should be external audit processes in place to provide third-party audit evidence of the adequacy of the controls.

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Report Date

Israel

6 June 2011