מסלקת הבורסה
TEL-AVIV STOCK EXCHANGE CLEARING HOUSE

Tel-Aviv Stock Exchange Clearing House Ltd.

Self-Assessment for 2023

In accordance with the Assessment Methodology

And Disclosure Framework of CPMI-IOSCO

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TEL-AVIV STOCK EXCHANGE CLEARING HOUSE

Declarations of the Tel-Aviv Stock Exchange Clearing House and Limitation of Liability

On June 30, 2024, the Tel-Aviv Stock Exchange Clearing House Ltd. ("TASE-CH" or "the Clearing House") completed the self-assessment for 2023 of its implementation of the principles set forth by CPMI-IOSCO for financial market infrastructures in the PFMI (Principles for Financial Market Infrastructures) document.

The document below ("the Disclosure Document") describes how the principles set forth by CPMI-IOSCO are implemented, as stated, by TASE-CH as of December 31, 2023 ("the Assessment Date"), and has been prepared in accordance with the assessment methodology and the disclosure framework set forth by CPMI-IOSCO[1].

TASE-CH has made the utmost effort to ensure that the information included in the Disclosure Document is accurate and current, as of the Assessment Date, however, notwithstanding the aforesaid, errors, deficiencies and/or mistakes in the content of the information and/or in the Disclosure Document cannot be avoided entirely.

The information included in the Disclosure Document below has been provided "as is" and TASE-CH does not guarantee the suitability of the information for any particular purpose. Nor does TASE-CH guarantee that the information will be up-to-date at all times.

Considering the aforesaid, TASE-CH, the companies of the Tel-Aviv Stock Exchange Ltd. ("TASE") Group, their managers, employees or anyone acting for them, in their name or on their behalf, are not liable to any third party for any loss or damage caused as a result of use of the information contained in the Disclosure Document.

For the avoidance of doubt, if, subsequent to the Assessment Date, changes and/or updates have occurred with respect to the information on which TASE relied in the Disclosure Document, if there is a conflict between the contents of the Disclosure Document and the contents of TASE's By-laws that are

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[1] **Principles for financial market infrastructures: disclosure framework and assessment methodology,** CPSS (Committee on Payment and Settlement Systems, Bank for International Settlements: BIS) - IOSCO (Technical Committee of the International Organization of Securities Commissions), December 2012. http://www.bis.org/cpmi/publ/d106.htm.

published on TASE's website, or between the contents of the Disclosure Document and its internal arrangements, then that which is set forth in these laws and arrangements will prevail over the contents of the Disclosure Document below.

The text in this Disclosure Document is an English translation of the original Hebrew Disclosure Document. In the event of any discrepancy between the original Hebrew and this translation, the Hebrew alone will prevail.

For any question, clarification or any other matter with respect to the Disclosure Document below, contact TASE-CH or TASE through one of the communication options provided on TASE's website at www.tase.co.il.

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TEL-AVIV STOCK EXCHANGE CLEARING HOUSE

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Introduction

On April 2012, the Committee on Payment and Market Infrastructure ("CPMI")[2], which operates under the Bank for International Settlements ("BIS"), together with the Technical Committee of the International Organization of Securities Commissions ("IOSCO"), also "CPMI-IOSCO," published a document of principles regulating the activities of financial market infrastructures – "Principles for Financial Market Infrastructure" ("PFMI")[3]. Moreover, in July 2017, additional guidelines were published relating to the relevant principles for CCP-type financial market infrastructures (Final report Resilience of central counterparties (CCPs): Further guidance on the PFMI[4]).

The PFMI document contains 24 core principles ("the Core Principles") relating to a broad range of aspects intended to ensure the proper management and financial stability of the financial market infrastructures, and as a result thereof to also ensure the stability of the relevant financial market served by these infrastructures.

The financial market infrastructures ("FMI") included in the document are: payment systems ("PS"); central securities depositories ("CSD"); securities settlement systems ("SSS"); and central counterparties ("CCP").

TASE-CH acts as a CSD and is obligated as a CCP[5] to execute the settlement of transactions in securities settled through the Clearing House and executed on TASE[6] and for the return of lending transactions executed in the Clearing House's lending pool, all in accordance with the terms set forth with respect to

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2 Until September 1, 2014, it was called the CPSS Committee (Committee of Payments and Settlement Systems).

3 **Principles for Financial Market Infrastructures**, CPSS (Committee on Payment and Settlement Systems, Bank for International Settlements: BIS) - IOSCO (Technical Committee of the International Organization of Securities Commissions), April 2012. https://www.bis.org/cpmi/publ/d101.htm.

4 **Final report Resilience of central counterparties (CCPs): Further guidance on the PFMI,** CPMI (Committee on Payments and Market Infrastructures Board of the International Organization of Securities Commissions, July 2017. https://www.bis.org/cpmi/publ/d163.htm.

5 Per the definition of a settlement system as a central counterparty as set forth in the Securities Law, 1968.

6 Transactions in securities include transactions in securities that were executed in trading on TASE, excluding derivatives, including transfers of securities to custody (on TASE) and transactions executed on the MTS trading system.

this in the Clearing House's By-laws. In addition, TASE-CH provides settlement services for payments and securities outside the framework of its obligation as a CCP, a PS or an SSS.

As an FMI, TASE-CH is required to perform and publish a periodic assessment using the assessment methodology and disclosure framework set forth by CPMI-IOSCO[7], to examine the extent to which it applies the Core Principles, and to publish this assessment for the benefit of the members of the Clearing House and the general public.

Therefore, on June 30, 2024, TASE-CH completed the performance of its self-assessment for 2023, which was conducted in accordance with the methodology described above, and the highlights of which are described and set forth for the benefit of the public in the Disclosure Document below.

[7] **Principles for financial market infrastructures: disclosure framework and assessment methodology**, CPSS (Committee on Payment and Settlement Systems, Bank for International Settlements: BIS) - IOSCO (Technical Committee of the International Organization of Securities Commissions), December 2012. http://www.bis.org/cpmi/publ/d106.htm.

General Overview

The Tel-Aviv Stock Exchange Clearing House Ltd. ("TASE-CH" or "the Clearing House") was established in 1966. The Clearing House is a private company limited by guarantee that was incorporated and registered in Israel and is wholly owned by the Tel-Aviv Stock Exchange Ltd. ("TASE").

The Regulatory, Supervision and Control Framework

As a company registered in Israel, TASE-CH is obligated to comply with the provisions of the Companies Law, 1999.

TASE-CH operates as a settlement system under a license granted by the Israel Securities Authority ("the ISA" or "the Authority") in accordance with the Securities Law, 1969 ("the Securities Law" or "the Law").

The Securities Law regulates a wide range of aspects of TASE-CH's activities, including arrangements relating to corporate governance, to the stability of the Clearing House, to settlement finality, to the obligations and rights of TASE-CH and the clearing members, as well as supervision and control arrangements for the Clearing House that are implemented by the Securities Authority.

Pursuant to its authority under Section 50C(b) of the Law, the ISA issued principles to ensure the proper operation of the Tel-Aviv Stock Exchange Clearing House Ltd. and the MAOF Clearing House Ltd. The principles adopt the Core Principles set forth by CPMI-IOSCO in the PFMI document, which aim to ensure the proper operation and financial stability of the Clearing House ("the Clearing Houses' Stability Directive").

On June 29, 2017, the ISA announced[8] that TASE-CH can be regarded as acting in accordance with the Core Principles.

On January 24, 2023, the Israel Securities Authority confirmed to the European Securities and Markets Authority (ESMA) that the rules of TASE-CH and its internal procedures are in full compliance with the requirements of the Securities Law, 1968, and all other applicable requirements in Israel.

[8] ISA's announcement, as published by it, can be found on the Authority's website at www.isa.gov.il.

On March 15, 2023, ESMA announced that it was recognizing TASE-CH as a Tier 1 Third-Country CCP in accordance with the applicable European regulatory rules, and as such, the Clearing House is eligible to provide EU countries with settlement services in a variety of financial instruments.

Organizational structure

The organizational and operational structure of TASE-CH relies on the organizational and operational structure of TASE (IT, human resources, etc.), and TASE-CH has no employees or any other resources of its own. The head of the Clearing House is a senior vice president of TASE. TASE-CH has 19[9] members, comprised of 11 commercial banking corporations, 4 nonbanking corporations, 3 custodial members and the Bank of Israel.

Despite the TASE-CH reliance on the organizational infrastructure of TASE, it operates as a separate independent entity and has a separate and independent board of directors that can comprise a maximum of 15 directors. As of June 30, 2024 and as of December 31, 2023, the board of directors of TASE-CH comprises 7 directors.

The members of the board of directors are appointed (and removed) by the general meeting, with at least three directors being independent directors and at least one director having professional qualifications. For these purposes, "professional qualifications" means an individual who serves on the board of directors of the company, where the board of directors of the company has confirmed, noting, inter alia, his previous and/or current employment, that he has experience in the capital market and clearing arenas.

Certain TASE management members were appointed by the board of directors of the Clearing House to serve in their positions for TASE-CH as well, as is also required by the Clearing Houses' Stability Directive, including the chief risk officer, the CFO, the compliance officer and the head of information technology. Other TASE officers provide the Clearing House with services.

[9] On May 30, 2024, a nonbanking corporation began operating as a clearing member; hence, as of June 30, 2024, the Clearing House has 20 members, of whom 5 are nonbanking corporations.

The operations of TASE-CH also rely on the technological and physical infrastructure provided to it by TASE, as well as information security and cyber services, perimeter security and protection services and other services.

TASE-CH's risk management framework is managed separately, with the board of directors of the Clearing House being the ultimate authority for risk management at the Clearing House. Where there is a certain degree of reliance on policies, procedures, processes and controls that were set up and are executed by TASE, the TASE-CH board of directors must adopt them and ensure that they include the unique aspects of TASE-CH's activities.

Description of the main services and products

TASE-CH provides central securities depository ("CSD") services and central counterparty ("CCP") settlement services for transactions in securities that are executed on TASE, excluding derivatives. For these purposes, transactions in securities also include transfers to a trustee for custody of securities (on TASE) and transactions in securities executed on the MTS system[10] ("transactions in securities on TASE"). The Clearing House also acts as a CCP in lending transactions that are executed in the Clearing House's lending pool.

As a CCP, the Clearing House is obligated to execute the settlement of transactions in securities for the clearing members, all subject to and in accordance with the terms set forth in TASE-CH By-laws. TASE-CH also provides settlement services for transactions in securities executed outside of TASE, but as of today, TASE-CH is not obligated for these transactions as a CCP.

In addition, TASE-CH provides the following services:

- Settlement of mutual funds
- Settlement services for dual-listed securities
- Non-listed securities – providing custody and settlement services for securities that are not listed on TASE

[10] Multilateral Trading System, as defined in the By-laws of TASE-CH.

- Handling the exercise of rights attached to securities
- Operating the government bond lending facility for the Ministry of Finance
- Providing operating services for the Bank of Israel’s collateral system (ICS).
- Solutions for the listing of alternative investment products on TASE.

Contents and Points of Emphasis

Structure and contents of the disclosure

The Disclosure Document below is divided according to the Core Principles that are relevant to the nature of TASE-CH's activities, where each Core Principle is made up of several key considerations, which represent the different aspects of the Core Principle. Below are the core principles that are not relevant to the nature of TASE-CH's activities at the time of the assessment and are not included in the Disclosure Document:

- **Principle No. 10: Physical deliveries** – TASE-CH does not execute physical deliveries.
- **Principle No. 24: Disclosure of market data by trade repositories ("TR")** – TASE-CH does not act as a TR-type infrastructure.

Additional points

Where the Disclosure Document refers to policies, procedures, processes, controls and the use of systems, which are carried out by TASE for TASE-CH, these should be seen as carried out by TASE-CH itself, even if this is not explicitly stated, unless otherwise stated.

Key Terms and Abbreviations

"TASE"	The Tel-Aviv Stock Exchange Ltd.
"TASE-CH" or "the Clearing House"	The Tel-Aviv Stock Exchange Clearing House Ltd.
"MAOF-CH"	MAOF Clearing House Ltd.
"TASE Clearing Houses"	TASE-CH and MAOF-CH
"The TASE Group" or "the Group"	TASE and the TASE clearing houses
"Default event"	Per the meaning of the term in Core Principle 13: Participant-default rules and procedures
"Bank of Israel"	Per the meaning of the term in the Bank of Israel Law, 2010
"Board of directors"	The board of directors of TASE-CH
"Clearing Houses' Stability Directive"	Principles to ensure the proper operation of the Tel-Aviv Stock Exchange Clearing House Ltd. and MAOF Clearing House Ltd. – principles pursuant to Section 50C(b) of the Securities Law, 1968
"Clearing order"	Per the meaning of the term in TASE-CH By-laws
"Default arrangements"	Per the meaning of the term in TASE-CH By-laws
"Liquidation agreement with the Bank of Israel"	A resale facility agreement between TASE-CH and the Bank of Israel, under which the Bank of Israel undertook to transfer to the clearing house, following the default of a member, cash against the inventory of collateral deposited by the clearing house members. The agreement expired on 30.9.22.
"Clearing member" or "member"	An entity that has been accepted as a clearing member in accordance with the By-laws
"Custodial member"	A clearing member whose activity is confined solely to custody activity
"The Securities Law"	The Securities Law, 1968
"Settlement window"	Per the meaning of the term in the TASE-CH By-laws
"Clearing day"	The day on which the Clearing House receives clearing orders and/or executes clearing actions
"Inventory"	A quantity of securities
"head of the Clearing House"	The person who has been appointed by the board of directors, on the recommendation of the CEO of TASE, as chief executive officer of the Clearing House, or his stand-in

"RTGS system"	Per the meaning of the term in TASE-CH By-laws
"Securities"	Per the meaning of the term in TASE-CH By-laws
"Pending transaction"	Per the meaning of the term in TASE-CH By-laws
"Transactions in securities"	Transactions in securities executed on TASE, excluding derivatives, including transfers of securities to custody (on TASE) and transactions executed on the MTS trading system
"Clearing action"	Per the meaning of the term in the Clearing House's By-laws
"ISA" or "the Authority"	The Israel Securities Authority, which was established pursuant to the Securities Law, 1968
BIS	Bank for International Settlements
CCP	Central Counterparty
CPMI	Committee on Payments and Market Infrastructures
CSD	Central Securities Depository
DVP	Delivery Versus Payment
ESMA	European Securities Market Authority
FMI	Financial Market Infrastructure
IOSCO	International Organization of Securities Commissions
PFMI	Principles for Financial Market Infrastructures
RTGS	Real Time Gross Settlement

Detailed Assessment by Core Principle

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.
The TASE-CH By-laws constitute the legal basis for all aspects of the Clearing House's activities. In its By-laws, TASE-CH has set forth clear and detailed arrangements concerning the aspects of its activities, including clearing and settlement arrangements; CSD services; settlement finality; the rights and obligations of TASE-CH and its clearing members; access and participation requirements; calculation and determination of the collateral (margin) requirement and the collection of collateral in accordance therewith; and arrangements to manage a clearing member's default. TASE-CH has a high degree of confidence in its ability to enforce its authority and to implement the arrangements that it has set forth in the By-laws at any time. TASE-CH's By-laws are disclosed publicly on TASE's website.
1.1 - Key consideration # 1:
The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions. TASE-CH's By-laws cover all aspects of its activities and of the services that it provides as a CCP. TASE-CH secures the execution of transactions in securities executed on TASE[11] and the return of securities lent within the framework of lending transactions executed in the Clearing House's lending pool. The Clearing House provides central securities depository (CSD) services, and also acts as a PS, all in accordance with the terms set forth for this purpose in TASE-CH's By-laws. TASE-CH's By-laws are consistent with the Securities Law and the provisions set forth by the ISA in the principles to ensure the proper operation of the TASE clearing houses – the Clearing Houses' Stability Directive, which were prescribed for the Clearing House by virtue of the authority vested in the ISA under Section 50C(b) of the Securities Law.

[11] Transactions in securities executed on TASE include the transactions executed during trading on TASE, other than derivatives, transfers to custody (on TASE) and transactions executed on the MTS system.

The Securities Law sets forth a series of obligations that apply to TASE-CH, including the obligation to establish principles that ensure the stability, efficiency and orderly operation of the Clearing House. Those principles are stipulated in the By-laws of TASE-CH, which are determined by the board of directors of TASE-CH. The Law determines that the Clearing House is subject to the supervision of the Authority, including as regarding the consistency of the Clearing House's principles with the Law. According to the Law, if the Authority believes that the Clearing House does not meet its obligations, it may instruct the Clearing House to do so, inter alia, by instructing the Clearing House to establish principles or modify them. The Law permits the Authority itself to establish such principles, if the Clearing House fails to implement the instructions of the aforesaid Authority.

The definition of TASE-CH as a PS is set forth in the Payment Systems Law, 2008, which determines that the powers of supervision for the purposes of said law, that are generally conferred upon the Governor of the Bank of Israel, shall be conferred upon the ISA Chairman insofar as they relate to TASE-CH.

The Securities Law grants the Clearing House strong defenses in order to enable it to provide its services, exercise its authority and enforce its arrangements at any time and with a high degree of certainty.

The material issues identified by TASE-CH as fundamental to its proper, stable and safe operation are:

- **TASE-CH's obligation as a central counterparty (CCP)** – In accordance with TASE-CH's By-laws, in the event of a clearing member, which is a party to a TASE transaction (see footnotes 3 and 6), not fulfilling its obligations, the Clearing House shall be required stand in its stead and fulfil the obligations of the defaulting member toward the other clearing members, all in accordance with the terms set forth for this in the By-laws.
- **Settlement finality** – A clearing order that was received by the Clearing House is irrevocable and cannot be voided, reversed, or subject to stays, nor is there is any possibility of requesting the Clearing House not to execute a clearing action connected directly or indirectly to the clearing order. If a clearing action has been carried out, it is not possible to request the TASE-CH to void it, other than in accordance with the By-laws (see also Principle 8).

- **Settlement finality in the case of the insolvency of a clearing member** – The Securities Law takes priority over any other insolvency law, giving TASE-CH preference, including over a third party, when it comes to enforcing the settlement finality arrangements and to carrying out the defaulting member's clearing orders, received by TASE-CH, provided that they were received prior to the determining date in the Law. Pursuant to the Law, TASE-CH may complete the clearing actions related to those clearing orders even after the determining date in the Law.
- **Rights with respect to securities purchased or sold** – A clearing member that has purchased securities on TASE which are cleared by TASE-CH, is not entitled to the securities so purchased unless TASE-CH has received the full consideration for them. The title to the securities will be conferred to TASE-CH if the aforementioned full consideration has not been received. In addition, a clearing member that has sold securities on TASE which are cleared by TASE-CH, is not entitled to the consideration received for the sale unless the member has transferred to TASE-CH the securities that were sold as aforesaid.
- **The clearing mechanism** –TASE-CH has established a DVP (Delivery Versus Payments) settlement mechanism, whereby the buyer is credited with the security and charged with the payment at the same time that the security is deducted from the selling party's balance and the sale consideration is credited to the seller's monetary account. (see also Principle 12). Payments are transferred by the Clearing House only to the extent that the money has been deposited by the company or by another debtor in a dedicated account.
- **Rights of TASE-CH in the collateral pledged in its favor** – The assets deposited as collateral by the clearing members are pledged in favor of TASE-CH. By virtue of the Securities Law, a pledge on securities or funds, which serves to guarantee the obligations of a clearing member toward TASE-CH, is also valid toward other creditors of the clearing member. The charge will be deemed to be a first-ranking fixed charge, granted by the clearing member in favor of TASE-CH, provided that TASE-CH has control over the assets in one of the ways prescribed in the Law. In addition, it is determined in the Securities Law that the realization of the charge in favor of TASE-CH can be done by TASE-CH itself, without a court order or an order of the chief judgment enforcement officer, subject to the terms and conditions stipulated in the Law.

- **Account settling arrangements and netting arrangements** – TASE-CH's By-laws provide that, in the event of a member not fulfilling its obligations toward TASE-CH and in other instances detailed in the By-laws, TASE-CH has the right to set off any obligation of a member toward it, of any type whatsoever, against any obligation of TASE-CH toward that member.
- **Default arrangements** – TASE-CH has set forth in the By-laws its material arrangements with respect to its actions at the time of a default event[12], including arrangements for the discontinuation of clearing services to the member, arrangements for early termination and calling for immediate repayment, collateral realization arrangements, arrangements regarding the realization of TASE-CH's right of lien and offset and arrangements for the calculation of the charges of a defaulting clearing member (see also Principle 13).
- **Default procedure** – TASE-CH has a default procedure, which regulates all the processes and means of identifying and declaring the default of a clearing member, handling the clearing obligations as a central counterparty of the defaulting member, handling the exposures of the Clearing House incidental to the default event, realization and completion of the Clearing House's default waterfall and all that is required for the Clearing House to return to normal operation afterwards. TASE-CH examines, every year, the need to update the default procedure and, since 2022, has carried out, once a year, an exercise that simulates a default event of a single clearing member (see also Principle 13).
- **Clearing House membership conditions** – TASE-CH has set forth in its By-laws the requirements for membership in TASE-CH and the process for the approval of an application to be a clearing member (see also Principle 18).
- **Central securities depository services** – TASE-CH has set forth in its By-laws provisions that regulate its CSD activities. Since the Securities Law includes in the definition of a clearing system a system that provides CSD services, the Clearing House also has a high degree of certainty with regard to these provisions (see also Principle 11).

[12] A default event is in accordance with the definition found under Principle 13, later in this document.

1.2 - Key consideration # 2:

An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.

TASE-CH's By-laws and the arrangements set forth in its internal procedures are consistent with the Securities Law and the Clearing Houses' Stability Directive, as well as with other relevant laws and regulatory directives, including the Companies Law with which TASE-CH is obligated to comply by virtue of being a company registered in Israel.

TASE-CH has a policy and procedures for managing compliance risk and legal risk in order to ensure that its By-laws and its activities are consistent with relevant laws, regulatory directives and judgments, as well as to identify potential exposures as a result of changes in any of these. In addition, TASE-CH obtains independent external legal opinions in accordance with its needs and its discretion.

TASE's compliance officer, who was appointed by TASE-CH's board to serve as its compliance officer, supervises and controls the activities of the Clearing House and ensures that it is in compliance with all the relevant laws and regulatory directives. The board of directors receives from the compliance officer a review of her activities as well as reports of her findings in the course thereof.

TASE-CH's board has the authority to approve any change or amendment to the By-laws. TASE-CH has set forth procedures for ensuring that every change or update to the By-laws is clear, comprehensible and consistent with relevant laws, legal directives and judgments, and that TASE-CH has the authority to enforce it.

Any proposal for a change or update to TASE-CH's By-laws is examined by the legal department, and, if relevant, by the chief risk officer and the compliance officer.

Proposals for changes in the TASE-CH By-laws dealing with risk management issues are of the Clearing House are also reviewed by the risk management committee. In addition, the audit committee reviews proposals for changes in the By-laws where there is concern of a potential conflict of interest among the board members (see also Principle 2).

TASE-CH has defined procedures and processes for examining and approving other engagements with clearing members, suppliers, service providers and other entities.

1.3 - Key consideration # 3:

An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.

TASE-CH's By-laws are publicly disclosed on TASE's website, including information about amendments and updates made to them. In addition, material decisions of TASE-CH's board are published on TASE's website, including decisions regarding amendments and updates to the By-laws.

Every proposed change to the By-laws of TASE-CH is delivered to the clearing members ahead of the board's discussion and approval of the proposal, for their comments. Such comments may include, inter alia, requests for clarifications and/or modification of the wording of the changes for better clarity and coherence. Comments of the clearing members, should there be any, are reported to the board during the discussion on the matter. TASE-CH allows clearing members to contact relevant professional parties at the Clearing House regarding any issue or matter relating to its activities.

TASE-CH communicates with other market participants, who are not clearing members, regarding its By-laws, or regarding potential amendments and updates, at its discretion.

TASE-CH, through TASE's website, provides the public with the opportunity to contact it using one of the means of communication published on the website.

1.4 - Key consideration # 4:

An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.

Since TASE-CH's activities are conducted mainly under the jurisdiction of the State of Israel, the Securities Law provides TASE-CH with a high degree of certainty regarding the enforcement of its legal basis. In addition, TASE-CH has a high degree of certainty that its activities will not be voided, changed or subjected to stays by the courts in Israel, and in particular with respect to the actions that it takes at the time of a clearing member's insolvency.

In all matters pertaining to the Clearing House's activity through overseas central securities depositories (the Depository Trust Company and Euroclear Bank SA/NV: "DTC" and "Euroclear," respectively), the agreements with them are entered into through documents and other contractual arrangements and, in all matters pertaining to the management of these accounts, the Clearing House is subject to the directives of the said entities and to the legal and regulatory framework they operate under.

With respect to TASE-CH's enforcement ability vis-à-vis clearing members that are incorporated outside Israel, the Securities Law provides that with respect to relations between the Clearing House and the clearing members, including a clearing member that is incorporated outside Israel, and including the rights and obligations of a clearing member toward the Clearing House or toward another clearing member, which arise from the Clearing House's activities, Israeli law will apply, and the authority to adjudicate any matter relating to said rights or obligations will be granted to the court in Israel.

In addition, the Securities Law provides that, subject to the terms set forth in the Law, and notwithstanding that which is stated in the Foreign Judgments Enforcement Law, the court will not declare a foreign judgment that was handed down as part of foreign insolvency proceedings regarding a clearing member to be an enforceable judgment, and it will not recognize a foreign judgment, and this includes not recognizing the validity of an action performed by a person who was appointed as part of said insolvency proceedings or in connection with it, by virtue of his authority pursuant to the foreign judgment.

As of the date of preparation of the Disclosure Document, it has not been determined by a court in a particular jurisdiction that any of the activities, agreements or laws of TASE-CH in any matter relating to the key considerations presented under this Principle, and those presented under the other Principles, are not enforceable.

1.5 - Key consideration # 5:

An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.

TASE-CH operates and provides its services to the clearing members subject to the provisions of the law in Israel, as detailed extensively under this Principle. In order to support and enable clearing

activities for transactions in securities that were issued outside of Israel and that were executed on TASE, the Clearing House manages a securities inventory account with the central securities depositories operating in other jurisdictions.

The reciprocal relationship between TASE-CH and the entities operating in jurisdictions outside Israel does not create a material exposure for it, or potential conflicts, with respect to its ability to enforce the arrangements that were set forth in TASE-CH's By-laws and with respect to its ability to act and to meet its obligations as a CCP (see also Principle 20).

Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

TASE-CH operates under robust governance arrangements that clearly regulate the organizational structure and the responsibilities and roles of the TASE-CH board of directors and its committees, management and departments TASE-CH's governance arrangements were determined in accordance with arrangements with which it is obligated to comply pursuant to the Securities Law and the Companies Law.

2.1 - Key consideration # 1:

An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

TASE-CH's governance arrangements are consistent with the arrangements with which it is obligated to comply pursuant to the Securities Law and the Companies Law. TASE provides TASE-CH with a supporting organizational infrastructure so that the Clearing House can execute its operations and comply with all the relevant laws and regulatory directives.

TASE-CH's objective is to manage a clearing system, to provide accompanying services and to carry out all actions necessary for this purpose, subject to the provisions of the Securities Law and its deeds of incorporation, and to act in a proper manner in order to secure the interests of the public.

TASE-CH sees ensuring its proper operation, its financial stability and securing its ability to meet its obligations as a CCP as key goals, which serve the public interest in maintaining the security and stability of the financial market in Israel.

TASE-CH sees the achievement of its business and strategic goals as an additional means to promote the public interest and to ensure its ability to maintain its financial stability, and to ensure the ongoing financing of its activities. TASE-CH works to grow, develop and expand its services, and it also works to achieve the clearing systems' high operational efficiency and reliability.

TASE-CH focuses on establishing an effective, broad and cross-organizational risk management system, in order to identify, monitor, control and mitigate its risks in a way that will ensure its stability and will help it to achieve its strategic, business and operating goals.

2.2 - Key consideration # 2:

An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.

TASE-CH has clear, documented governance arrangements, which regulate the organizational structure, responsibilities and the obligations of the board of directors, the board's committees, management and other TASE-CH departments. Information about TASE-CH's organizational structure can be found on TASE's website to the extent that this information is relevant to the public. Additional information regarding TASE-CH's governance arrangements is provided to its clearing members if requested, provided that this information is relevant to their activities at TASE-CH.

These corporate governance arrangements include, inter alia, the following arrangements:

- A procedure that regulates the work of the board of directors and its committees, including the responsibility and the role of each of them;
- A procedure for transactions with interested parties, including officers' compensation and the handling of a conflict of interests;
- The officers' compensation policy;
- TASE-CH's risk management policy;
- The compliance and internal audit work framework.

TASE-CH provides accountability to the clearing members, stakeholders and, where relevant, to the public, via publication of TASE-CH board of directors' decisions on TASE's website, and via periodic financial statements.

Additionally, the annual and quarterly financial statements of TASE, which is a public company, include a disclosure on TASE-CH, as a wholly owned subsidiary of TASE. Any material change, update and/or innovation to the business of the TASE Group is reported in accordance with the provisions of the Securities Law.

Furthermore, TASE-CH's disclosure regarding the manner in which it implements the principles set forth by CPMI-IOSCO in the PFMI document, which is provided in this document, provides additional information about the activities of the Clearing House and the way in which it ensures its stability and security.

2.3 - Key consideration # 3:

The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.

The regulation of the work, responsibility and role of the board of directors of TASE-CH and its committees is set out in the Securities Law and the Companies Law and is governed by an internal procedure and the procedures issued thereunder. The roles of the board of directors are also set forth in the Clearing Houses' Stability Directive and in the Clearing House's deeds of incorporation.

The responsibility and commitment of TASE-CH's board of directors include, inter alia, delineating policy and setting procedures for regulating the Clearing House's activities and its responsibility and commitment to supervise the implementation of this policy; supervising the activities of TASE-CH's CEO; taking suitable supervision and control measures to ensure that TASE-CH's stability is maintained; taking suitable supervision and control measures to ensure that TASE-CH operates in a manner that ensures its effectiveness and proper and appropriate functioning; and approving TASE-CH's rules and taking suitable supervision and control measures to ensure that the clearing members comply with the requirements of the law that apply to them, and with the Clearing House's rules. The framework of the responsibility of TASE-CH's board of directors includes the power to implement the company's policy and the ability to appoint and/or dismiss the head of the Clearing House.

TASE-CH has a procedure for transactions with interested parties, which includes identifying, managing and handling conflicts of interest, should such arise, for members of the Clearing House's board of directors in connection with TASE-CH's activities. This procedure determines the circumstances that may give rise to a concern of a conflict of interests, as well as how the board of directors should manage and handle the situation should such a concern exist and the method of approving transactions in which a director could have a personal interest therein. Moreover, and in accordance with the Companies Law, should a situation arise in which a director finds himself in a conflict-of-interests position at a meeting of the board of directors, , he must refrain from the participating in the decision-making process on this topic.

TASE-CH's board has established several central committees: the audit committee, the compensation committee, the risk management committee and the default fund management and calculation committee. These committees support and assist the work of the board of directors, and are required to fulfill specific roles under the law, as detailed below:

Risk management committee –

The roles of the committee are:

- To recommend to the board of directors the comprehensive risk strategy, including determination of the risk appetite and the risk limits, and to oversee management's actual implementation of this strategy;
- To recommend to the board of directors the risk management policy in the various risk areas;
- To recommend to the board of directors' procedures for the identification, monitoring, quantification and management of the risks to which the Clearing House is exposed;
- To regularly control the risk management policy and the aforesaid procedures;
- To examine, discuss and report to the board of directors on the effectiveness of:
  - TASE-CH's risk management structure;

- The work framework for the management of risks and the means and tools that are used for the identification, measurement, management and reporting of the risks involved in the activity of the Clearing House;
- The policy and tools for the mitigation of the risks.

- To recommend to the board of directors the adoption of models, methodologies and different tools in the area of risk management;
- To supervise the risk assessment processes at the Clearing House that assist the board of directors in making decisions and ensure that the qualitative and quantitative indicators used suit its risk profile;
- To supervise management in order to ensure management's effective management of the exposure to risks and to verify that the risk profile coincides with the risk strategy, appetite and limits determined by the board of directors;
- To verify and recommend to the board of directors the performance of stress testing and various scenarios for examining the depth of the exposure to the principal risks to which the Clearing House is exposed, and to regularly review the parameters, methodologies and models that are used in such tests;
- To perform a periodic learning process that involves a discussion of failures in various risk areas, analysis and examination of the implications, the significance and the recommendations for prospective courses of action for mitigating the risk and preventing its recurrence.

Audit committee –

- The audit committee will perform the duties that are prescribed by law, including the duties prescribed in Section 117 of the Companies Law.
- Internal audit and internal auditor
  - The committee will examine audit findings and ensure the drawing and implementation of conclusions therefrom and will discuss, in consultation with the internal auditor, internal audit issues of the Clearing House, taking into consideration, inter alia, the internal audit

reports of the internal auditor, the reports of the chief risk officer, as well as audit reports of external audit functions and other experts, as necessary.

- The committee will recommend to the board of directors a candidate for the role of the internal auditor.
- The audit committee will examine the work plan of the internal auditor and recommend to the board of directors on its approval.
- The committee may commission the internal auditor to perform an internal audit in matters that require urgent review, this in addition to the work plan.
- The audit committee will examine the internal audit system of TASE and the companies in the TASE Group and the performance of the internal auditor, including ensuring that the internal auditor has access to the resources and tools that are required for the performance of his duties, taking into consideration, inter alia, the specific needs of TASE and the companies in the TASE Group and their size.

- The committee will implement proper controls for the identification and handling of situations of conflict of interest in the activity of TASE-CH, as set out in the conflict-of-interest procedure, as shall be determined from time to time.

Compensation committee (the audit committee also serves as the compensation committee) –

- The committee will perform the duties that are prescribed in Section 118B of the Companies Law and will recommend to the board of directors a compensation policy for the officers and decide on whether to approve transactions concerning the terms of office and employment of officers, all as set out in Section 118B of the Companies Law.
- The committee will give recommendations to the board of directors about setting a compensation policy for officers in accordance with the considerations set forth in Section 267B of the Companies Law, will examine the implementation of the compensation policy and recommend its updating by the board of directors from time to time, as necessary.

Default fund management and calculation committee

The roles of the committee are to give recommendations to the board of directors about changes in the method of calculation and management of the default fund.

2.4 - Key consideration # 4:

The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of nonexecutive board member(s).

TASE-CH's board can comprise a maximum of 15 directors. The members of the board of directors are appointed and/or removed by the general meeting, with at least three directors being independent directors and at least one of the directors having professional qualifications. For these purposes, "professional qualifications" means an individual who serves on the board of directors of the company, where the board of directors of the company has confirmed, noting, inter alia, his previous and/or current employment, that he has experience in the capital market and clearing arenas. As of December 31, 2023, the board of directors of TASE-CH comprises 7 directors.

TASE-CH pays directors' compensation as set forth in the Companies Regulations (Rules Regarding Compensation and Expenses of an External Director), 2000, and subject to the changes set out in the Authority's Directive to the Clearing Houses. Additional information about the composition of the board of directors and on the members of the board of directors can be found on TASE's website.

2.5 - Key consideration # 5:

The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.

Members of management are chosen based on their proven qualifications and experience in their areas of expertise, via an orderly process, and they have broad and relevant knowledge in the areas of activity of TASE and TASE-CH. The employment agreements of the members of management require the approval of the audit committee in its role as the compensation committee and conform to the compensation policy adopted by the Group, as approved by the organs of the Company and TASE, including the general meeting of TASE and of the Clearing House.

The CEO of TASE-CH is chosen by the Clearing House's board of directors and pursuant to the recommendation of the TASE CEO.

Members of management are required to meet the objectives set for them by TASE-CH's board of directors, TASE's board of directors and TASE's CEO, in accordance with the Group's compensation policy, and are compensated based on said criteria subject to the approval of the Compensation Committee and the board of directors. At least once every three years, the board of directors and the general meeting approve the compensation policy for the members of management on the basis of quantitative and/or qualitative criteria.

2.6 - Key consideration # 6:

The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.

TASE-CH's board of directors is the ultimate authority for risk management at the Clearing House and for ensuring the stability and strength of the Clearing House. The risk management framework is set out in a compensation document that is approved by TASE-CH's board of directors at least annually, and comprises the following principles:

Risk appetite and risk limits – TASE-CH's risk appetite is set at the highest level for all Clearing House's activities, and the framework for the management of each risk needs to be determined and implemented in its light. At least once a quarter, the chief risk officer reports to TASE-CH board of directors on the extent to which the Clearing House is complying with the risk appetite limits that it has set. In addition, at least once a year, the TASE-CH board of directors reviews and approves the policy for determining the risk appetite and the risk appetite statement and limits.

Lines of defense – TASE-CH's board of directors has set three lines of defense for the management of risks at the Clearing House (see also Principle 3):

- First line of defense – "Business lines"
- Second line of defense – consists of the risk management department and the compliance department, and might also include other departments/units

- Third line of defense – "Internal audit function"

Framework for the management of each risk – TASE-CH regulates the framework for the management of each risk and anchors it in the policy and procedures documents, which include, inter alia, the identification and characterization of the risk profile and the risk foci; setting areas of responsibility of the lines of defense in the risk management; measurement and assessment of exposures; defining measures to minimize and manage the risk; establishing processes for monitoring and control and the relevant reporting lines. Once a year, TASE-CH's board of directors approves the policy for managing each risk.

The work framework of the chief risk officer is governed by a dedicated policy document that organizes his/her areas of responsibility and activity for risk management, the roles of the risk management department, the work interfaces of the risk management and compliance departments with the other lines of defense and the reporting framework to the relevant members of management, to the risk management committee and to TASE-CH's board of directors. TASE-CH's board of directors is required to examine and approve this work plan at least once a year (see Principle 3).

TASE-CH's board of directors is responsible for ensuring the independence and authority of the chief risk officer, and for ensuring that he has the necessary resources at his disposal in order to fulfill his duties. The appointment and dismissal of the chief risk officer is done by TASE's CEO and with the approval of the board of directors, and the cessation of the chief risk officer's service requires a detailed report being provided to TASE-CH's board of directors.

TASE-CH's board of directors is also responsible for ensuring the independence and authority of the internal auditor, and for ensuring that he has the necessary resources at his disposal to fulfill his duties. The work framework of the internal auditor has been set forth in a specific procedure and includes a review of his work plan and the approval of the board of directors, as well as an undertaking by the internal auditor to provide the board of directors with a detailed report regarding the review of his activities and the audit findings. The appointment and/or dismissal of the internal auditor will be done by TASE-CH's board of directors.

Additional aspects of the risk management framework are provided in detail under Principle 3.

2.7 - Key consideration # 7:

The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.

Before submitting any proposal for a change or an amendment to TASE-CH's By-laws for approval by the board of directors, the said proposal is sent to the clearing members in order to receive their remarks or comments on the proposal. Should a clearing member submit comments about the proposal, his comments are brought before the board of directors during the meeting at which the proposal is discussed. The proposal is delivered to a large number of relevant recipients from among the members of TASE-CH via a designated notification system.

The board of directors' agendas are sent to the ISA concurrently with their dispatch to the members of the board of directors. The independent members of the board of directors, who are currently a majority of the board members represent the public interest at every meeting of the board of directors and its committees. Matters that raise concern of conflicts of interest are also discussed and approved by the audit committee on which the members are only independent directors, in addition to the approval of the board of directors, in accordance with the procedure for transactions with interested parties, including officers' compensation and the handling of a conflict of interests, implemented in the Company.

Board decisions regarding amendments to TASE-CH's By-laws are regularly published for the public on TASE's website. According to the Clearing House's deeds of incorporation, prior to its approval by the board of directors, any change in the method of calculation and management of the default fund must be first approved by the default fund management and calculation committee, which includes a member who is a settlement expert, as well as by the audit committee, and the Clearing House members shall be entitled to present their position to the audit committee, verbally and in writing.

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

TASE-CH employs a comprehensive, cross-organizational risk management framework, which includes, inter alia, the definition of the Clearing House's risk appetite and the principles according to which each risk is managed. TASE-CH's board has the highest authority for risk management and has three lines of defense for the efficient and effective management of each risk. The goals of the risk management framework are to enable TASE-CH to fulfill its duties as a CCP, to achieve its strategic and business goals and to ensure the stability of the Clearing House by employing an effective risk management system and strengthening its ability to identify, monitor, control and mitigate the different risks.

3.1 - Key consideration # 1:

An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.

TASE-CH manages its exposures to the various risks based on the principles that were approved by the board of the Clearing House in its risk management policy document. Those principles determine that the framework for the management of each risk will prescribe a definition of the risk appetite, the risk profile and identification of the risk foci, the areas of responsibility of the risk management lines of defense, assessment and measurement of exposures, the means for managing and minimizing the risk and the reporting lines between the functions that are involved in the management of the risk.

The managed risks can be divided into three principal risk categories:

- Financial risks;
- Operational risks;
- Business and other risks.

In addition, in order to ensure its proper operation and financial stability, TASE-CH prepares for certain scenarios in which many risks may materialize at the same time, the essential ones being:

Default event of a clearing member – At the time of a default event, TASE-CH is exposed to the materialization of many risks, such as credit risk, liquidity risk, market risks, business risk, and others. In order to handle a member's default event in a way that will ensure its proper operation and stability, the Clearing House has established default arrangements in its By-laws and in its internal procedures, which include, inter alia, arrangements for the discontinuation of TASE-CH's services to the member; arrangements for early termination and a call for immediate repayment; collateral realization arrangements[13]; arrangements for the exercise of the TASE-CH's right of lien and offset; and arrangements for the calculation of the defaulting clearing member's debts. Additionally, as stated in key consideration # 1.1, TASE-CH has a default procedure and, once a year, it examines the need to update the default procedure and carries out an exercise that simulates a single clearing member's default event. The default procedure is brought to the risk management committee and MAOF-CH's board of directors for approval, at least once a year or in instances where the default procedures needs to be updated (see also Principle 13).

Various financial and business stress scenarios, such as a global macroeconomic crisis –

Various operational stress scenarios: TASE-CH acts to ensure the continuity of its operations even in cases of essential operational failure, emergencies and disaster events. Therefore, TASE-CH's board of directors has adopted the business continuity and disaster recovery plan established by the TASE Group and approved by TASE's board. TASE-CH's board of directors is required to review and approve the business continuity and disaster recovery plan that was prescribed and to adopt it anew annually (see also Principle 17).

Additionally, the TASE Group has a recovery plan, which is updated annually and presents, inter alia, the measures for coping with various stress scenarios; it also has a list of indicators that serve as warning lights for the materialization of these stress scenarios. Several stress tests are conducted every year, both at the Group level and at the Clearing House level, in order to test whether the Clearing House's capital and liquidity reserves would also be sufficient in the event of various stress scenarios

[13] As of the disclosure date, all the collateral that the clearing members are required to deposit for the default fund has been provided in cash.

materializing. Such testing is also updated quarterly on the basis of an up-to-date scenario and, in accordance with the results thereof, a revision is made to the size of the security buffers, which are maintained at a higher level than the minimum regulatory capital and liquidity requirements.

The risk management policy stipulates the principles according to which the risks of TASE-CH will be managed, the highlights of which are as follows:

Risk appetite – TASE-CH's risk appetite statement and risk limits are set in accordance with the risk appetite determination and management policy. At least once a quarter, the chief risk officer reports to TASE-CH's board of directors regarding the extent to which the Clearing House meets the risk appetite statement and limits that it has determined.

On an annual basis, TASE-CH's board of directors approves the Clearing House's policy for determining the risk appetite and its risk appetite statement.

Areas of responsibility and authority – TASE-CH's board of directors has ultimate authority for approving TASE-CH's risk management policy and has three lines of defense for the management of risks and the implementation of the policy that was established, as follows:

- First line of defense – "Business lines": This line of defense is responsible for the actual management of the risks inherent in the given activities, products and systems. This line of defense is responsible for implementing the policy that was established for the management of risk by TASE-CH's board of directors and for recommending changes, should there be any. It is responsible for establishing procedures and processes for risk management and for the use of controls, systems and measures to identify, measure, monitor and minimize the exposure to the risks. It is also responsible for sending reports to the board of directors and to the other lines of defense regarding all matters relating to its areas of responsibility in risk management.
- Second line of defense – consists of the risk management department and the compliance department, and might also include other departments/units: This line of defense is responsible for supervising the implementation of the risk management policy approved by the board of directors; assists the first line of defense in managing the risks that are under its responsibility; is responsible for examining and challenging the efficiency and effectiveness of the risk management system, and

adapting it to appropriate standards and practices; is responsible for examining and recommending changes to the risk management policy to TASE-CH's board of directors; and is responsible for reporting to the risk management committee and to TASE-CH's board of directors in its areas of responsibility.

- Third line of defense – "The internal audit function": This line of defense is responsible for conducting an objective and independent review aimed at testing and challenging the risk management controls, processes and systems. The Chief Internal Auditor of the TASE Group, who is an external and independent party, serves as the third line of defense.

The work of the chief risk officer and the risk management department is outlined in a dedicated policy document, and the purpose of the policy is to regulate the risk management work in practice and the manner in which it will be involved in the management of each risk. In addition, this policy defines the reporting lines of the various lines of defense to and from the risk management department. At least once a quarter, the chief risk officer reports to the risk management committee and the board of directors regarding changes in the risk profile and the risk appetite.

Binding framework for the management of each risk – TASE-CH has established for each identified risk a policy, procedures, processes and controls, so that it will be able to effectively identify, measure, monitor and minimize its various exposures.

TASE-CH performs a comprehensive assessment to identify and characterize the risks for each new activity or product. After mapping the risks, a risk assessment is performed and, in accordance with this assessment, measures are prescribed to manage and mitigate the exposures (where necessary). In addition, the Clearing House performs frequent reviews in order to examine whether there have been changes in the risk profile with respect to existing activities and products.

The models and techniques used by TASE-CH to measure the exposures and to manage the various risks are subject to the model risk management framework, which includes the periodic validation of TASE-CH's material models and the performance of periodic reviews.

As aforesaid, the risk management policy and the policy for the management of each risk must be approved by the TASE-CH board at least once a year.

3.2 - Key consideration # 2:

An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.

TASE-CH has stipulated in its By-laws arrangements for the execution of its activities, including provisions for handling non-compliance with such arrangements, as well as the obligations and the rights of all clearing members and the Clearing House with regard to such activities and information on models and parameters that it uses in its risk management.

The By-laws provide for the management of the TASE-CH collateral requirement, including the requirement that Clearing House members deposit collateral in the default fund in proportion to their share therein and that additional collateral be deposited by clearing members to whose debit a pending transaction has been recorded. The share of each member in the default fund is determined by risk, such that a clearing member will deposit more collateral in the default fund the higher the exposure to the member was in the six months preceding the date of calculation of the fund. In addition, the By-laws prescribe the types of assets that qualify as collateral, the dates for depositing collateral and additional provisions concerning the management of the collateral by TASE-CH.

The Clearing House may impose a monetary sanction on a clearing member who fails to deposit the requisite collateral amount on the date prescribed by the Clearing House, with this being to ensure settlement execution on time.

The Clearing House believes that the By-laws and the information posted on TASE's website provide clearing members and their clients with a sufficient understanding of the risks that they are imposing on the Clearing House and risks that arise from their being members of the Clearing House, including those that are imposed on them by the other clearing members.

TASE-CH provides the clearing members with the ability to establish various communication channels with professional parties at the Clearing House and at TASE to help them understand and manage those risks.

3.3 - Key consideration # 3:

An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk management tools to address these risks.

The risk management framework of TASE-CH also relates to risks that arise from its links with other entities:

- The Bank of Israel as a payments system (RTGS system) through which the monetary settlement is executed – see Principle 9;
- Banks that provide depository services for TASE-CH's assets – see Principle 16;
- Service suppliers and outsourcing providers – see Principle 17;
- Other infrastructure bodies in the financial market – see Principle 20.
- The Israel Securities Authority – license to operate the Clearing House.
- ESMA – has recognized TASE-CH as an eligible CCP in accordance with the European regulatory rules, such that the Clearing House will be eligible to provide entities in EU countries with settlement services.
- A commercial bank – that has granted TASE-CH an ILS 30 million credit facility.

In addition, there are entities that are dependent on TASE-CH:

- TASE-CH members are dependent on the Clearing House for clearing the securities in which they trade, including due to its role as a CCP, and, in the event of a default, they are dependent on the default fund that consists of collateral deposited by the rest of the clearing members.
- TASE members, qualifying entities and open mutual funds are dependent on receiving depository services, securities clearing services and mutual funds clearing services from the Clearing House
- The Bank of Israel and the entities working with the RTGS system are dependent on the management of the Bank of Israel's collateral system, which is performed by the Clearing House.

The Clearing House has a number of mechanisms for mapping and estimating the risks in its engagements and activities with other parties: within the framework of the recovery plan that is updated annually, in the quarterly assessment of the risk profile, in the annual update of the risk appetite statement and the limits thereto and within the framework of the outsourcing risk management policy.

3.4 - Key consideration # 4:

An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

TASE-CH makes a distinction between financial scenarios, business scenarios and operational scenarios that may prevent it from carrying out its operations and providing its critical services on an ongoing basis.

Operational scenarios:

TASE has developed and established for the entire Group operational plans to ensure the group's recovery and operational business continuity in the event of an essential operational failure, a disaster or emergency, a cyber-attack or as a result of any other event that has a material effect on the proper operation of the clearing systems.

TASE operates a geographically remote backup facility for all the Group's companies, which operates in real time and simultaneously with the main facility. The backup facility performs real-time backup of all data traffic on TASE-CH's core systems, in order to enable the swift transfer of ongoing activity to it.

TASE-CH performs exercises at different levels in order to test the survivability of its systems and the readiness of its emergency teams, and periodically, performs a broad-scope exercise to replicate its activity to the back-up facility for several days of operation so as to ensure that it is able to reactivate the critical clearing systems within a time frame that does not exceed two hours.

Financial scenarios:

TASE-CH has defined the default scenario for a clearing member as a scenario that has the most material effect on its ability to continue carrying out its activities and to provide its critical services to the market. TASE-CH sees the closing of the first multilateral settlement window, after the default of a clearing member occurs, as the significant stage in the management of the default event. TASE-CH has established a broad, stable and clear framework for dealing with a clearing member's default event,

aimed at ensuring its stability and its ability to quickly resume its operations and provide its services to the market (see Principle 13).

The framework for managing the default of a clearing member and the framework for ensuring the continuity of its business activity are the two main principles for ensuring TASE-CH's ability to provide its critical operations and services upon the occurrence of the aforesaid scenarios and thereafter.

Financial scenarios can also occur as a result of external crises, such as: a global or local macroeconomic crisis, liquidity distress, ongoing recession, etc.

Business scenarios:

These scenarios can affect the business model and the revenue and profitability of the Clearing House, whether directly or indirectly upon the realization of an extreme business scenario at the Group level. Examples of business scenarios: reduction in volumes of activity due to competition, significant damage to reputation, change in the public's preferences, a change in policy or in the regulatory environment or the realization of a legal risk, significant reduction / discontinuance of the operation of foreign entities on TASE, investment losses, etc.

The TASE Group has developed a comprehensive recovery plan, which includes the identification, inter alia, of the critical actions, units and services of the Group, the specification of extreme scenarios (operational, financial and business) that are relevant to the Group and to the Clearing Houses, which could hinder the execution of their activities and the provision of their critical services, the definition of indicators and warning thresholds of the materialization of the various scenarios, and the delineation of the various recovery actions that apply to each scenario, the initiation of which will be subject to an examination of their effectiveness and the consideration of various limitations. Several stress tests are conducted every year, both at the Group level and also at the Clearing House level, in order to test whether the Clearing House's capital and liquidity reserves would also be sufficient in the event of various stress scenarios materializing. Such testing is also updated quarterly on the basis of an up-to-date scenario and, in accordance with the results thereof, a revision is made to the size of the security buffers, that exceed the minimum regulatory capital and liquidity requirements that are maintained by the Clearing House.

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

TASE-CH maintains a comprehensive framework for managing its credit risk, including procedures and processes for identifying, mapping, monitoring, measuring and reviewing the risk foci arising from its overall activities and the services that it provides, including those arising from its obligation as a CCP.

TASE-CH maintains financial resources to enable it to have adequate coverage with a high degree of certainty for the losses that it may incur on the occurrence of a default event of a clearing member and to ensure its stability and the confidence of the market that it serves. In addition, TASE-CH allocates a minimum amount of its equity to absorb credit losses from other activities (such as investments in securities) to ensure its stability.

The amount of the financial resources required by TASE-CH to deal with a default event is set according to the largest aggregate credit exposure (with a high degree of confidence) that may arise to the Clearing House as a result of a default event of a clearing member in extreme but plausible market conditions.

The policy, procedures and models , as well as the stress testing and the recovery plan, used for the management of credit risk at TASE-CH are subject to periodic reviews and assessment processes, for

which the models are validated based on the plan presented to the risk management committee. The activities of TASE-CH are carried out under the jurisdiction of the State of Israel alone and the products cleared thereby do not have a complex risk profile.

4.1 - Key consideration # 1:

An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.

TASE-CH's risk management framework is governed by a policy document that was approved by the Clearing House's board and includes a definition of the risk profile and identification of the risk foci, specification of the areas of responsibility of the lines of defense and the organs at the Clearing House in the management of the risk, and the principles according to which TASE-CH will identify, measure, monitor and mitigate its credit exposures.

TASE-CH employs various measures to manage and minimize the credit exposures, including (but not limited to):

- holding prefunded financial resources - collateral deposited by each clearing member against its share in the default fund and the Clearing House's independent means in the default waterfall;
- establishing and enforcing conditions for TASE-CH membership (see Principle 18);
- the delivery versus payment (DVP) clearing mechanism (see Principle 12);
- deposit of cash that has been deposited as collateral by the clearing members with the Bank of Israel (see Principle 16);
- setting an appetite and limits for credit risk, including restrictions on the investment portfolio of the Clearing House that limit the exposure to credit risk and concentration risk (see Principle 16);
- legal protections implemented in favor of the Clearing House in the Securities Law (see Principle 1);
- establishing arrangements and procedures for the management of a default event of a clearing member and performance of immediate actions (see Principle 13);
- procedures, processes and controls to monitor, identify, measure and manage the Clearing House's exposures on a current basis.

- conducting various expansive/systemic stress tests in order to provide warning of extreme outcomes that could arise from the concurrent materialization of multiple risks (which may include credit risk).
- drawing up and approving a recovery plan in order to ensure the business continuity of the Clearing House over time.

The policy, procedures and models, as well as the stress testing and the recovery plan, employed to manage the credit risk at the Clearing House, are subject to periodic reviews and assessment processes, for which the models are validated based on the plan presented to the risk management committee

4.2 - Key consideration # 2:

An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.

The credit risk foci of TASE-CH exist in all of its engagements with other entities that have an obligation toward the Clearing House, including: clearing members, custodian banks, issuers of bonds that the Clearing House purchases, financial market infrastructures, and other debtors. The identification and characterization of the credit risk foci are carried out using procedures and internal risk management processes, in accordance with the applicable established policy.

In addition, for every project carried out by TASE-CH concerning the development of new activities and products, a comprehensive analysis is performed to identify, characterize, assess and rate all the risks arising from that activity or product, including credit risks, and to determine methods for their management, to the extent necessary.

As part of the recovery plan, indicators have been established, some of which are intended to be warning lights for the materialization of credit risks, including a downgrade of the State of Israel's credit rating, which would likely affect the value of the bonds in its investment portfolio.

TASE-CH's material credit exposures arise from the Clearing House's obligations as a CCP, such that, in the event of the default of a clearing member, the Clearing House will be required to fulfill the obligations of the defaulting clearing member with respect to the other clearing members regarding transactions in securities executed by it on TASE and with respect to lending transactions executed in

the lending pool. In doing so, TASE-CH may absorb losses from actions that will be taken by it to fulfill its obligations.

The main measures employed by TASE-CH to manage and minimize the aforesaid material exposures are the prefunded financial resources held by the Clearing House, and include collateral deposited by each clearing member in the default fund, according to its share, as well as TASE-CH's independent means allocated for this from its equity ("skin in the game"). TASE-CH monitors, on a daily basis, the estimated potential exposure that might arise for it as a result of a default event of the clearing member with the largest aggregate credit exposure (with a high degree of confidence) and in extreme but plausible market conditions. Based on the daily monitoring results, TASE-CH considers whether it is necessary to update the size of the default fund and require additional collateral from each member, in proportion to its share in the fund.

Credit exposures that arise from TASE-CH's relations with other financial infrastructures are those that arise from its relations with the Bank of Israel as a payments system (RTGS system), central securities depositories (CSDs) that operate outside of Israel and the MAOF Clearing House (see Principle 20).

TASE-CH's credit exposures that arise from custodian banks relate to the Bank of Israel and to banks in which TASE-CH accounts and securities investment portfolio are managed (see also Principle 16).

TASE-CH invests part of its investment portfolio in government bonds; it therefore has a (relatively low) exposure to the credit risk of the issuer (the State of Israel).

TASE-CH allocates a minimum level of equity for the absorption of losses from the realization of credit risks, as required in the provisions of ISA's Clearing Houses' Stability Directive. In addition, it has a capital security buffer, that exceeds the minimum regulatory requirement, the size of which is determined in accordance with the results of the stress testing, which are updated every quarter on the basis of an updated base scenario.

Other than the obligation for transfers of custody of securities (on TASE), which is included under TASE-CH's obligation as a CCP, TASE-CH has no material exposure to credit risk in respect of its activities as a central securities depository (CSD), (see also Principle 11).

4.3 - Key consideration # 3:
Key consideration # 3 is not applicable to the Clearing House as it is for securities settlement system-type infrastructure bodies
4.4 - Key consideration # 4:
A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.
TASE-CH holds prefunded financial resources as its main means of managing and minimizing its exposure to the credit risk. These resources include the collateral deposited by the clearing members in the default fund (according to each clearing member's share) and TASE-CH's independent resources allocated for this purpose from its equity ("the financial resources"). The amount of financial resources required for TASE-CH is calculated at a high confidence level (at least 99%), based on the estimated amount of exposure that will arise for TASE-CH from a default event of the clearing member with the largest aggregate exposure, including the member's reciprocal relationships with the other clearing members, in extreme but plausible market conditions (see also key consideration # 5), with the addition

of a supplemental amount that TASE-CH will determine for the activity of the lending pool[14]. In addition, for the purpose of closing pending transactions of a clearing member that precede the default event, the Clearing House holds collateral that the member had deposited with respect thereto on the previous settlement date. In addition, in a stress situation and subject to the discretion of the Clearing House, it may make use of capital and liquidity reserves that it maintains at a higher level than the minimum regulatory requirements.

Margin requirement – The ISA's Clearing Houses' Stability Directive stipulates that if the Clearing House's credit exposures do not arise from derivative financial instruments, it may replace the margin requirement with a default fund, provided that the default fund mechanism covers the current and future exposures that arise from the clearing members' activities, including market risks.

In the event of changes in the nature of its activities, the market in which it operates and in regulatory provisions, TASE-CH will review its method for managing and minimizing credit exposures in respect of the clearing members and/or the amount of financial resources that it is required to hold. In respect of TASE-CH's activity as a CCP for the return of lending transactions executed in the Clearing House's lending pool, it requires additional margin (see Principle 6).

TASE-CH will also continue to examine whether the modifications to the credit risk management are necessary, including the demand for additional collateral upon the development of a product and/or a new activity at the Clearing House. As of the date of the self-assessment, TASE-CH believes that the financial resources at its disposal are sufficient for managing its credit risk.

On a daily basis, TASE-CH monitors the level of the financial resources that would be required by it in the event of a default event of a clearing member, using a model that estimates to a high degree of confidence the largest aggregate exposure amount that would be caused to the Clearing House in the event of a default event of a member in extreme market conditions. the model also reflects the member's reciprocal relationships with the other clearing members (see breakdown in key

[14] To the date of performance of this assessment, the supplemental amount is ILS 200 million.

consideration # 5). Based on the results of the model, TASE-CH will assess whether to implement an update and demand additional collateral for the default fund on dates other than the preset dates.

TASE-CH updates the volume of the default fund every quarter and on preset dates, as set out in the Clearing House By-laws[15]. Moreover, in cases where a clearing member has a shortage of inventory of securities required to complete a transaction, excluding cases where the member has been declared as being in default, TASE-CH allows the member to replenish this inventory at a later date, subject to the conditions set forth in its By-laws, and the transaction will be defined as a pending transaction. If a clearing member has a pending transaction to its debit, it will need to deposit cash collateral with respect to the price risk in the transaction. In the event that the member has not completed its share of the pending transaction on the required date, TASE-CH will do so in its stead by purchasing the security in the market using the clearing member's means (buy in) and transferring it to the selling party, or by monetary compensation of the seller from the clearing member's means.

In addition, in respect of lending transactions in the Clearing House's lending pool, it requires an additional margin that a clearing member would be required to deposit if he performs lending transactions in the lending pool as the borrowing party (for further details, see Principle 6).

In accordance with the Stress Testing Policy, the Clearing House performs various broad stress tests to alert against extreme consequences that could result from the concurrent materialization of multiple risks, which may include the credit risk, thereby assisting, inter alia, in the preparation for scenarios, including at the determination of the level of financial resources that is required to absorb losses in the event of a significant hit. The size of the security buffers, which are maintained at a higher level than the minimum regulatory requirement, is determined on the basis of the stress testing results.

[15] The regular calculation dates of the default fund at the Clearing House are on the first day of every calendar quarter, namely January 1, April 1, July 1 and October 1, and the actual update takes place on the 15th of each month in which the fund is calculated.

In addition, a recovery plan is in place for the aforesaid stress scenarios, to secure the business continuity of the Group over a prolonged period. This plan sets out, inter alia, various actions for handling such stress scenarios.

The stress testing policy is approved by the board of directors of TASE-CH every year and the Clearing House establishes an annual plan for the performance of stress tests. Each of the cross-organizational stress tests is performed quarterly.

TASE-CH's By-laws require that 100% of every clearing member's collateral against its share in the default fund shall be deposited in cash. In conformity with this, TASE-CH performs a daily control, for each clearing member, of the cash deposited with the Clearing House as collateral, by making a comparison between the amount of the requirement and the cash deposited by the clearing member. If the amount of cash is lower than the amount required from a member with respect to its share of the default fund, the member will be required to make up the shortfall immediately.

The amount of the independent means that TASE-CH is required to allocate to a default event, in respect of its obligation to participate in the Clearing House's default waterfall, must be an amount equal to 25% of the total capital requirements set for TASE-CH in the Clearing Houses' Stability Directive with respect to credit risk, market risk, operational risk and the capital requirement for business continuity and reorganization, or ILS 7.5 million, whichever is higher. The amount of independent means is updated at least once a quarter.

As TASE-CH operates in the financial market in Israel and its activity does not have a significant effect on other jurisdictions and since the risk profile inherent in its activities is not complex, TASE-CH is not required to maintain a second layer of coverage and does not demand additional collateral from the clearing members nor does it allocate additional independent resources on a regular basis, unless the TASE-CH CEO decides to do so in a specific case.

TASE-CH has established procedures and processes for the determination and the ongoing management of the financial resources, which are subject to the principles set out in the credit risk policy and the risk management policy of the Clearing House. The principles for determining the amount of the financial resources are provided for in the By-laws of TASE-CH. All of the aforementioned policy

documents, procedures, models and processes are documented and maintained in accordance with the applicable procedures of TASE-CH.

4.5 - Key consideration # 5:

A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participant's increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.

As mentioned above, TASE-CH estimates and monitors on a daily basis the amount of financial resources that would be required for handling a default event of a clearing member (with a high degree of confidence) with the largest aggregate exposure in extreme but plausible market conditions.

The amount determined, as above, less the share of the Clearing House in the default waterfall constitutes the amount of the default fund for comparison purposes ("the calculated amount"). The Clearing House uses the calculated amount in assessing whether it needs to update the size of the default fund and demand that the clearing members increase their collateral with respect to their share of the updated fund. In order to determine whether an increase in the default fund is necessary and to update the collateral requirement for each clearing member in accordance with its share therein, the Clearing House compares the calculated amount against the updated amount of the default fund in the systems of TASE-CH. If the calculated amount exceeds the updated amount by more than the minimum thresholds that it has set, an update will be made to the default fund and supplemental collateral will

be required from the clearing members in accordance with their share, with all this being in accordance with and subject to that stated in TASE-CH's By-laws. If this is not the case, the update will be at the discretion of the head of the Clearing House. Under no circumstances will the default fund be updated outside the update dates prescribed in the By-laws of TASE-CH, where the calculated amount is less than the updated amount of the default fund in the systems of TASE-CH. The methodology for calculating TASE-CH's default fund and the dates for it to be updated are examined and approved annually by TASE-CH's board of directors.

TASE-CH executes the settlement of the transactions in securities that were carried out on TASE on T+1, with the exception of specific cases as set forth in TASE-CH's By-laws. Therefore, TASE-CH's credit exposure from each clearing member arises from the monetary debit balance that it is required to pay in the first multilateral settlement window on T+1. For this purpose, the debit balance is defined as the difference between the monetary debits in the purchase transactions executed by the clearing member and the sale transactions executed by it on the trading day.

The monetary debit balance in the first multilateral settlement window is the main factor in determining the amount of the financial resources that will be required by TASE-CH in the event of a default of a clearing member ("the base exposure"). The base exposure is determined on the basis of a sampling of the day on which the highest debit balance of a clearing member was observed over a look-back period of 5.35 years, and at a confidence level of at least 99%. The highest debit balance of a clearing member also includes its reciprocal relationships with other clearing members.

For the day on which the highest debit balance was observed, TASE-CH calculates the estimated exposure that might arise for the clearing House with respect to pending transactions, within the framework of which there is a net balance[16] to be delivered for a specific security of a defaulting member upon the materialization of a default event.

[16] The net balance is the excess of the inventory being delivered by the defaulting member over the inventory purchase by it (the quantity of units in the sale transactions in a particular security over the quantity of units in the member's purchase transactions).

4.6 - Key consideration # 6:

In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

As mentioned above, TASE-CH takes into consideration, for the purpose of calculating the size of the default fund, a stress scenario that examines potential price fluctuations in extreme but plausible market conditions in estimating its credit exposure from a clearing member's default event and the financial resources required to counter the exposure. Additionally, in accordance with the stress testing policy, cross-organizational stress tests are conducted quarterly at the Group and Clearing House levels, the results of which are used to determine security buffers that exceed the minimum regulatory capital and liquidity requirements. These buffers may serve the Clearing House in extreme events alone, and their use is subject to being decided upon by the Clearing House.

4.7 - Key consideration # 7:

An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.

TASE-CH has established arrangements for managing a clearing member's default event that include rules and procedures for handling the different stages of the default event and for dealing with credit losses that may be caused to TASE-CH and with other costs.

In its procedures, TASE-CH has established arrangements to replenish the financial resources after they have been used to handle the default event, or even if additional resources are required by it to handle the default event, after it has exhausted all the prefunded resources available to it. The replenishment of the financial resources will be done by the clearing members and TASE-CH on the basis of the existing model for determining the amount of the financial resources, while TASE-CH will act to minimize the harm to the other, non-defaulting, clearing members. As a rule, TASE-CH will not continue to provide its services if it does not have sufficient financial resources at its disposal, unless determined otherwise by TASE-CH's board and in accordance with its By-laws.

In addition, the TASE-CH's By-laws require that 100% of the total collateral deposited by each clearing member against its share in the default fund be in cash. Consequently, as of the date of this disclosure, TASE-CH does not have any risk in relation to the management of inventory collateral, including the credit risk inherent in the value thereof (for further details, see Principle 7).

Since TASE-CH does not clear complex instruments and since its operations are confined almost entirely to one jurisdiction, it is not required to calculate the size of the default fund on the basis of the default of more than a single clearing member with the largest exposure.

For further information regarding the Clearing House's default arrangements and procedures, see Principle 13.

Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Generally, TASE-CH restricts the types of assets that it accepts as collateral to assets that are deemed to involve relatively low credit, liquidity and market risks.

As of the date of this disclosure, in accordance with TASE-CH's By-laws, all the collateral of the TASE-CH's members deposited against their share in the default fund is to be in cash alone, which minimizes potential risks that might be inherent in securities.

Notwithstanding the aforesaid, since the legal, operational and technical infrastructure for receiving securities as collateral at TASE-CH still exists, for good order's sake, this disclosure also refers to this topic.

5.1 - Key consideration # 1:

An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.

TASE-CH's policy regarding the types of assets that are suitable for use as collateral ("qualifying collateral"), and the method for calculating their value are governed by its By-laws. In accordance with the Clearing House's By-laws, TASE-CH's board of directors will determine, from time to time, the mix of assets to be used as collateral from among the following assets[17]:

- Cash deposited in ILS in TASE-CH's collateral account at the Bank of Israel.
- Israeli government bonds and treasury bills with more than 30 days remaining to final redemption, which are deposited at TASE-CH, in an account in the name of TASE-CH and in its favor, with each

[17] As of the date of this disclosure, there is an obligation for 100% of the total collateral that the clearing member is required to deposit in the default fund to be in cash.

member having its own account. With respect to the financial market in Israel, these assets are deemed to involve relatively low credit, liquidity and market risks.

As stated above, as of the date of this disclosure, there is an obligation for 100% of the total collateral that the clearing member is required to deposit in the default fund to be in cash.

Clearing members are not allowed to deposit securities, issued by them, as collateral. Additionally, TASE-CH does not accept as collateral, on an "exception" basis, any financial assets not specified above.

TASE-CH's systems automatically block the deposit of collateral that is not of the types stated above.

5.2 - Key consideration # 2:

An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.

The haircuts for determining the value for collateral purposes of the securities that can be deposited as collateral at TASE-CH[18] are calculated using TASE-CH's internal model, which is based on VaR calculations with a minimum confidence level of 99.9%, subject to an assumption of a liquidation period of three trading days. The haircuts model includes, inter alia, historical simulation calculations over a look-back period (LBP) of 15 years, for the purpose of minimizing potential exposure to procyclical effects and other protection mechanisms, such as an add-on, which are intended to minimize potential incremental exposure to other relevant risks (such as liquidity risk), and floor components (that are also conducive to minimizing the potential exposure to procyclical effects).

The haircuts are updated regularly, at least every month, and may be updated more frequently in the event of the introduction of a new government bond into trading and/or the realization of an extraordinary event (trigger) in the financial markets – based on the daily monitoring of such triggers, all in accordance with the haircuts model and internal work directives, and subject to the stated in the By-Laws of TASE-CH.

[18] Should the decision of TASE-CH's board of directors, taken on November 29,2022, be changed in the future resulting in the cash requirement being reduced from 100%.

As stated above, as of the date of this disclosure, there is an obligation for 100% of the total collateral that the clearing member is required to deposit in the default fund to be in cash.

Every day, TASE-CH reviews the value of the total collateral deposited by each clearing member in comparison with the collateral requirement from that clearing member according to its share of the default fund. Should the overall value for collateral purposes of the total collateral deposited by a clearing member be lower than the level required for the member with respect to its share of the default fund, the member will need to provide supplemental collateral on the date prescribed by TASE-CH, as set out in its By-Laws. TASE-CH may impose additional charges on a member that fails to supplement the collateral requirement on the date prescribed by it.

5.3 - Key consideration # 3:

In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.

As stated in key consideration # 2 above, the haircuts model includes, inter alia, historical simulation VaR calculations over a look-back period (LBP) of 15 years, and the use of floor components that are conducive to protection from potential exposure to procyclical effects.

As stated above, as of the date of this disclosure, there is an obligation for 100% of the total collateral that the clearing member is required to deposit in the default fund to be in cash. Accordingly, securities are unable to serve as collateral at TASE-CH and, from the aspect of effectiveness and practicality, the haircuts model is not relevant.

5.4 - Key consideration # 4:

An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.

As stated above, as of the date of this disclosure, there is an obligation for 100% of the total collateral that the clearing member is required to deposit, with respect to his share, in the default fund to be in cash.

TASE-CH follows the policy for the management of concentration risk that was established in conformity with the Clearing Houses' Stability Directive and the Group's risk management policy. The concentration risk management policy is brought before the board of directors for approval at least once a year.

It is emphasized that as part of the management of the default event of a clearing member, TASE-CH can avail itself of a number of alternatives to liquidating the collateral, which it can employ at its discretion, taking into account any additional effect on the market, on the other clearing members and on the activities of TASE-CH itself.

5.5 - Key consideration # 5:

An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.

TASE-CH does not accept collateral of this kind.

5.6 - Key consideration # 6:

An FMI should use a collateral management system that is well-designed and operationally flexible.

TASE-CH automatically monitors and calculates the value for collateral purposes of the collateral through the central clearing system, which is designed and maintained by it on a regular basis. The system was designed so that it gives a functional response to all the Clearing House's needs with respect to the fast withdrawal, deposit and transfer of collateral and with respect to changes in the parameters for calculating the value for collateral purposes of the collateral when necessary.

TASE-CH's central clearing system has proven to be reliable and robust during the entire period that it has been in operation, including a period of stressed market conditions.

Principle 6: Margin

An FMI is required to cover its credit exposures to clearing members from all products through an effective, risk-oriented, system of margins that is regularly reviewed.

As stated in Principle 4, the Israel Securities Authority has determined in the Clearing Houses' Stability Directives that, if the credit exposures of the Clearing House do not derive from derivative financial instruments, it may replace the margin requirement with a default fund, provided that the default fund's mechanism covers the existing and future exposures deriving from the activities of the clearing members, including market risks. Accordingly, TASE-CH does not require a margin for transactions in securities.

Nevertheless, since it also acts as a CCP for the return of lending transactions executed in its lending pool[19], TASE-CH guarantees the return of the security to the lender at the end of the lending period, even if the borrower did not meet his obligation, and for the purpose of this activity TASE-CH established a current margin requirement.

As part of the margin requirement, a clearing member will be required to deposit collateral if he performs lending transactions in the lending pool as the borrowing party in the transaction. The collateral provided to the Clearing House will be pledged as security for the fulfillment of the member's obligations to the Clearing House in respect of the activity in the lending pool, as set out in the By-Laws of TASE-CH, and as security for the fulfillment of the member's other obligations to the Clearing House.

The collateral requirement will include two types of requirements:

a. Current collateral requirement that will be calculated at the level of each clearing member's lending transactions portfolio;

b. Minimum collateral requirement from the borrowing party that will be calculated at the level of the individual transaction.

[19] It should be noted that, since the date of establishment of the lending pool in November 2020 to the date of writing this document, the activity of clearing members in the lending pool has been negligible.

The framework for the management of the current collateral requirement at the level of the transactions portfolio and the minimum collateral requirement at the level of the individual transaction consists of daily and inter-daily control procedures that are designed to track open lending transactions.

Each day, the Clearing House collects a minimum collateral concurrently with the settlement of each lending transaction. In addition, twice a day, during the first multilateral settlement window and the second multilateral settlement window, the Clearing House monitors all open lending transactions and performs a debit/ credit according to the value of the lending transactions (Mark to Market).

At the end of each day, the Clearing House monitors the lending portfolio of each clearing member and collects collateral at the level of the net lending portfolio.

It should be noted that the entire process of calculation and collection of collateral is fully automated.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

The framework for managing liquidity risk at TASE-CH includes management of the Clearing House's liquidity needs in the event of the default of a clearing member by virtue of its obligation as a CCP, and the management of the liquidity needs for financing its current business activities. In order to manage its exposures to the various risk foci TASE-CH has established a policy, procedures, processes, controls and measures to minimize the risks.

TASE-CH holds liquid resources and guaranteed liquidity lines as its main minimizing measure to cover its liquidity exposures and implements assessment, measurement, monitoring and control processes and periodic reviews to ensure that these resources are sufficient to cover the exposures with a high degree of confidence. TASE-CH is obligated to hold liquid assets in the minimum amount prescribed in the Clearing Houses' Stability Directive by the ISA. TASE-CH does not rely on liquidity lines or liquidity providers that are not guaranteed in advance to a high degree of certainty.

7.1 - Key consideration # 1:

An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks[20], nostro agents, custodian banks, liquidity providers, and other entities.

The framework for managing TASE-CH's liquidity risks is regulated by a policy document that has been approved by the board of directors of TASE-CH, and includes a definition of the risk profile and

[20] This definition does not include the clearing members settling for their customers, but only banks through which TASE-CH performs settlement for its own account, or for the clearing members, as part of the settlement of transactions on the Clearing House – such as the Bank of Israel through which settlement is executed using the RTGS.

identification of the risk foci, and determines the areas of responsibility of the lines of defense and the organs in TASE-CH in the management of the risk as well as the principles according to which TASE-CH will identify, measure, monitor and manage its liquidity exposures.

In addition to the policy document, MAOF-CH's board of directors has defined its risk appetite and the limits with regard to this, has formulated and approved a methodology for calculating a security buffer, that exceeds the minimum regulatory requirement, and conducts ongoing monitoring of indicators in the area of liquidity risk as part of the recovery plan.

TASE-CH distinguishes between two main types of exposure, as set forth below:

1. **Exposure from the liquidity required to handle a default event** – Since TASE-CH is required to act as a CCP at a default event of a clearing member, it will require liquid resources in order to pay: (a) the amount of the defaulting clearing member's financial debts, in the first multilateral settlement window, with respect to securities transactions that it has executed on TASE; (b) the value of lending transactions in which the defaulting clearing member is the borrowing party in the transaction . In addition to the liquid financial resources that TASE-CH would require to supplement the settlement window, as above, it is also required to guarantee the access to such assets and the ability to realize them swiftly, all in accordance with the default waterfall order as set forth in the By-laws. Since TASE-CH carries out the settlement on T+1, its main and immediate liquidity exposure will be in an amount equal to the net debit balance from transactions in securities carried out by the defaulting member on the preceding trading day (T time), for which the clearing is executed in the first multilateral window on the following day, with the addition of the net amount of the value of lending transactions performed by the defaulting member.
2. **Exposure from the liquidity required to finance ongoing business activities** – In order to ensure the stability and business continuity of TASE-Ch, it is required to ensure that it is able to finance its ongoing obligations and expenses, including the financing of future investments. This type of liquidity risk may be realized as a result of a sharp drop in TASE-CH's revenues, a sharp increase in its expenses or the absorption of an essential loss (see Principle 15), as well as due to the occurrence of a disaster or other events that endanger the Clearing House's business continuity (see Principle 15).

In order to handle each of the types of exposure, as above, TASE-CH holds sufficient and distinct liquid resources for each type of exposure. The total liquid resources required by TASE-CH to handle a default event will be calculated on the basis of the exposure from the clearing member with the largest aggregate exposure in extreme but plausible market conditions (see Principle 4) with the addition of the current margin requirement at the Clearing House's lending pool, and the amount of the liquid resources to finance TASE-CH's business activities will be, at minimum, the amount of its operating expenses for a six-month period of activity. In addition, as stated above, TASE-CH's board of directors has approved a methodology, that was developed, inter alia, in accordance with the recommendations of an external specialist consulting firm, to determine a security buffer, that exceeds the minimum regulatory liquidity requirement, which the Clearing House must maintain. The size of this buffer is updated according to the results of the stress testing performed once a quarter.

Since the cash that is provided as collateral by the clearing members is deposited in an account managed in the name of TASE-CH at the Bank of Israel, immediate access to these assets is guaranteed to a high degree of certainty. As stated above, as of the date of this disclosure, the clearing members are required to deposit only cash in the default fund as collateral.

To guarantee immediate access to its independent resources, which it needs to provide as part of default waterfall framework in the event of a clearing member's default, TASE-CH maintains its assets in several bank accounts, of which at least two will be maintained in banks from different banking groups. Additionally, according to the applicable policy of TASE-CH, in at least two accounts that are maintained in banks from different banking groups, a minimum amount will be kept, as shall be determined by TASE-CH, but not less than the amount of its contribution to the default waterfall.

7.2 - Key consideration # 2:

An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

TASE-CH participates in the Bank of Israel's RTGS system and uses it to execute the monetary settlement in all settlement and payment processes carried out by it (see Principle 9). The rules of the RTGS system stipulate a number of defined dates and time periods for sending multilateral clearing orders to the

RTGS system during a clearing day[21] ("settlement windows"). In addition, TASE-CH may send a bilateral clearing order to the RTGS system at any time during the day. TASE-CH is able to track the execution of the money clearing orders on the RTGS system in real time.

Monetary settlement of a multilateral settlement window is carried out simultaneously on the RTGS system for every clearing order sent to the system within the same window. The RTGS system does not allow the partial execution of a settlement order.

A failure in the financial settlement on the RTGS system, which is not as a result of an operational failure, is indicative of the occurrence of a default event of a clearing member, and in such an event TASE-CH will act in accordance with the arrangements and procedures that it has established for this occurrence (see Principle 13).

TASE-CH maintains a control and communications mechanism to prevent an unexpected failure in the monetary settlement on the RTGS system, due in particular to the insolvency of a clearing member, as stated above, which may prevent TASE-CH from completing the monetary settlement in a timely manner. At the end of each clearing day, TASE-CH notifies the clearing members which orders will be sent to the RTGS system in the multilateral settlement window, and when the window is closed, it notifies the members of the settlement results.

TASE-CH, through TASE, carries out processes to identify, measure and monitor its cash flows arising from its ongoing operations (that are not clearing operations), upon their occurrence, and those expected to occur at a future date, among others, by managing and updating the budget targets and monitoring the implementation of the work plans during the year (see Principle 15).

In addition, in order to meet its payment obligations on time, the Clearing House carries out cross-organizational stress tests to ensure that the Clearing House will have liquidity balances, which will enable it to meet its obligations even when extreme scenarios are realized. As previously stated, in

[21] A clearing day is defined as a day on which the Clearing House executes clearing of any kind, and – with the exception of days that are specifically excluded – the clearing days are Sunday to Friday, inclusive.

accordance with the results of the stress tests, a liquidity safety buffer is set, with this being at a higher level than the minimum regulatory liquidity requirement.

7.3 - Key consideration # 3:

Key consideration # 3 is not relevant to TASE-CH since it is for infrastructures that are securities settlement systems.

7.4 - Key consideration # 4:

A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions.

There is almost complete overlap between the credit exposure that TASE-CH will have on the event on the default of a clearing member and the liquidity exposure, which equals at least the expected debt in the first multilateral settlement window, with the addition of the amount required to close lending transactions in which the defaulting member is the borrowing party. Accordingly, the estimate of the financial resources that TASE-CH is required to hold in order to handle the default of a clearing member also includes the estimated liquidity exposure (see also Principle 4).

As described under Principle 4 – Credit Risk, TASE-CH estimates the financial resources using a model that aims to calculate with a high degree of confidence the exposure (including the liquidity exposure (as explained above) that would be caused to TASE-CH in the event of the default of a member with the largest aggregate exposure, assuming extreme but plausible price fluctuations in the market.

As stated in Principle 5 above, the nature of the collateral deposited in the default fund, being in cash alone, minimizes TASE-CH's liquidity risk on the occurrence of a default event. Moreover, a security buffer, that exceeds the minimum liquidity level, is maintained, which represents supplemental liquidity needed to cope with stress events and which is calculated in accordance with the stress testing results.

Since TASE-CH operates in the financial market in Israel, most of its liquidity exposure is in ILS and its operations have no material effect on other jurisdictions. Furthermore, the risk profile inherent in its activities with the products that it settles is not complex. Therefore, the Clearing House holds sufficient financial resources to cover the default of one large clearing member and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions (and it also maintains a voluntary liquidity buffer at a higher level than the minimum requirement).

When developing a new activity or product, or entering a new market, TASE-CH also assesses the effect on its risk profile, including under stress events, and based on the results of the assessment decides whether it requires additional liquid resources.

7.5 - Key consideration # 5:

For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.

TASE-CH holds liquid resources and has guaranteed arrangements so that it will be able to fulfill its obligations in the event of the default of a clearing member, and with a high degree of confidence, even in extreme but plausible market conditions, as set forth below:

- **Collateral** – As stated above, as of the date of this disclosure, the TASE-CH's collateral requirement policy allows the clearing members to deposit only cash, which is the most liquid asset. Should the decision of TASE-CH's board of directors be changed so as to allow the deposit also of Israeli government bonds and Israeli government treasury bills, these are still assets with high liquidity and marketability relative to the financial market in Israel. The collateral with respect to transactions in which the member is the borrowing party will be deposited in cash at the Clearing House's account with the Bank of Israel. Collateral against pending transactions are required to be in cash alone. As a result of the collateral being in cash alone, TASE-CH minimizes its exposure to liquidity risk and narrows the time gap between the occurrence of the default event and when TASE-CH will have at its disposal the debit amount needed to close the monetary settlement window., as set forth under key consideration # 3, thereby safeguarding the continuity of the Clearing House's operations and the provision of its services to the market.
- **Security buffers** – As stated in key consideration # 7.1 above, security buffers are maintained at a higher level than the minimum capital and liquidity requirements.
- **Minimum liquidity buffer** – TASE-CH's assets are held for the most part in cash and in securities. Investment in securities is in accordance with the TASE-CH's investments policy, which provides that an investment in securities will be limited to Israeli government bonds and treasury bills only, which are assets with negligible credit risks and high liquidity (relative to the financial market in Israel); it also sets additional restrictions in order to maintain a minimal exposure to market risks (see Principle 16). From this mix of liquid assets, TASE-CH allocates a minimum asset buffer at the level of its share in the default waterfall, and at the level of its operating expenses over a six-month period. This allocation of liquid assets is held in accordance with the minimum liquidity requirements prescribed in the Clearing Houses' Stability Directive.

- **Liquidity line from a commercial bank** – In order for TASE-CH to be able to ensure the liquidity of its independent resources, which are allocated in favor of its share of the default waterfall at the time of a default event, it also holds a guaranteed liquidity line for a sufficient amount from a commercial bank against liquid collateral.

In the opinion of TASE-CH, the liquid resources that it holds, as set forth above, largely satisfy its liquidity needs, to the extent that it will be able to handle the default event of a clearing member and ensure its business continuity in the event of a disaster or emergency.

7.6 - Key consideration # 6:

An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.

TASE-CH does not employ arrangements of the type described as part of the planning of the liquid resources that will be available to it on the default of a clearing member. Nevertheless, it should be noted that, within the framework of TASE-CH's recovery plan, a number of relevant recovery measures in the event of a liquidity crisis have been mapped and are specified therein, including the expected receipt of cash through raising debt and taking loans.

7.7 - Key consideration # 7:

An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.

As stated in key consideration # 1 above, as of the date of this disclosure, all the clearing members are required to deposit collateral in TASE-CH's default fund, in cash alone. The cash is deposited with the

Bank of Israel. The increase in the required cash percentage to 100% is one of the mechanisms by which TASE-CH has reduced its liquidity risk, which might have grown following the expiration of the liquidation agreement that it had with the Bank of Israel[22]. TASE-CH has a high degree of confidence with regard to its ability to make use of the cash deposited with the Bank of Israel.

TASE-CH is virtually not reliant or dependent on liquidity providers. MAOF-CH's independent resources are cash and other liquid assets (Israeli government marketable bonds) that can be converted into cash swiftly, as well as through additional arrangements.

7.8 - Key consideration # 8:

An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.

TASE-CH includes in its liquidity risk management policy the different methods that the Clearing House has of obtaining services from the central bank. TASE-CH does not have access to other central banks outside Israel and it also does not believe that there is a real need for this, in view of the fact that its liquidity exposure is in shekels.

7.9 - Key consideration # 9:

An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose

[22] Under the agreement, TASE-CH was able to access cash from the Bank of Israel against the collateral of Israeli government marketable bonds, which the clearing members had deposited at the time.

material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

TASE-CH implements several daily controls to track and manage its financial resources, including: daily monitoring of the amount of liquid resources that it would need to handle a default event of a clearing member, calculated on the basis of extreme scenarios (see Principle 4), and daily tracking of the value for collateral purposes of the liquid collateral deposited with it[23] (see Principle 5). TASE-CH has defined reporting procedures for making the relevant decisions at TASE-CH with respect to each control carried out, as applicable. In addition, if extra collateral is required from the clearing members, a notice of this is sent to the clearing members, according to the reporting dates set forth in the By-laws and its internal procedures.

In addition, in accordance with the Group's stress testing policy, the Clearing House performs cross-organizational stress tests that are selected by management and reports to the risk management committee and the board of directors of TASE-CH on the implementation of the stress testing policy and on the results of the stress tests performed. Since 2023, the stress tests are being carried out quarterly and according to the methodology approved by the board of directors of the Clearing House, as stated. The size of the security buffers, that exceed the minimum capital and liquidity requirements, is determined based on the results of the annual stress tests that will be performed and updated once a quarter, relying on an up-to-date base scenario.

The stress tests examine, inter alia, to what extent the liquid resources of the Clearing House are sufficient to absorb losses from the realization of various scenarios. In the stress tests carried out to date, the effects of extreme price volatilities, interest rates, past trading cycles at the time of similar scenarios in Israel and abroad were examined, and sometimes these volatilities are even more extreme for the purpose of conducting the stress tests. In most cases, stringent assumptions were made when

[23] As of the date of this disclosure, the clearing members are required to deposit collateral in the default fund, in cash alone. Accordingly, the topic of market cap and haircuts is not relevant.

testing the effects of the scenarios on both the revenues and expenses of the Group and the Clearing House.

In the opinion of TASE-CH, liquidity risks imposed on it by other entities are not material, and it has no unguaranteed liquidity providers or other arrangements upon which it relies.

With respect to the financing of its ongoing activities, TASE conducts for TASE-CH careful monitoring of the management of the cash flows and the meeting of budgetary targets and the work plans that were approved by the board of directors. TASE also conducts sensitivity analyses for TASE-CH with respect to the forecasts of future revenues and expenses and updates them as required. In addition to the above, TASE-CH calculates and updates the allocation of the liquid assets from its equity against its participation in the default waterfall at the time of a default event and against ensuring the coverage of its operating expenses over six months. This requirement for liquid net assets was also set forth by the ISA in the Clearing Houses' Stability Directive (see Principle 15).

7.10 - Key consideration # 10:

An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

TASE-CH's legal basis grants it a high level of certainty in all matters relating to the exercise of the powers conferred on it by the By-laws, and the ability to execute its activities at any time, particularly at the time of a clearing member's insolvency. In addition, as set forth in detail in Core Principle 1, the Securities Law provides strong protections for TASE-CH with respect to its ability to realize collateral charged to it over other creditors, and with respect to its ability to enforce the settlement finality over any other insolvency law.

The settlement finality arrangements set forth in the TASE-CH's By-laws ensure that the activities of TASE-CH cannot be subject to annulment, cancellation, return or postponement after the dates set forth in the By-laws, except in predetermined cases, and if executed prior to the determining date in the Securities Law in the event of the insolvency of a clearing member.

TASE-CH has the ability to realize collateral charged in its favor by a clearing member without a court order, or an order from the chief judgment enforcement officer, subject to the terms set forth in the Securities Law.

As of the date of this disclosure, all the clearing members are required to deposit all collateral, with respect to TASE-CH's default fund, in cash. Since the cash that is deposited as collateral by the clearing member is deposited in an account managed in TASE-CH's name at the Bank of Israel, it also has a high degree of confidence with respect to its ability to access these assets and to use them when necessary.

As part of the arrangements and procedures set forth for managing a default event of a clearing member, TASE-CH has stipulated the manner in which it will be able to demand the extra liquid resources during and at the end of a default event of a clearing member.

In addition, as part of TASE-CH's recovery plan, measures that the Clearing House can take in the event of a liquidity crisis have been prescribed and specified.

Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.[24]

TASE-CH regulates the settlement finality in accordance with the arrangement set forth in the Securities Law, which grants TASE-CH a high degree of certainty with respect to its ability to act to complete the settlement during the ordinary course of business, or at the time of the insolvency of a clearing member.

8.1 - Key consideration # 1:

An FMI's rules and procedures should clearly define the point at which settlement is final.

The By-laws of TASE-CH clearly and explicitly define the times at which the settlement is considered final and irrevocable, as well as the times at which it will not be possible to cancel or change the registration of a clearing order at TASE-CH, or to demand that the Clearing House not execute a clearing action that is connected, directly or indirectly, to the clearing order.

Clearing order – A clearing order is one of the following:

- An order to transfer securities, including an instruction to withdraw securities from an account managed at TASE-CH, or to deposit securities in an account managed at TASE-CH;
- An order to transfer funds.

A clearing order is considered irrevocable from the time at which, according to TASE-CH's records, the order was actually received by the Clearing House, unless otherwise stated in the By-laws. It will not be possible to cancel the registration of the clearing order, to change it or to ask TASE-CH not to execute a clearing action that is related directly or indirectly to the order, other than in accordance with the By-laws.

[24] Value date – "The day on which the payment, transfer instruction or other obligation is due and the associated funds and securities are typically available to the receiving participant." Principles for financial market infrastructures, CPSS-IOSCO, April 2012.

Clearing action – a clearing action is one of the following:

- An action that is executed at TASE-CH according to the rules of the Clearing House in connection with a clearing order received by TASE-CH, including:
    - The transfer of securities or funds by or to the Clearing House;
    - Crediting or debiting a TASE-CH account or a clearing member's account.
- An action that is executed at TASE-CH in accordance with fair value determination arrangements, arrangements for determining rights, obligations, and methods of settling accounts, netting arrangements, early termination arrangements or default arrangements.

A clearing action will be considered final when the following conditions are met:

- For a clearing action that consists solely of the transfer of securities – the clearing action will be considered final at the time that TASE-CH actually credits the account of the transferee member and actually debits the account of the transferor member.
- For a clearing action that consists solely of the transfer of funds – a clearing action will be considered final at the time that, in accordance with the rules of the RTGS system, the credit or debit, as applicable, has become final.
- For a transfer of securities for consideration – a clearing action will be considered final at the time that the following conditions are met:
    - The account of the transferor member is actually debited with the security and the account of the transferee member is actually credited with the security; and:
    - The credit of the monetary account of the transferor member or of the member that performs monetary clearing (MPMC) for the transferor member, with the consideration, has become final under the rules of the RTGS system.

If a clearing action has been executed – TASE-CH cannot be asked to cancel it, except as provided in the Clearing House's By-laws.

TASE-CH has a high degree of certainty regarding its ability to enforce the settlement finality arrangements that it has established, in view of the fact that these arrangements were established in accordance with the provisions of the Securities Law. The Law provides that the settlement finality will also apply with respect to third parties, including with respect to an officer appointed to a clearing member that is in insolvency proceedings, and it also grants TASE-CH priority over any other insolvency law to complete and execute clearing orders and actions on time and in full, provided that the conditions set forth for this in the Law are met.

8.2 - Key consideration # 2:

An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the clearing day.

The settlement dates are set forth in TASE-CH's By-laws. In general, TASE-CH executes the settlement of the transactions on T+1. In certain cases, as set forth in the By-laws, settlement is executed at other times (see Principle 7).

The monetary settlement is executed via Bank of Israel‘s RTGS system, and the settlement finality in this settlement system is in accordance with the rules set forth by the Bank of Israel. The failure to execute the monetary settlement on the RTGS system, arising from the fact that it was not possible to debit the account of a member due to a lack of a balance (that is not the result of any kind of operational failure), will lead TASE-CH to declare a clearing member’s default event and it will act to complete the money settlement in accordance with the default arrangements set forth in the By-laws (see Principle 13).

The settlement of securities is executed simultaneously with the money settlement on the RTGS system, using a delivery versus payment (DVP) mechanism. Prior to execution of the settlement, TASE-CH checks that the clearing member’s account contains all the inventory required for completion of the settlement. In the event that the clearing member does not have the inventory to complete a transaction that was executed on TASE at the required time and quantity, this transaction will be defined as a pending transaction and an instruction will not be sent to the RTGS system with respect thereto. A clearing member is required

to replenish the inventory required for the transaction by the time set forth for this in the TASE-CH's By-laws, and in the event that the member has not provided its share in the transaction, TASE-CH will do so in its stead by purchasing the security on the market using the clearing member's resources ("Buy-in") and transferring it to the selling party, or by monetary compensation of the seller from the clearing member's resources.

As stated, a clearing member's failure to meet its financial obligations at the set time, and not as the result of any operational failure or error, constitutes a strong indication that will lead TASE-CH to declare a default event. In such a case, TASE-CH will "step into the shoes" of the defaulting member and will fulfill its obligations toward other clearing members, all as set forth in the By-laws.

However, as long as the member is solvent, failure to meet its obligations to transfer inventory will not be considered a default event.

For the avoidance of doubt, according to the legal basis of TASE-CH, a clearing member will not have the right to a security that it purchased as long as it has not transferred the full consideration for that purchase transaction; and the clearing member will not have the right to receive the consideration with respect to a security that it has sold as long as it has not transferred all the inventory in the security with respect to the sale transaction (see also Principle 1).

8.3 - Key consideration # 3:

An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

Pursuant to the provisions of the Securities Law, TASE-CH By-laws clearly and explicitly define the specific times after which it is not possible to cancel the registration of a clearing order with the Clearing House, to change it or to ask TASE-CH not to execute a clearing action related to the clearing order. In addition, the By-laws stipulate, with respect to every clearing action, the point at which the action becomes final.

The TASE-CH By-laws are publicly disclosed on TASE's website.

Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

The majority of the clearing orders received by TASE-CH, in terms of both quantity and value, are denominated in new shekels, and the monetary settlement is executed using the Bank of Israel's RTGS system.

9.1 - Key consideration # 1:

An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.

TASE-CH executes the monetary settlement in new shekels using the Bank of Israel's settlement system for the execution of bank transfers – the RTGS system (Real Time Gross Settlement System), which is an advanced system for the final and real time transfer of shekel-denominated payments.

TASE-CH participates in the RTGS system as a payments system, which transfers payment instructions for crediting and debiting clearing members that are banking corporations and that have a direct account at the Bank of Israel, while clearing members that are not banking corporations ("NBCM" or "NBCMs" or "custodial member") are required to act through an accompanying bank for settlement that is also a clearing member.

The monetary settlement in the RTGS system is executed simultaneously through multilateral payment instructions in multilateral settlement windows and with bilateral clearing orders, such that the system credits or charges, as applicable, the monetary balances in the monetary accounts of the banks that are managed in the Bank of Israel's books, while a debit or credit of the monetary balances of an NBCM or of a custodial member is updated in the accounts that are managed at the bank that accompanies them for monetary settlement.

The settlement of a multilateral or bilateral payment instruction is final and cannot be cancelled once settlement has been completed in accordance with the rules of the system, and in accordance with the By-laws of TASE-CH regarding settlement finality.

TASE-CH executes settlement of payments in U.S. dollars in a number of ways: a. via the Bank of Israel, by charging or crediting the members' accounts with the Bank of Israel; b. by crediting the overseas correspondent banks at which members maintain balances in U.S. dollars. Only after the bank account of TASE-CH that is maintained in a highly-rated bank in the United States is credited with the monetary consideration, with respect to company events (such as: a dividend distribution, a stock dividend, etc.), does the Clearing House transfer the monetary amount to the correspondent bank accounts of the members. Additionally, TASE-CH settles company events of dual-listed securities that are settled through the Clearing House's account at Euroclear. The settlement can be executed in various currencies (e.g., U.S. dollar, Singapore dollar, euro, pounds sterling, etc.). In these instances too, the settlement is executed by crediting the overseas correspondent banks at which the members maintain balances in various currencies and only after the Clearing House's account at Euroclear is credited with the monetary consideration with respect to the company events.

In the opinion of TASE-CH, the monetary settlement processes and the transfers of payments, as described above, do not create a material exposure to credit risks and liquidity risks for the Clearing House.

9.2 - Key consideration # 2:

If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.

TASE-CH executes monetary settlement in new shekels through the central bank, as described extensively in key consideration # 1 above.

Payments in dollars are transferred both through the central bank and through a correspondent, as also described in key consideration # 1 above.

It is hereby clarified that the Clearing House does not act as a CCP in transferring payments. The payment transfer mechanism is performed against receipt of the payment in TASE-CH's accounts, i.e.

the Clearing House will only transfer payments for which the payment amount has already been transferred by the party that is liable for the payment.

9.3 - Key consideration # 3:

If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalization, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.

As described in key consideration # 2, monetary settlement through a commercial bank is performed only for company payments that are executed in a foreign currency; such banks are those that are incorporated outside of Israel, which are selected on the basis of criteria concerning, inter alia, the creditworthiness of the correspondent and its financial strength and stability, global leadership and proven expertise and reputation. It should be emphasized that only after TASE-CH's account at the overseas bank is credited with the monetary consideration will the Clearing House credit the clearing members' accounts with their overseas correspondent bank. This means that TASE-CH acts as a "pipeline" for transfers from the companies to the clearing members and is not responsible and/or a guarantor for the funds that are transferred to it for the account of the commercial bank with respect to the payments.

In addition, the operating mechanism that is applied by TASE-CH in the settlement of foreign currency payments through commercial banks narrows the time gap between the transfer of the payments to the Clearing House's account by the transferor and their transfer to the clearing members. Furthermore, TASE-CH comprehensively monitors the payments that are expected to be received in its accounts at the commercial banks, through to their transfer to the members' accounts at the overseas correspondent bank.

9.4 - Key consideration # 4:

If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.

TASE-CH does not execute monetary settlement and payment transfers on its own books.

9.5 - Key consideration # 5:

An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.

TASE-CH performs the monetary settlement through the Bank of Israel's RTGS system. The settlement in the RTGS system is executed in accordance with the system rules set forth and published for its participants by the Bank of Israel, which also include reference to settlement finality for actions that have been fully completed, such that TASE-CH has a high degree of confidence in this regard. The times defined for the execution of the monetary settlement of clearing orders that are sent to the RTGS system by TASE-CH are set forth in the RTGS system rules and are known to all of its participants. The settlement times and the settlement finality arrangements with respect to the monetary settlement are also regulated by TASE-CH By-laws.

TASE-CH's legal arrangements with the Bank of Israel and the correspondents outside of Israel, as regarding the transfer of payments in foreign currency, govern and regulate all aspects necessary for the timely execution of the transfers, with minimum risks to the clearing members, to the extent possible.

Principle 11: Central securities depositories

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

TASE-CH acts as a central securities depository for securities issued to the public in Israel and hence the Clearing House's general risk management framework also includes the management of risks deriving from this activity. In its By-laws and procedures, TASE-CH has established rules that are intended to protect and ensure the completeness of the securities registered with it, such that no unauthorized securities inventory will be created, as well as to ensure the reliability of the records and the transfer of the securities between the clearing members. TASE-CH is not the entity responsible for the physical or electronic safekeeping of the securities, rather this safekeeping is the responsibility of the relevant nominee company. After the securities are deposited with the nominee company in favor of TASE-CH, the Clearing House executes and manages a proper recording of the inventory to which each clearing member is entitled, as well as recording the inventory movements between accounts of the clearing members at TASE-CH.

In addition, in accordance with TASE's strategic plan, and subject to receiving the ISA's approval, TASE-CH intends to offer depository services in digital assets, with an emphasis on crypto currencies. Initially, the service will be provided for selected crypto currencies, solely and exclusively to entities with a permit/license from their relevant regulator and according to the appropriate regulation regime. For the first time in Israel, depository services will be accessible to domestic investors and participants, by a supervised entity with appropriate experience. Providing depository services for digital assets will be on the blockchain network using digital wallets, public keys and private keys, and will be managed separately from TASE's core systems. Thus, TASE has entered into an agreement with Fireblocks, which is a company developing a protected infrastructure platform for organizations to transfer, store and issue digital assets.

11.1 - Key consideration # 1:

A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.

TASE-CH regulates the central securities depository activity through the Clearing House's By-laws. The securities that an issuer issues are recorded in its books in the name of a nominee company and are deposited with the nominee company in order for them to be registered on TASE-CH in favor of the clearing members, with the nominee company in whose name they were registered. After the securities are deposited as stated, the Clearing House manages the balances of the clearing members through their accounts with TASE-CH and the inventory movements between the members' accounts.

Each of the nominee companies acts as a trustee for the Clearing House and undertakes to comply with its By-laws. The Ministry of Finance acts as a nominee company for government bonds, the Bank of Israel acts as a nominee company for Israeli government treasury bills, and, for the remaining securities, other entities act as nominee companies.

A clearing member is required to hold at least two separate inventory accounts at the Clearing House: one is for its clients' activities and the other is for its own (nostro) activities. In addition, a clearing member may open additional subaccounts for its clients' activities. The subaccounts are managed separately from an operational perspective and identified accordingly, and every relevant clearing action is executed in the subaccounts. At the end of each clearing day the Clearing House reports to the clearing member the results of the settlement that was executed, or that is expected to be executed, for each of the subaccounts held in its name at the Clearing House.

In its By-laws, TASE-CH has established conditions and restrictions with respect to the withdrawal and deposit of securities, some of which derive from the provisions of the TASE rules and regulations with respect to the listing of securities, in order to maintain the reliability of the registration at the Clearing House.

In addition, TASE-CH has established a comprehensive control framework in order to protect and maintain the reliability of the registration and quantity of the securities traded on TASE, which includes,

inter alia, a comparison of the quantity registered on TASE and the quantity registered at the Clearing House, controls over the initial registration at the Clearing House, ongoing controls over the work processes at the Clearing House, and periodic checks by the internal auditor.

11.2 - Key consideration # 2:

A CSD should prohibit overdrafts and debit balances in securities accounts.

TASE-CH does not permit or enable the existence of debit balances or overdrafts that may create unauthorized inventory of a security, in clearing members' inventory accounts.

Where a withdrawal order is given for a quantity that is larger than the balance on the member's account, it will not be executed and will be returned to the clearing member. Where a deposit order is given by a nominee company for a quantity that could create a situation where the capital with the Clearing House exceeds the issued and paid capital of the company, the settlement systems will block this order, it will not be executed and it will be returned to the nominee company.

11.3 - Key consideration # 3:

A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilise or dematerialise securities.

TASE-CH does not execute the settlement of securities physically, but only as a book entry, even if the securities were issued using physical certificates. The custody of the securities issued with physical certificates is carried out by the nominee company. Only securities that are registered in the name of a nominee company can be registered with the Clearing House.

11.4 - Key consideration # 4:

A CSD should protect assets against custody risk[25] through appropriate rules and procedures consistent with its legal framework.

[25] The custody risks relate to those that arise generally from a CSD's activity in securities, such as to harm the assets of the participants that deposited them in custody with it. For example, harm to the assets of a clearing ember as a result of negligence in the Clearing House's registration, or as a result of embezzlement, or suchlike.

For all aspects of its operations in general, and for its activity as a CSD in particular, TASE-CH employs a comprehensive and strict system of controls intended to protect the assets of the clearing members that are held in their accounts at the Clearing House, and to ensure the correctness and reliability of the settlement processes in general.

The custody services, like all the settlement processes executed by the Clearing House, are regulated by the Clearing House's By-laws and its procedures, and the risks deriving from these services (such as financial risks, operational risks, settlement risks, etc.) are managed as an integral part of the Clearing House's risk management framework and are under the supervision of TASE's compliance officer and the internal auditor of the Clearing House.

11.5 - Key consideration # 5:

A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.

TASE-CH fully segregates the inventory accounts of clearing members that are held in their names at the Clearing House, and this segregation is dictated by and supported in the Clearing House's By-laws, and also exists at an operational level in the Clearing systems.

The securities included in the Clearing House's investment portfolio are managed by portfolio managers who are carefully selected in accordance with the Clearing House's investment policy (see Principle 16) and are deposited at banks that provide custody services for the Clearing House's assets. If, on the default of a clearing member, the Clearing House pays the debts of the defaulting clearing member, it will receive the securities for which it paid instead of the member (see Principle 1), and they will be held separately from the inventory accounts of the clearing members.

In addition, the By-laws obligate the clearing member to segregate between the inventory account managed for the clearing member's own (nostro) activity and the inventory account managed for its clients, and the clearing member is responsible for management of the inventory registration and for

the transfer of appropriate clearing orders to the Clearing House. When there is a lack of inventory in a clearing member's clients account, the Clearing House may transfer the lack of inventory from the member's own account (nostro). It is not possible to transfer inventory from clients' accounts in order to supplement the lack of inventory in the member's nostro account. It is clarified that the segregation between the clearing member's own account and the account managed for its clients is operational only.

11.6 - Key consideration # 6:

A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.

The overall risk management framework at the Clearing House also includes aspects related to the fact that TASE-CH is also a CSD. TASE-CH has established a policy and procedures with respect to the specific risks arising directly or indirectly from the custody services that it provides, and any other risk that also relates to this activity is managed in the relevant risk management framework, as detailed extensively in all the principles for which disclosure is provided in this document.

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk[26] by conditioning the final settlement of one obligation upon the final settlement of the other.

TASE-CH acts as an exchange-of-value settlement system for transactions in securities which manages and minimizes the risks involved in this activity by way of legal protections and operational mechanisms that enable it to minimize its exposure to principal risk entirely in these transactions.

12.1 - Key consideration # 1:

An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.

TASE-CH acts as an exchange-of-value settlement system and the framework for managing and minimizing the risks inherent in this activity are regulated by a policy document that is approved by the Clearing House's board of directors and is reviewed by it at least once a year.

In order to ensure its activity as an exchange-of-value system, the Securities Law established protections for the Clearing House, stipulating that a clearing member that has purchased securities on TASE, which are settled at the Clearing House, is not entitled to the securities that it has purchased unless the full consideration for them has been received by the Clearing House, and if the Clearing House has not received the full consideration, the title to the securities will be vested in the Clearing House. In addition, the Law provides that a clearing member that has sold securities on TASE, which are settled at the Clearing House, is not entitled to the consideration received on the sale unless it has transferred the securities that it has sold to the Clearing House.

[26] **Principal risk** - The risk that a counterparty will lose the full value involved in a transaction, for example, the risk that a seller of a financial asset will irrevocably deliver the asset, but not receive payment, PFMI -Annex H, CPMI-IOSCO, April 2012.

Accordingly, TASE-CH executes settlement by way of a DVP mechanism, such that the settlement of the securities is executed in complete synchronization with the results of the monetary settlement on the RTGS system of the Bank of Israel (see Principle 9), provided that the full consideration with respect to them has been transferred, such that the clearing members and the Clearing House are not exposed to principal risk in the transaction. In addition, the Clearing House ensures that the completion of a transfer of cash, or a security, to one party in a transaction is contingent on the completion of a transfer of a security, or cash, by the counterparty in the transaction, respectively.

Execution of the settlement on T+1 obligates the clearing members to carefully manage their own settlement risks, as detailed below:

- Clearing members that are banks are required to ensure that they have sufficient monetary balances at the central bank to execute the settlement on the RTGS system, and clearing members that are not banks are required to ensure that they have sufficient monetary balances with the clearing member accompanying them for the monetary settlement on the RTGS system, for transactions executed by them on the trading day (T), and prior to the settlement of the transactions by the Clearing House on T+1.
- Clearing members are obligated to ensure that their securities account at the Clearing House holds the inventory required to complete all the transactions executed by them on the trading day (T), prior to the settlement of the transactions by the Clearing House on T+1.

On day T+1, prior to any settlement window at the Bank of Israel, the Clearing House sends all its members notices of the monetary and inventory obligations required from them for transactions executed by them on the trading day (T), and similarly, notices about the monetary and inventory credits that are due to them as a result of the transactions executed by them during the course of that trading day.

TASE-CH will not include in the clearing orders expected to be executed on the RTGS system monetary credit with respect to a transaction where the clearing member has sold securities and does not possess the required inventory or part thereof to execute the transaction in full, and it will temporarily suspend the execution of the transaction for the Clearing House member that is the counterparty in the

transaction, until the former replenishes the securities inventory with the required amount, provided that the specified period of time as set forth in the By-laws of the Clearing House has not passed – a pending transaction.

A pending transaction is a transaction not settled in a timely manner (in the first multilateral settlement window on T+1, as described in Principle 9), as a result of insufficient inventory of the selling member. Such transaction becomes a pending transaction (the inventory and the money are not transferred between buyer and seller) and the Clearing House attempts to settle it by the end of the first clearing round of the fourth trading day or by the end of the first clearing round of the eighth trading day for a security that is traded both in Israel and abroad or for a security that is settled both in Israel and in a foreign clearing house.

If within this timeframe sufficient inventory has been accumulated for the settlement of the pending transaction in the account of the selling member, the Clearing House will settle the pending transaction. If within this timeframe sufficient inventory has not been accumulated for the settlement of the pending transaction – at the end of the first clearing round of the fourth trading day or the eighth trading day, as appropriate, the pending transaction will become a default transaction and the Clearing House will initiate a buy-in to replenish the inventory. The Clearing House will have 21 days to replenish the inventory. Once the inventory has been replenished, the Clearing House will immediately settle the default transaction.

If, by the end of 21 days, the Clearing House is unable to replenish the inventory, the Clearing House will carry out a monetary settlement of the default transaction, thereby eliminating the default transaction and crediting the buying member with the value of the purchased security less the consideration that the member should have paid for the purchase of the security.

TASE-CH is obligated to complete pending transactions or default transactions as a central counterparty if they have not been completed by the clearing members at the time set forth in the By-laws, using any means available to it, as set forth in the Clearing House's By-laws.

For each transaction in its own right, the Clearing House performs the settlement on a gross basis, but at the aggregate level of all the transactions, the entire monetary settlement is carried out on a net

basis for each type of order, and the inventory settlement is executed on a net basis for each specific security.

See the response regarding settlement finality under Principles 1 and 8 provided in this Disclosure Document.

Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

In its By-laws, TASE-CH has established clear arrangements that govern its right to take immediate actions to manage a default event of a clearing member, or if there is a suspicion that one may occur, all to ensure its stability and its ability to continue to provide its services and to fulfill its obligations toward the other clearing members. TASE-CH also employs internal procedures that supplement the treatment of additional aspects, including operational aspects, and together with the By-laws they constitute the complete framework for the management of a default event at the Clearing House.

13.1 - Key consideration # 1:

An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.

The framework for management of a default event at TASE-CH and its modus operandi are set forth in the Clearing House's By-laws ("default arrangements") and in its internal procedures ("default procedures"). The purpose of these arrangements and procedures is to specify how the Clearing House will act if a clearing member is not able to fulfill its commitments, monetary obligations or debts arising from clearing orders and actions executed at the Clearing House, whether at the time of execution of the obligation or at any other future time ("default event"). The default arrangements also define how the Clearing House will act if it believes that there is a suspicion that a clearing member may not fulfill its commitments, monetary obligations or debts, as stated, at the time that it will be required to do so ("suspicion of a default event"), and the cases where such a suspicion exists.

The default arrangements define the material aspects and immediate actions that the Clearing House will take in the event of a default event or the suspicion of a default event, including the hierarchy of powers for making a decision about the performance of these actions (including the delegation of these

actions), and the lines of reporting to the relevant parties, in accordance with the Clearing House's By-laws, as set forth below:

Arrangements for discontinuation of the Clearing House's services to the member – These arrangements are intended to reduce the Clearing House's potential exposure in the event of a default event, by temporarily or permanently discontinuing the Clearing House's services to the member, and by defining the conditions for their renewal. The clearing member will have the opportunity to present its arguments to the Clearing House prior to a decision being made regarding temporary discontinuation of the Clearing House's services, unless the Clearing House believes that such a decision cannot withstand a delay, and provided that the member will have the opportunity to present its arguments to the Clearing House after the decision has been made.

Arrangements for early termination and call for immediate repayment – The Clearing House may call for immediate repayment of all of the defaulting clearing member's debts to the Clearing House, on the occurrence of certain events as set forth in the By-laws. A notice of a call for immediate repayment will be sent to the clearing member in advance, unless in the opinion of the Clearing House it is not possible to delay the process and it must be done immediately. In such a case, a notice will be sent to the member retroactively.

Arrangements for the realization of collateral – The By-laws set forth an order of priority for the realization of assets (collateral and self-resources) in the event of the default of a member (default waterfall). The order of priority set by the Clearing House is in accordance with the order of priority stipulated in the Clearing Houses' Stability Directive. The stipulated order of priority is: (1) realization of the defaulting clearing member's share in the Clearing House's default fund; (2) realization of the Clearing House's independent resources in the required amount; (3) realization of the share of the other clearing members in the default fund. The Clearing House's self-resources are at a rate of 25% of the total of all the capital requirements set for it in the Authority's directives for credit risk, market risks, business risk and operational risks.

Arrangements for fair value calculations and netting – In its By-laws, TASE-CH has set forth arrangements for the method that will be used for calculating the value of the obligations and debts of

the defaulting clearing member. The Clearing House has a wide-ranging right of offset and lien, which grants it the ability to offset every debt of a member toward it, of any type or kind, against any debt of TASE-CH toward the member, of any type or kind, subject to the provisions of the Clearing House's By-laws in this matter. In addition, TASE-CH has the right to charge any asset or right due to the member from it, including the assets charged by it, to sell them and to use the proceeds to repay any debt of the member to it, all subject to the provisions of the Clearing House's By-laws.

Arrangements and additional actions that the Clearing House will take at the time of a default event, or the suspicion of a default event, are defined in the Clearing House's internal default procedures, which include, inter alia, monitoring and control processes to identify an increase in the risk for the occurrence of a default event, methods for realizing and liquidating collateral[27], replenishing the collateral in the default fund and allocating it among the non-defaulting clearing members, handling exposures created for the Clearing House due to the default event, additional reporting to the clearing members and other stakeholders, and more.

13.2 - Key consideration # 2:

An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.

TASE-CH has operational procedures for the organization of the processes and actions that it believes that it is required to carry out in order to implement the default arrangements and procedures that it has established. These procedures include, inter alia, details of the actions and processes that will be performed in order to handle all stages of the default event; the organization of the lines of responsibility and reporting between the relevant organs at the Clearing House and TASE, as applicable; the identification and handling of points of interface and possible barriers, including those that are liable to be created between the Clearing House and TASE and external parties (such as the Bank of Israel and the ISA); and minimizing the harm to the other clearing members, in particular those that have a dependency relationship with the defaulting clearing member, and others.

[27] As of the date of this disclosure, all the collateral deposited in the default fund by the TASE-CH members is in cash.

The default arrangements of TASE-CH stipulate the hierarchy of authority for making decisions and for executing its actions to handle a clearing member's default event, and this includes (but is not limited to): the early termination of transactions and the call for immediate repayment of the member's obligations, the temporary or permanent discontinuation of settlement services to the defaulting member, the realization of collateral and completion of the clearing member's obligations, the sending of reports to the clearing members and other parties (such as the Bank of Israel) and issuing a demand to supplement additional financial resources from the non-defaulting clearing members.

TASE's internal procedures relate to the handing of a default event, or a suspicion of a default event, based on the underlying assumption that the default event occurred in the time span from the end of the trading day until the settlement of the trading day, which takes place on the following business day. However, the principles set forth in the default procedure are also applicable to scenarios in which a default event has occurred in other timespans, such as: a default that occurred during the trading day, a default that occurred on a non-business day, and suchlike.

The occurrence of a default event, or a suspicion of a default event, requires the Clearing House to prepare differently in order to carry out its actions, including the arrangement that it chooses to carry out and the discretion employed by it. At any time, the main goal of the Clearing House is to aim for the full and proper execution of the first multilateral settlement window after receipt of the decision regarding the occurrence of the default event, in order to ensure its financial stability and its ability to continue to provide its services to the market. In order to ensure that the monetary settlement window will be fully executed in a timely manner the Clearing House prepares to fulfill the financial obligations of the defaulting clearing member, and it also prepares to realize and/or liquidate the financial resources available to it, all so as to fulfill its obligations as a CCP.

TASE-CH examines the need to update the default procedure annually and, since 2022, it carries out, once a year, an exercise that simulates a default event of a single clearing member. The default procedure is submitted for approval by the risk management committee and the Clearing House's board once a year or in cases where the need to update the default procedure arises.

13.3 - Key consideration # 3:

An FMI should publicly disclose key aspects of its default rules and procedures.

The material default arrangements and the immediate actions that the Clearing House will take are set forth in the Clearing House's By-laws, as set forth in key consideration # 1, and these are publicly disclosed on TASE's website.

13.4 - Key consideration # 4:

An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.

TASE-CH performs a periodic analysis of the clearing member default management framework, including a review of its operating procedures, and also carries out an annual default event exercise in accordance with the procedures, with the results of the exercise presented to the risk management committee and the Clearing House's board and, in accordance therewith, the failure procedure is updated, as required.

Any proposal for a change in the default arrangements that are set forth in the Clearing House's By-laws, which are disclosed on TASE's website, is brought to the attention of all the clearing members prior to the meeting of the board of directors, in accordance with the corporate governance arrangements of the Clearing House (see Principle 2).

The Clearing House maintains regular communication with the clearing members and the ISA and, when necessary, also with the Bank of Israel, to the extent that it sees fit, in accordance with the various aspects and the nature of its default procedures.

Principle 14: Segregation and portability

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

TASE-CH does not offer segregation and/or portability arrangements for the positions of clearing members' clients, or for collateral related to them, in view of the nature of the clearing activities at the Clearing House.

14.1 - Key consideration # 1:

A CCP should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the CCP additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the CCP should take steps to ensure that such protection is effective.

TASE-CH does not offer segregation and/or portability arrangements for the positions of clearing members' clients, or for collateral related to them, in view of the nature of its obligation to execute transactions in securities and in view of the absence of a supporting legal framework.

Arrangements for portability of positions

The legal and regulatory framework of the financial market in Israel, and in particular the banking system, does not allow the effective enforcement of portability arrangements, even if the Clearing House were to choose to establish such arrangements in its By-laws.

Furthermore, the Securities Law stipulates that a clearing member that has purchased securities on TASE, which are cleared at the Clearing House, is not entitled to the securities that it has purchased unless the Clearing House has received the full consideration for them. If the Clearing House has not received said full consideration, the title of the securities will be vested in the Clearing House. In view of this, the right to the security is created against payment of the consideration. As long as the member has not paid the consideration, the title to the securities will not be vested in it; this right is not portable and will be vested in the Clearing House (see Principle 1).

Segregation arrangements for collateral

The Clearing House does not have a margin model and does not demand an initial margin from the clearing members for transactions in securities cleared at the Clearing House, in accordance with the Clearing Houses' Stability Directive on the matter.

Since the Clearing House does not employ a margin model for transactions, it does not connect a transaction to the collateral, and therefore segregation arrangements for this collateral would not constitute effective protection for the clients of the clearing member, even if the Clearing House offered it.

Clearing members are required to deposit collateral as part of their participation in the Clearing House's default fund. Participation in the default fund is imposed on clearing members only (with the exception of the Bank of Israel), pursuant to the membership conditions of the Clearing House, and it requires that the collateral provided by them to the Clearing House will be from their own independent means and that they will be free of any pledge, charge, attachment, lien or other right of any third party[28].

14.2 - Key consideration # 2:

A CCP should employ an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. A CCP should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts.

TASE-CH does not offer segregation or portability arrangements for the positions or collateral of clients, as described under key consideration # 1.

14.3 - Key consideration # 3:

A CCP should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants.

[28] As of the date of this disclosure, all the collateral deposited in the default fund by the TASE-CH members is in cash.

TASE-CH does not offer segregation or portability arrangements for the positions or collateral of clients, as described under key consideration # 1.

14.4 - Key consideration # 4:

A CCP should disclose its rules, policies, and procedures relating to the segregation and portability of a participant's customers' positions and related collateral. In particular, the CCP should disclose whether customer collateral is protected on an individual or omnibus basis. In addition, a CCP should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant's customers' positions and related collateral.

TASE-CH does not offer segregation or portability arrangements for the positions or collateral of clients, as described under key consideration # 1.

Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets[29] funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

TASE-CH's framework for the management of business risks is identical to and an integral part of the business risk management framework of the TASE Group. In implementing the framework, a broad view is taken of all the business conditions that affect the Group, and of the business conditions that affect the Clearing House's own activities. The Clearing House holds liquid net assets, which it believes to be at a level sufficient to support and ensure the continuity of business operations and to ensure the recovery or the orderly wind-down of the critical operations and services.

To remove any doubt, any reference in this Principle to the management of business risks in TASE Group should be deemed as reference to the management of business risks in TASE-CH, unless otherwise clarified in the descriptions and the explanations that are provided below.

15.1 - Key consideration # 1:

An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.

TASE-CH identifies its business risks by examining the business conditions that could negatively affect its financial stability, either as a result of a sharp or a continuous decrease in its revenues, or as a result of an unexpected increase in its expenses, thereby causing the Clearing House to sustain a loss that would be charged against its equity – including a one-time nonrecurring loss.

[29] Liquid assets, net of current liabilities.

The fact that the Clearing House is a subsidiary of the Tel-Aviv Stock Exchange requires it to take a broad view of the whole array of existing and forecasted conditions in the Israeli financial market, as well as the global financial market – to the extent that the latter is relevant; accordingly, management of the business risk is done from the perspective of both the TASE Group and the Clearing House, as the case may be, and the risk management framework has been set up in an identical fashion to the risk management framework of the Group.

The business risk management framework is anchored in policy documents and in internal procedures, which include processes for identifying the various risk foci, mechanisms for their control and monitoring, the allocation of resources to cover exposures, and, in particular, the use of prefunded financial resources for this purpose. The principal means and the processes that are used to identify and address the risk foci of the Group, include:

a. Close and meticulous management of the income and expenses, which is based on detailed planning and current and/or periodic monitoring – as the majority of the income of TASE and the Clearing House derives from the volumes of trading on TASE, whether directly or from follow-on transactions, which are largely affected by events that are not in the control of TASE, such management is effected by monitoring indicators and/or metrics that may facilitate the identification and assessment of negative trends in light of the rigid structure of both the income and the expenses.

b. Formulation of a budget and establishment of structured business processes, both annual and shorter-term, including the current and/or periodic monitoring and control of their implementation, at the Group level, including: studying of and familiarization with the activity components that affect the income; annual formulation of a budget and work plans; development and analysis of databases; quarterly updating of the projections of income and expenses; preserving knowhow concerning the outcome of and conclusions from events; operations research and brainstorming in various forums.

c. Since TASE is a public company, whose shares are traded on TASE itself, it is required to publish quarterly financial reports and an annual report in accordance with generally accepted practices and accounting standards. Accordingly, all of the companies in the

Group are required to maintain processes for the review and discussion of existing risk factors and of the need to identify new risk factors. Identified risk factors are described and published in the Group's annual financial report, while additions or updates to the risk factors, if any, are to be published in the quarterly financial reports of the Group.

d. Tracking of various indicators, regarding which warning thresholds and "recovery" thresholds have been set, to identify the materialization of business and other risks.

e. Performance of various cross-organizational stress tests, including those that test for the materialization of business risks.

The Clearing House's board of directors approves the annual budget, with a comparison of performance against budget and revisions to the forecast, if any, being reported at least quarterly.

As mentioned above, TASE stringently monitors the expenses of all Group companies on an ongoing basis and compares these to the annual budget, while examining whether it is necessary to update its revenues and expenses forecast based on the actual results, inter alia, by examining various scenarios, so as to identify any increase in risks that could affect its financial stability.

As necessary, additional processes are implemented for identifying, monitoring and managing the business risks, including, inter alia, compliance with TASE-CH's risk appetite, tracking indicators designed to serve as warning lights of the realization of stress scenarios, tracking the capital adequacy and liquidity goals and that the capital and liquidity buffers, which are maintained at a higher level than the minimum requirements, have been set in accordance with stress testing results, tracking regulatory developments and statutory provisions having a direct or indirect effect on the business operations of TASE-CH, and so forth.

The business risks management policy is approved by TASE-CH's board of directors at least once a year. In addition, the recovery plan, which includes, inter alia, a list of indicators for the early identification of the materialization of risks and stress scenarios, is approved by the board of directors once a year.

Additional information on the risk factors, the nature of the TASE's activities and the business environment in which it operates is provided in TASE's annual financial report, which is posted on the MAYA website (maya.tase.co.il).

15.2 - Key consideration # 2:

An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

TASE-CH holds a buffer of liquid net assets in order to ensure its business continuity, with said buffer being determined as an amount equal to that required to cover its operating expenses for at least six months of operations, assuming that the Clearing House will have no revenues whatsoever during that period. In accordance with the Clearing House's investment policy, the liquid assets are restricted to cash and to Israeli government treasury bills (issued by the Bank of Israel) and bonds, which the Clearing House believes are assets that have low credit, market and liquidity risks.

At least once a quarter, TASE-CH calculates and updates the amount of liquid net assets that it is required to hold, as stated above. This is done as part of the overall calculation of the regulatory capital and liquidity requirements set for it in the Clearing Houses' Stability Directive of the Israel Securities Authority, and as part of the preparation of the quarterly or the annual financial report of the TASE Group[30]. In addition, the Clearing House has ser rules for the reduction of its portfolio's concentration and reviews the value of the securities held therein, and also tracks the yield of the investment portfolio as a whole in order to identify and monitor whether it is holding sufficient liquid assets to cover said requirements.

[30] In 2023, TASE-CH repaid the loan that it had previously received from TASE and that had been recognized until then as Tier 2 equity. Additional information regarding the repayment of this loan is provided in TASE's 2023 financial statements, which are posted on the MAYA website (maya.tase.co.il).

Moreover, in accordance with the stress testing policy, TASE-CH performs stress tests, which are updated quarterly on the basis of the base scenario and up-to-date forecasts. In accordance with their results, capital and liquidity security buffers are determined at both the Group level and the Clearing House level; these security buffers are allocated and maintained at a higher level than the minimum regulatory requirements. In 2023, TASE-CH performed several stress tests that indicated, inter alia, that if realized, the balance of net liquid assets available to it would be sufficient and allow it to recover and continue to provide its critical operations and services.

In addition, the TASE Group has a recovery plan, which also refers to the Clearing House's activity and is approved by TASE's board of directors and by TASE-CH's board of directors at least once a year or when material changes occur. The recovery plan details, among other things, various indicators and thresholds that will serve as warning lights of the materialization of various stress scenarios relevant to the Group and the Clearing House, which could prevent them from carrying out their operations and providing their critical services. The plan specifies a variety of possible relevant recovery measures that will be implemented prior to or following the materialization of each scenario. The recovery measures are expected to reduce the impact of stress scenarios and to contribute to preserving or restoring the financial, business and operational stability of the Group and the Clearing House.

15.3 - Key consideration # 3:

An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

As stated under key consideration # 2 above, TASE-CH holds liquid net assets equal to the amount of its operating expenses for at least six months. These liquid assets are in addition to the liquid net assets that it is required to hold against its share of the prefunded financial resources held to cover a default event of a clearing member, as well as in addition to the rest of the assets from the equity allocated against the capital and other requirements pursuant to the Clearing Houses' Stability Directive. Additionally, as stated above, security buffers exist that exceed the minimum capital and liquidity requirements.

TASE Group has a recovery plan that includes, inter alia, reference to TASE-CH's activity and is approved by TASE's board of directors and TASE-CH's board of directors at least once a year or when material changes occur. The recovery plan specifies, inter alia, various indicators and thresholds that will serve as warning lights of the realization of various stress scenarios that are relevant to the Group and to the Clearing House, which could prevent them from carrying out their operations and providing their critical services. The plan specifies a variety of possible relevant recovery measures that will be implemented prior to or following the materialization of each scenario.

For each of the recovery measures, the following is specified, inter alia:

a. A detailed description of the attributes of the measure (including the estimated time frame to its implementation, the estimated time frame to its impact, the function responsible for its approval, the function responsible for its execution, the cost of implementation and more);
b. Feasibility assessment of the measure, including as regarding its dependence on other measures, potential risks and anticipated obstacles involved in its implementation, organizational processes and preparations required for its implementation;
c. Assessment of its financial, operational, strategic, external, systemic and overall impact;
d. Assessment of the applicability/ suitability of the measure to each of the extreme scenarios, its implementation process, and its interaction with other measures in case of concurrent implementation.

15.4 - Key consideration # 4:

Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.

As stated under key consideration # 2 above, the liquid net assets are held in cash and in Israeli government treasury bills and bonds, which, according to the Clearing House, are considered to have low credit, market and liquidity risks in relation to the Israeli financial market. The Clearing House's investment policy sets out restrictions that are intended to reduce the exposure to market risks, including restrictions on the average duration of the portfolio, on the period to maturity of each security and on its market cap. Furthermore, since the Clearing House's investment portfolio is managed by external portfolio managers, and in order to reduce the related risks, the Clearing House's investment policy imposes restrictions the amount that may be managed by each manager and on the manner of management of the bank accounts in which the securities and the cash are deposited, for the purpose of minimizing custodial risks and concentration risks (see also Principle 16). Moreover, the amount of the liquid net assets is calculated after deducting the amount of the Clearing House's current liabilities, according to their book values for accounting purposes, and after activating haircuts, which incorporate potential market fluctuations and respond to credit and liquidity risks (see Principle 5).

TASE monitors for TASE-CH the value of the liquid assets and the compliance with the restrictions that it has imposed on the portfolio managers, at least once a month, and monitors the financial performance of the Group, at least every month, including indicators of the realization of the specified risk scenarios.

15.5 - Key consideration # 5:

An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.

TASE Group has a recovery plan that defines, inter alia, various measures that it can implement to maintain the continuity of the services that the Group provides and the operations that it executes, and to increase its equity and/or the equity of the Clearing House, and prevent its reduction, upon the realization of various extreme scenarios and in case the total capital approximates or falls below the required capital. Furthermore, as stated under key consideration # 3 above, approval has been given to a methodology for determining safety buffers that will be allocated and maintained at a higher level than the minimum capital and liquidity requirements and that are based on the results of the stress testing performed at quarterly intervals.

TASE-CH has, inter alia, the option of approaching the parent company, TASE, in order to raise additional equity, at the discretion of TASE's board of directors.

Among the additional measures specified in the recovery plan for handling scenarios of reduction in equity: capital raising (from financial or strategic investors, from existing shareholders, in a private placement or from the public), discontinuance / deferral / reduction of dividend distribution, reduction of expenses and modification of the commissions model.

As part of the process for determining the capital and liquidity buffers, the impact of various recovery measures for raising capital / liquidity at the time of stress scenarios being realized was taken into account and quantified, and the estimated time to implement them was also taken into account.

Principle 16: Custody and investment risks

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

TASE-CH safeguards the assets of the clearing members and its ability to promptly access these assets when necessary, and in particular when it needs to realize the collateral provided to it on the occurrence of a clearing member's default event. The Clearing House's investment policy regarding its assets is restricted to cash and to Israeli government treasury bills and bonds, with these assets having minimal credit, market and liquidity risks. TASE-CH does not invest the clearing members' funds in accordance with its own risk management policy.

16.1 - Key consideration # 1:

An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.

As a rule, TASE-CH deposits clearing members' funds that it has received as collateral in an account kept in its name at the Bank of Israel, and by so doing the Clearing House provides itself with a high level of assurance that it will be able to immediately access these assets at any time, with minimum exposure to custody risks, if any.

TASE-CH acts as a central securities depository (CSD) and, as such, should the clearing members' securities, which are received by the Clearing House as collateral, be deposited, they will be deposited in dedicated inventory accounts at the Clearing House, without brokerage or the involvement of any external party (see also Principle 11).

TASE-CH manages its investments in securities through external portfolio managers that are selected in an orderly process, in accordance with the investment policy determined by the Clearing House's board of directors. In order to allow the selected portfolio managers, access to the managed assets, the securities are deposited at commercial banks that are incorporated in Israel and that are subject to regulatory supervision by the Supervisor of Banks acting under the powers

vested in him by the Bank of Israel. In addition to his supervision and control functions, the Supervisor of Banks is responsible for regulating the operations of the banks, inter alia, by means of prescribing directives for the safeguarding of clients' assets, directives to ensure financial stability, directives for risk management, directives for financial reporting, and so forth.

TASE-CH has determined criteria for the selection of the banks that will serve as custodians for its assets, and/or for the assets of the clearing members (to the extent that these are deposited in commercial banks – see Principles 4, 5, 7 and 9 for more information on the management of the collateral and the settlement processes), which address, inter alia, the financial strength of the bank. Additionally, in order to minimize the exposure to concentration risk, the Clearing House has determined that it will be required to maintain accounts with at least two banks that are not members of the same banking group, where the minimum amount in each such account, whether in cash or in securities, will be equal to the Clearing House's share of the default waterfall. Furthermore, concentration restrictions have been imposed concerning the minimum distribution of types of securities, the maximum holding value of each security, as well as at the TASE Group level on the maximum portion of the total balances maintained in commercial banks that may be managed by a single bank.

16.2 - Key consideration # 2:

An FMI should have prompt access to its assets and the assets provided by participants, when required.

The assets provided by the clearing members as collateral are pledged in favor of the Clearing House and are held under its full control; they are required to be from the member's own resources, available at all times and free of any pledge, charge, attachment, lien or other third-party right.

Furthermore, TASE-CH has strong legal arguments, based on safeguards prescribed for its benefit in the Securities Law, that ensure its ability to access and realize these assets promptly and without material, if any, exposure to any such obstacle.

With regard to this, the Law expressly states that a charge on securities granted by a clearing member in favor of the Clearing House shall take precedence over charges in favor of third parties,

if the Clearing House has control of the securities in one of the ways specified in the Law. In addition, it is prescribed that a charge on securities in favor of the Clearing Houses can be realized by the Clearing House itself without a court order, or an order from the chief enforcement officer, subject to the terms set forth in the Law (see Principle 1)[31].

The assets of the Clearing House are deposited in the accounts kept in its name at commercial banks, as described in key consideration # 1 above, and are not pledged in favor of any third party.

16.3 - Key consideration # 3:

An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.

As stated under key consideration # 1, the Clearing House assesses that it has only minimal, if any, exposure to the Bank of Israel, with which it deposits the members' funds that are provided by them as collateral. The Bank of Israel also acts as a clearing member, but its activities give rise to only a minimal, if any, exposure, since the failure of the Bank of Israel is assumed to be an unlikely stress scenario.

Most of the banks in Israel also act as clearing members, or are subsidiaries of clearing members, and the Clearing House examines the overall exposure to such banks and its ability to act in the event of a clearing member's default, if and when said clearing member is also a custodian of its assets, as well as its ability to fulfill its commitments toward the rest of the clearing members. Accordingly, the Clearing House has set out the restrictions for the management of its accounts in commercial banks, as described in key consideration # 1 above.

[31] As of the date of this disclosure, all the collateral deposited in the default fund by the TASE-CH members is in cash.

16.4 - Key consideration # 4:

An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.

TASE-CH invests its monetary reserves in short-term bank deposits and securities in accordance with its securities investment policy, which is approved by the Clearing House's board of directors at least once a year. Prior to this, the existing policy is examined, including its alignment with the risk management framework and the risk appetite, and where necessary it is updated accordingly.

As part of the monetary reserves investment policy, it is prescribed that the asset classes in which the portfolio managers may invest are Israeli government treasury bills and bonds, which the Clearing House believes to be assets having minimal credit, market and liquidity risks. The monetary reserves investment policy also prescribes additional criteria pertaining to the length of the exposure period, concentration limitations that provide for a maximum amount of investment in a single bond and the minimum quantity of different bond series with each portfolio manager, the manner in which transactions are to be conducted, the selection of portfolio managers, and suchlike.

TASE-CH has established an ongoing control mechanism over the activities of the portfolio managers, so as to ensure that they are complying with the restrictions imposed upon them, as well as a control over changes in the value of the assets. At least once a quarter, the Clearing House sends a detailed report to the Clearing House's board of directors regarding the performance of each portfolio manager and the yields achieved by them, as well as reviewing the changes that need to be made to this policy in light of changes in the Clearing House's risk profile or in market conditions, should any such changes have occurred.

TASE-CH's investment policy is identical to the investment policy of TASE, with this being disclosed in TASE's financial statements that are available to the public on the MAYA website.

Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

The entire operational risk management framework is run partly by the Clearing House – with respect to the clearing, payment and settlement processes performed by it, and this is supplemented by the operational risk management framework at TASE, since TASE provides the technological and physical infrastructure needed by the Clearing House for its operations. The entire operational risk management framework comprises the establishment of policy, procedures and processes for managing all the risks and their ramifications that are inherent in the operational activities of the Clearing House, the aim of which is to ensure the operational continuity and reliability of the Clearing House. the Clearing House has a detailed plan for ensuring its business continuity, including various scenarios that could have a material impact on its regular operations.

17.1 - Key consideration # 1:

An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.

TASE-CH has established an appropriate operational risk management framework comprising the definition of cross-organizational policy and procedures, the aim of which is to identify, monitor, manage and control the operational risk – both at the level of each process and at the level of the organization as a whole. Furthermore, TASE-CH implements its own operational risk management framework for processes and activities carried out by the Clearing House, as well as a framework at the level of the TASE Group in respect of infrastructure and services that TASE provides to the Clearing House, which include, inter alia, technological infrastructure and IT systems, systems and

resources for information security and cyber risk prevention, human resources, physical infrastructure, and so forth.

The operational risk management framework includes the definition of the areas of responsibility within the various lines of defense, a definition of the reporting lines between the organs at the Clearing House and/or TASE, as the case may be, and the principles and resources for identifying, monitoring, managing and mitigating each risk.

The procedures and processes that exist at the Clearing House and/or TASE for identifying and characterizing the various risk foci include, inter alia, identifying new risk foci, monitoring, mapping and identifying the various risk foci for each new activity or product, drawing conclusions from reports regarding malfunctions and deficiencies that were found, reviewing audit findings, annual validation of the risks map, and conducting a periodic comprehensive operational risk survey and a survey to locate fraud and embezzlement foci, at least once every three years. In addition an exercise is conducted annually to test the clearing member's default procedure.

Additionally, the internal procedures of the Clearing House prescribe a process for the definition and monitoring of key risk indicators (KRI) at the Clearing House, whether quantitative or qualitative, and/or of statistical benchmarks. The indicators are intended to provide information on the risk foci of the Clearing House, facilitate the identification and handling of risks based on a review of both past and current performance, and generate insights with respect to the exposures of the Clearing House.

As aforesaid, the identification of risk foci and/or a change in their assessment could result from the occurrence of operational events and deficiencies. The Clearing House has determined procedures and processes for reporting the occurrence of operational events and deficiencies, collecting information and holding of inquiries with relevant functions, drawing of conclusions and monitoring the implementation of ensuing recommendations. The reporting of the events, the collection of the information and the documentation of all subsequent actions are carried out in a dedicated system, among others, for the purpose of preserving and sharing the accumulated knowledge, examining the efficiency and effectiveness of the processes by linking events, as well as for enhancing awareness among the various units and preventing the recurrence of the events and

deficiencies. The Clearing House appoints a liaison for the management of the operational risk in each of TASE's departments.

The human resources management policy that is set at the TASE group level, is adopted by the Clearing House's board of directors and consists of a broad spectrum of aspects, which include, inter alia, human resource planning for the Clearing House, the recruitment process, management of the absorption and instruction processes, professional development and training for the Clearing House's employees, evaluation and compensation processes and employment termination. The policy also specifies the principles for the creation of an organizational culture among the employees of TASE and those of the Clearing House in particular, as well as for assimilating the procedures that constitute the Code of Ethics that is binding on every employee – such as safeguarding confidentiality, prohibiting the receipt of benefits, preventing sexual harassment, prohibiting investment in securities, and so forth.

The Clearing House, through TASE's departments, conducts exercises from time to time on various topics related to business continuity and emergency situations – such as fire or earthquake evacuation exercises. The Clearing House, through the IT department, customarily involves the members when conducting testing prior to launching new products or systems and in technological business continuity exercises.

Human factor risk management takes place starting with a unified and stringent recruitment process, which includes conducting examinations and preliminary testing prior to an employee's engagement, including his professional suitability and qualifications for the position for which the employee is recruited. The Clearing House, through TASE, conducts professional training, instruction and employee development during the course of the employee's engagement, including training processes for the various management levels.

The Clearing House's board of directors approves the operational risk management policy at least once a year.

17.2 - Key consideration # 2:

An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.

As stated, the overall operational risk management framework at TASE-CH is anchored on a task-related policy document that is approved by the board of directors, reviewed at least once a year and addresses operational risk management principles, the spheres of responsibility and the roles of all the lines of defense in managing the risks and the reporting lines between the lines of defense, the various organs within the Clearing House and TASE, as the case may be, and the means and tools for managing and mitigating the risks. The lines of defense that have been determined are in line with the Clearing House's risk management policy (see Principle 3).

All policy documents relating to operational risk management need to be reviewed and reapproved by the Clearing House's board of directors at least once a year. This is also the case with respect to the policy documents defined at the level of TASE, and these need to be adopted by the Clearing House's board of directors, provided that these contain reference to specific aspects of the Clearing House. Where applicable, orderly and updated review processes are established prior to any relevant policy document brought before the board of directors for reapproval.

In addition to the annual review processes, every three years, TASE-CH – together with TASE – conducts an extensive operational risks survey and a survey to locate fraud and embezzlement foci, which is performed by an external party that is independent of the Clearing House. The survey's findings are reported to the relevant management parties, to the risk management committee and to the board of directors.

17.3 - Key consideration # 3:

An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.

TASE-CH in particular and the TASE Group in general consider operational risk in its entirety to be a fundamental and inherent risk in all the operations of the Clearing House and TASE, which arises from conducting operations and providing services to the market. Accordingly, the Clearing House needs to achieve a high level of operational reliability in order to safeguard its stability and demonstrate its responsibility toward the financial market.

The Clearing House, through TASE, implements qualitative testing to test the functioning of the IT systems and to identify potential failures, carries out ongoing maintenance on the various systems and maintains control and reporting processes in relation to operational events/deficiencies, including the establishment of a procedure for dealing with extraordinary operational events arising from exceptional system events and a mechanism for sending alerts to senior parties, as well as processes for drawing conclusions from such events and implementing them. In addition, a support array has been put in place for users of the systems within the organization and at the clearing members.

17.4 - Key consideration # 4:

An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.

The technological systems that are used by TASE-CH are secured and had an availability rate of more than 99.5% over the past 12 months, which testifies to their reliability. The systems are capable of processing the information that is required for the safe and effective performance of the operations.

The Clearing House and TASE conduct monitoring and control processes for changes in resources that may be required to ensure the proper management of information capacity to support operating activities and make preparations to handle extraordinary events. The monitoring process is based on system procedures for real-time data monitoring, on daily and intraday controls, on setting limits and on transmitting exception alerts for current activities.

17.5 - Key consideration # 5:

An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.

The Clearing House, through TASE, maintains a strict and stringent infrastructure for data security and for physical security in accordance with international quality standards (ISO) and in accordance with the most stringent standards set by the Israel National Cyber Directorate. This infrastructure includes data traffic monitoring systems, strict procedures for data leakage prevention, stringent restrictions and barriers to accessing external data, strengthening security at the personal computer stations of the Clearing House's employees in relation to connecting external devices, rules for security checks and profiling of employees and visitors, and so forth.

In addition, the Clearing House and TASE, by virtue of their being a significant part of the financial market in Israel, are familiar with the existing and potential threats of cyber-attacks by various parties. Accordingly, the Clearing House maintains a policy and stringent procedures for assessing its exposure, establishing defenses and means of coping with such attacks.

In addition, TASE handles the security of all its infrastructure facilities on behalf of the Clearing House. This is done by establishing various security rings, including a perimeter security ring, internal security rings, advanced technological security systems and making every employee responsible for identifying unauthorized parties, as well as establishing continuous and ongoing communications with external security parties, including receiving general and specific alerts regarding the facilities of TASE and the Clearing House.

17.6 - Key consideration # 6:

An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a widescale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the

day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.

TASE has defined a business continuity plan for the whole Group in various emergency event situations that could disrupt the conduct of its operations and the provision of services to the market. This plan has been approved by the Clearing House's board of directors and identifies, inter alia, the human resources and critical systems of the Group as a whole and of the Clearing House in particular. The plan also defines procedures and conduct for coping with such events, based on the defined crisis levels and analogous scenarios, so as to restore the operation of the critical systems in a timely fashion and specifies spheres of responsibility of the various organs in coping with the defined events and the reporting method.

TASE maintains a backup facility that is geographically distant from its main facility and that has identical infrastructure for conducting the operations and running the identified critical systems. The Clearing House has procedures for maintaining the capability to transfer its critical operations so that they can be conducted from the backup facility, including the recording and saving of data in real time and in parallel with safeguarding the primary systems. TASE conducts a variety of exercises in order to assess its capability to make the transition to the backup facility in real time and involves the clearing members whenever this is relevant to the type of exercise.

The business continuity plan is reviewed at least once a year and has to be reapproved by the Clearing House's board of directors.

17.7 - Key consideration # 7:

An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.

The Clearing House, through TASE, maintains procedures and processes to minimize information technology (IT) risks in order to ensure proper connectivity for those given access to the Clearing House's various systems, which include, inter alia: a direct connection to the TASE and the Clearing House systems by means of a direct physical communications infrastructure, which minimizes

exposure to disruptions in the continuous communications between the Clearing House and the clearing members; meeting the strict requirements for setting up information security in the clearing members' systems that communicate with Clearing House and TASE systems; and monitoring data transmission. The Clearing House operates a technical and applicative support array for the functions defined as clearing members system users.

The Clearing House maintains a policy and procedures in matters relating to its communications with outsourcing providers and the ongoing risk management that these impose on the Clearing House, with emphasis on establishing precursory checking processes prior to actually entering into an engagement and receiving services.

It should be noted that, in 2023, an outsourcing risk policy document and a procedure on the same topic were formulated.

Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

TASE-CH has anchored the Clearing House membership requirements in its By-laws and strives to achieve an effective balance between permitting open access to all the participants and minimizing risk exposure for the Clearing House and for the Israeli securities market. The requirements for membership of the Clearing House are prescribed in the By-laws that are disclosed publicly on TASE's website. Supervision of the clearing members is conducted in conjunction with TASE, in light of the basic requirement pursuant to which a clearing member has first to be a TASE member (other than a custodial member) and, as such, it also needs to fulfill the membership requirements of TASE, as prescribed in the TASE rules and regulations.

18.1 - Key consideration # 1:

An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk related participation requirements.

Membership of TASE-CH is open to TASE members (other than a remote TASE member or a TASE member that is a nostro NBM) and, as such, the entity is required at all times to be in compliance with TASE's membership eligibility conditions and the rest of the obligations imposed on it in accordance with the TASE rules and regulations, as these shall be from time to time. In addition, membership in the Clearing House is available to an entity that is not a TASE member in the capacity of a custodial member.

A TASE member seeking to be accepted as a TASE-CH member is required at all times to be in compliance with the membership eligibility conditions and the rest of the obligations imposed on it in accordance with the Clearing House's By-laws, as these shall be from time to time, including the obligations to which it is subject as a TASE member, as stated above ("the Clearing House membership conditions").

It should be clarified that the Clearing House membership conditions include both the Clearing House's and TASE's membership conditions and reference to them in this Disclosure Document, either individually or collectively, does not suffice to void or lessen the necessity for their complete fulfillment in their entirety.

The clearing members are divided into members who are members of TASE including a custodial member (banking corporations and non-banking corporations ("NBCMs") and members who are not members of TASE only custodial members. The membership conditions are determined with reference to each type of member. The membership conditions in the clearing house are intended to ensure the ability of Each member to fulfill his obligations arising from its activity and the resulting clearance.

The application to become a member of the Clearing House requires the approval of the Clearing House's board of directors, which may also impose obligations on members – either by a general directive to all the members or by a special directive to a specific member or a specific category of member or a specific type of activities, including the provision of additional collateral and guarantees.

In order to ensure the Clearing House's stability, the clearing members (with the exception of a custodial member and the Bank of Israel) undertake to participate in the default fund at a rate that matches the scope of their activities with the Clearing House, to establish a suitable technical and organizational array to enable them to work with the Clearing House, and to appropriately insure themselves, all in accordance with that prescribed in the By-laws.

With regard to the monetary settlement, clearing members that are banking corporations are required to participate in the Bank of Israel's RTGS system and the NBCMs are required to enter into an agreement for this purpose with a clearing member that is a banking member.

Moreover, additional directives regarding the maintenance of financial stability, risk management arrays, and other aspects apply to the clearing members, both for Israeli banking corporations that are subject to the directives of the Banking Supervision Department and also for NBCMs by virtue of the provisions of the TASE rules and its regulations.

In order to achieve an effective balance between the desire to allow open access to the Clearing House's services and the risk management limits and requirements, the Clearing House strives to identify and remove potential barriers in the membership conditions so as to enlarge the number of clearing members, while concurrently identifying, monitoring and controlling the risk exposures arising from the activities of each existing member, or those that could arise from the activities of potential members of various types.

In addition to the business benefits this generates, the Clearing House views the enlargement of its member base as a means to manage and minimize its exposure to the various risks, and particularly as a means to minimize the exposure to concentration risks.

18.2 - Key consideration # 2:

An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavor to set requirements that have the least-restrictive impact on access that circumstances permit.

As stated, a clearing member is required to comply at all times with the obligations imposed on it by the Clearing House's By-laws, as part of the Clearing House's membership conditions, including the obligation to meet all its commitments regarding transactions that it executes, to participate in the default fund[32], to deposit additional collateral on demand (and not necessarily as part of the default fund), and to maintain a suitable technical and organizational array.

Banking corporations are subject to regulation prescribed in the directives of the Supervisor of Banks, which outline a broad framework for ensuring the financial and operational stability of the banks in particular, and of the financial system in general, while the clearing members that are not banking corporations are subject to the provisions that regulate the financial stability and operations prescribed in the TASE rules and regulations. Due to the supervisory structure over the

[32] Apart from a custodial member and the Bank of Israel.

financial stability of the clearing members, as described above, the Clearing House strives – in conjunction with TASE – to establish a minimal level of standardization through its financial stability directives among all its members, with whatever adjustments are necessary, to the extent that this is possible and practicable.

As the requirement to deposit collateral in the default fund is material[38] in relation to the other obligations that the clearing member is required to fulfill, the Clearing House strives to construct a risk-orientated objective calculation model, so as to ensure a response to the risks that might materialize in the event of a member's default, on the one hand, and so as not to harm the efficiency of the market, on the other hand. Moreover, the mechanism for determining each member's share in the default fund is also risk-orientated and objective, thereby reflecting the scope of the clearing member's activities (see Principle 4) and ignores whether the member is a banking corporation or an NBCM.

There is an additional membership category: a TASE member that is a custodian and whose activity is restricted solely to custody activity.

The Clearing House and TASE maintain ongoing communications with the clearing members, are attentive to market needs in relation to requirements that restrict fair and open access to the Clearing House services and strive to achieve an effective balance between the desire to allow such open access and the need to minimize the risk exposure for the Clearing House and for the market.

The requirements for membership of the Clearing House and of TASE are disclosed publicly on TASE's website.

18.3 - Key consideration # 3:

An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

Supervision of clearing members' compliance with the requirements of the By-laws and of the TASE rules can be divided into two complementary layers:

- Supervision of clearing members' compliance with the requirements of the By-laws, which have an operational aspect deriving from the basket of services and from the clearing members' ongoing daily conduct with the Clearing House, is conducted on a continuous basis by the Clearing House.

- Supervision of clearing members' compliance with various aspects, some of which are specific while others are general, including compliance with the Clearing House's membership eligibility conditions and conformance with the existing arrangement in the By-laws that deals with relations between the clearing members and their clients, is conducted by TASE.

TASE's supervision activity vis-à-vis the clearing members is conducted in accordance with an approved supervision policy and is based on an annual and multiyear work plan, at the basis of which is an aspiration for risk-focused supervision, with emphasis also placed on other quantitative and qualitative considerations. For the purpose of implementing the aforesaid work plan, dedicated checks are performed by professional teams, both on-site at the clearing members and also by other means, including through the monitoring of information contained in the reports and notices received from clearing members in accordance with the reporting obligations to which they are subject vis-à-vis TASE and the Clearing House, and also by means of monitoring public (off-site) information.

The Clearing House implements dedicated mechanisms for ensuring the clearing members' compliance with the By-Laws and supervising their activity at the Clearing House. In addition, interfaces for work and transfer of information between the functions tasked with the establishment and operation of those mechanisms have been defined, which are set out in a dedicated work procedure. Those mechanisms include, inter alia, questionnaires for the members of the Clearing House, establishing a dedicated periodic review forum, together with relevant management functions, and the institution of an internal network for current reports.

Ongoing reports regarding supervisory activity and its results are presented to the relevant parties at TASE, with the board of directors having the authority to impose additional obligations on the

members, including the provision of additional collateral and guarantees, at its discretion and should it identify a need for such action.

TASE-CH has clear rules and procedures for granting or revoking membership of a clearing member, provided that the Clearing House has proper cause or causes for doing so, including due to the member having not yet complied with the Clearing House's membership conditions or where there is a concern that the clearing member will be unable to meet its obligations with respect to transactions that it has executed. The rules and procedures regarding this are anchored in the Clearing House's By-laws and are disclosed publicly on TASE's website.

Principle 19: Tiered participation arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.
TASE-CH acts to identify the material risks that could arise from third parties.
19.1 - Key consideration # 1:
An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements. TASE-CH's membership model does not allow tiered participation arrangements and, as such, the Clearing House's exposure at any time is solely toward the clearing members (a principal-to-principal model) and it is not exposed directly to default of a clearing member's client. Responsibility for the risk management of activities conducted by clearing members' clients is borne by the clearing members alone. The clearing members, and they alone, can send clearing orders to the Clearing House and such orders must be in their name alone. Every clearing transaction arising from the clearing orders, whether direct or indirect, is to be carried out on the relevant account in the member's name, or in the Clearing House's name, as the case may be. In the event of the clearing member failing to meet its commitments (either in inventory or monetary terms) with respect to transactions that it performed, such commitments will be met instead by the Clearing House and the title to the securities bought will then belong to the Clearing House, with all this in accordance with the provisions and terms prescribed in the By-laws.
19.2 - Key consideration # 2:
An FMI should identify material dependencies between direct and indirect participants that might affect the FMI. Activities of clearing members that are banking corporations are supervised by the Supervisor of Banks, who has prescribed strict stability directives aimed at ensuring the stability of the banking

system and the financial market in Israel, including the imposition of concentration limits between the banks and their customers.

Clearing members that are not banking corporations are subject to supervision of their stability by TASE and, within the framework of said supervision, concentration limits are also imposed on the exposure of such clearing members toward their clients. A custodial member is supervised by the competent supervisory authority in its country of incorporation.

19.3 - Key consideration # 3:

An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.

TASE-CH is exposed to business risk with respect to the activities of indirect participants responsible for large trading volumes on TASE. Since the revenues of the Clearing House are largely dependent on trading that takes place on TASE, the failure of a single participant could lead to a decrease in the Clearing House's revenues in the short term.

19.4 - Key consideration # 4:

An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.

The Clearing House does not have any tiered participation agreements.

Principle 20: FMI links

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

TASE-CH establishes links with infrastructure entities in the financial market ("infrastructure entities"), which fall within the categories of payment systems and central securities depositories, in order to support its activities; these links do not create material risks for the Clearing House. In addition, the Clearing House provides settlement and custody services for the MAOF-CH, which is a wholly owned subsidiary of TASE, that serves as a central counterparty for derivative transactions performed on TASE.

20.1 - Key consideration # 1:

Before creating a link arrangement and on an ongoing basis once the link is created, an FMI should identify, monitor, and manage all potential sources of risk arising from such arrangements. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.

The links that TASE-CH creates with other infrastructure entities do not create material risks for it in relation to the risks that arise from the activities of the clearing members and from its own activities, as set forth below:

- **Link with payment systems**

  TASE-CH performs monetary settlement using the Bank of Israel's RTGS system, which meets the definition of a payment system in accordance with the PFMI document, such that TASE-CH has a strong dependence on said system to the extent that without it the Clearing House would be unable to execute the monetary settlement on time. However, due to the system belonging to and operated by the Bank of Israel, which is the central bank of the state of Israel, the proper operation of the system is of systemic importance to the Israeli economy in general and to the Israeli banking system in particular; therefore, the Clearing House has a high degree of confidence in the reliability of the system and in the reliability of the monetary settlement process performed using said system. It is possible for TASE-CH to perform monetary settlement

through the Bank of Israel without using the RTGS system, although in such an instance settlement would not be done simultaneously.

In light of the fact that the exposure is to the Bank of Israel, the Clearing House does not have additional risks, other than the operational risks described above.

- **Link with central securities depositories (CSDs)**

  TASE-CH has links with CSDs located outside Israel in order to support trading and clearing of transactions in securities listed on two markets – one in Israel and the other overseas. The Clearing House is defined as a participant in these CSDs. The exposures that arise from these links are minimal and as such do not put the Clearing House's stability at risk nor can they cause it a material loss.

  TASE-CH's accounts with these CSDs are only securities inventory accounts (and not monetary accounts).

- **Link with central counterparties (CCPs)**

  TASE-CH provides the MAOF-CH with depository services for clearing members' assets that are provided as collateral, the two of them are "sister companies" in the TASE Group. Similarly, all MAOF clearing members are also members of TASE-CH, but not vice versa, such that the default of one of the MAOF clearing members will directly affect TASE-CH and might also lead it to execute the arrangements and procedures for dealing with the default of that member. It should be emphasized that despite the companies being sister companies in the TASE Group, each clearing house maintains a separate risk management framework in order to be able to ensure stability and continuity of activities with no connection to actions taken by the other.

Every new agreement with an infrastructure entity in the financial market will be examined in the same way as new activities and products, including identifying all the risk foci and determining the means to monitor, minimize and manage them in accordance with the overall risk management policy of the Clearing House.

20.2 - Key consideration # 2:

A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.

TASE-CH's activities with the Bank of Israel's RTGS system are conducted according to the rules determined by the Bank of Israel for activities with the system, which constitute a stable, clear and well-founded legal basis for all the system's participants.

TASE-CH's activities with CSDs from outside Israel are anchored and founded in agreements signed between the parties.

20.3 - Key consideration # 3:

Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.

TASE-CH's credit exposure (if any) to CSDs arising from its link with them is not material and TASE-CH does not require credit from such CSDs. TASE-CH has links with a very small number of CSDs and each of these entities has high quality credit and robust financial stability. Moreover, each of them acts in accordance with the Core Principles of PFMI.

20.4 - Key consideration # 4:

Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.

TASE-CH does not allow provisional transfers of securities.

20.5 - Key consideration # 5:

An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.

TASE-CH safeguards the rights prescribed in the Clearing House's By-laws for the benefit of the clearing members with a high degree of confidence.

20.6 - Key consideration # 6:

An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.

TASE-CH does not use any intermediary to operate its links with other CSDs.

20.7 - Key consideration # 7:

Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess, and manage the risks of the collective link arrangement.

As regarding links with other CCPs, it should be noted that TASE-CH maintains a link only with MAOF-CH, with MAOF-CH receiving services from TASE-CH, and not the opposite, and as such TASE-CH has no exposures to MAOF-CH. In the Clearing House's opinion, due to TASE-CH and MAOF-CH being sister companies, TASE-CH does not find it necessary to make special proactive preparations for the default of MAOF-CH.

20.8 - Key consideration # 8:

Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfil its obligations to its own participants at any time.

TASE-CH has no current or potential exposures arising from the activities of MAOF-CH and its participants.

20.9 - Key consideration # 9:
This key consideration is for entities that are Trade Repositories and is therefore not relevant to TASE-CH.

Principle 21: Efficiency and effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

The efficiency and effectiveness of TASE-CH is examined and determined by TASE, as it does for all the companies in the TASE Group. It does so with an understanding and from a viewpoint that recognizes the importance of the group as a whole to the financial market, as well as that of TASE-CH on its own.

21.1 - Key consideration # 1:

An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.

TASE plays a central role in the Israeli economy and contributes significantly to its growth. Numerous Israeli companies are assisted by TASE in funding their investments and their business operations. The government is also assisted by TASE in selling shares to the public as part of the privatization of government corporations and in raising debt to finance its expenditure and achieve its monetary goals.

As it is a wholly owned subsidiary of TASE, TASE-CH is integral to the central role that TASE plays in the Israeli economy, in addition to the other services that the Clearing House provides to the financial market in Israel.

The Clearing House views ensuring its financial stability and its ability to meet its obligations as a CSD and as a CCP in security transactions performed on TASE as its principal response in fulfilling the public interest and in meeting the needs of the clearing members.

TASE operates a technological array for TASE-CH in order to ensure high operational reliability of the clearing systems, including safeguarding its ability to rapidly restore its operations upon the occurrence of an emergency event or in case of a disaster. Likewise, TASE provides the clearing members with a support array for use with the various systems and, to this end, sets service goals to guarantee fast response times.

The TASE Group in general and TASE-CH in particular establish communication channels with the clearing members and with other market participants, in relation to various areas (such as: risk management, IT systems, information security, trading room and back-office managers), and are attentive to the needs of the financial market that they serve.

21.2 - Key consideration # 2:

An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.

The strategic goals and objectives of the Clearing House are set as part of the multiyear strategic plan of the TASE Group, while taking a systemic viewpoint and bearing in mind the importance of the TASE Group to the Israeli financial market. The goals are set in a manner that is measurable and achievable. The TASE Group's strategic plan is publicly disclosed on TASE's website.

TASE-CH annually reviews the risk appetite statement and limits that were set and updates them where necessary, and the Clearing House's work plans are reviewed and adopted in accordance with the set limits.

The Clearing House, through TASE, defines minimum service goals as part of the technological array that it operates.

The board of directors approves TASE-CH's multiyear strategic plan and management is responsible for the plan's implementation by means of work plans and a budget.

21.3 - Key consideration # 3:

An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

In October 2022, the TASE Group's multiyear strategic plan for 2023-2027 was approved. TASE prescribes the annual work plan for all Group companies every year; the work plan is derived from the strategic plan and includes setting goals and detailing the projects that are planned to be executed during the year. In accordance with this, TASE also sets the annual budget that is needed for the work plan's execution.

TASE performs ongoing monitoring of the achievement of the budget and work-plan goals set at the beginning of the year and sends quarterly reports regarding this to management and the board of directors, with the aim being alignment of the work plan and budget goals with the risk appetite and risk statements and limits approved by the TASE-CH's board of directors.

Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

TASE-CH operates communication procedures that comply with generally accepted standards and adapts them for its own use for the purpose of sending and receiving reports and notices regarding payments, clearing, settlement, and recording.

22.1 - Key consideration # 1:

An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.

TASE-CH's clearing activities are conducted for the Israeli financial market; the Clearing House does not conduct clearing activities for regions under foreign jurisdiction. Accordingly, even though it is under no obligation to conform with international standards and procedures in establishing its communications, the Clearing House aims to maintain a robust infrastructure and a stable array of procedures, standards and strict requirements for the establishment of communications, which match such standards and procedures.

Every clearing member, as it is a TASE member, has a physical communications line connecting it to the trading and clearing systems of the TASE group, that minimizes possible communication disruptions and ensures that the communications infrastructure is stable, reliable and complete.

Clearing orders can be received by the Clearing House through the TASE trading system or through other systems, such as SWIFT, with the Clearing House performing the monetary settlement in the Bank of Israel's RTGS system and by means of the SWIFT system in accordance with the ISO-15022 standard.

The Bank of Israel and the Clearing House is making arrangements to adopt a new SWIFT protocol in accordance with the ISO-15022 standard and this is expected to go live during 2025.

The Clearing House maintains a dedicated system for the transfer of data, information and notices by transferring electronic files via FTP (the File Transfer Protocol). Said files are sent after performing the clearing round in the first and second settlement window and at the end of the clearing day. Within the framework of these electronic files, the Clearing House transfers to its members data regarding the clearing results in each of the clearing rounds performed, information about clearing orders received by the Clearing House and the clearing actions performed with respect thereto, the securities inventory balances, etc.

Every time a new type of electronic file is developed, whether in response to an internal request or in response to a request from a clearing member, the Clearing House performs processes for the file's development, its approval, its testing and its deployment in accordance with orderly procedures; in addition to these, the Clearing House provides a support center for its members and a system for monitoring and identifying failure events in the transfer of data, as well as a test environment.

On March 15,.2023, ESMA announced that it was recognizing TASE-CH as a Tier 1 Third-Country CCP in accordance with the applicable European regulatory rules, and as such, the Clearing House is eligible to provide EU countries with settlement services in a variety of financial instruments. Receipt of this recognition also enables clearing members that formed in the European Union to also join, as well as enabling the clearing of financial instruments issued by European issuers, since, in accordance with European regulation, their clearing requires such recognition.

Principle 23: Disclosure of rules, key procedures, and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

TASE-CH's By-laws regulate all aspects of the Clearing House's operations, anchor the rights and obligations of the Clearing House and of the clearing members with respect to said operations and are publicly disclosed on TASE's website. In addition to the Clearing House's By-laws, the price list for the Clearing House's services is also published on TASE's website.

23.1 - Key consideration # 1:

An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.

TASE-CH's By-laws regulate all aspects of the Clearing House's operations and anchor the rights and obligations of the Clearing House and of the clearing members with respect to said operations.

TASE-CH's By-laws also regulate membership eligibility conditions, the collateral policy, the requirement for collateral within the framework of the default fund, arrangements as to how the Clearing House is to act should a clearing member contravene its rules, default arrangements for a situation in which a clearing member is unable to meet its obligations toward the Clearing House and/or toward the other clearing members, settlement finality arrangements, and extensive arrangements relating to the operational aspects needed to perform the Clearing House's activities.

Any change or update to the Clearing House's By-laws needs to be approved by its board of directors. Prior to presenting the proposed change or update to the Clearing House's By-laws for discussion and approval by the Clearing House's board of directors, the aforesaid proposal is sent to the clearing members for their comments. Whether or not the Clearing House decides to amend the proposal following the comments received from the clearing members, all comments received

from the clearing members are reported to the Clearing House's board of directors. The board of directors' decisions are publicly disclosed on TASE's website.

In addition to its By-laws, the Clearing House maintains an array of policies and internal procedures that include, inter alia, frameworks for risk management at the Clearing House, operational procedures and processes for executing all Clearing House activities, procedures for establishing communications with clearing members, procedures for the maintenance of the IT infrastructure, procedures regulating internal organizational activities, etc. Whenever the Clearing House identifies certain procedures as key procedures and deems it appropriate that they be so defined, such procedures are anchored in the Clearing House's By-laws.

The Clearing House maintains communication channels with the clearing members and they are able to request any additional information that is relevant to their activities with the Clearing House, including for management of the risks arising from their activities with the Clearing House or from their activities with the other clearing members.

TASE-CH provides the public with lines of communication and means to contact the Clearing House regarding any matter, through the TASE website.

The By-laws that are publicly disclosed on TASE's website are presented in both Hebrew and English.

23.2 - Key consideration # 2:

An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

As stated above, the By-laws include a broad description of all the aspects clearing members need in order to understand the clearing arrangements at the Clearing House, which include, inter alia, the rights and obligations of the clearing members, Clearing House membership conditions, models for calculating the collateral requirement in relation to their Clearing House activities, default arrangements, settlement finality arrangements, connecting to the clearing systems, and other operational aspects.

In addition to the By-laws, other relevant parameters, such as collateral haircuts, are published on TASE's website and are intended to assist the clearing members in assessing and understanding the risks inherent in their activities with the Clearing House.

Through TASE, TASE-CH makes available to the clearing members an extensive support array for connecting to the Clearing House's systems and for the electronic files that are transferred by the Clearing House to the member.

23.3 - Key consideration # 3:

An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.

It is TASE-CH's intention to lay down rules that will be clear and explicit in order to make it easier for existing clearing members, as well as potential clearing members, to understand all the risks with which they will need to contend by virtue of their membership of the Clearing House, as prescribed in the Clearing House's By-laws.

TASE-CH provides the clearing members with opportunities to receive training on any topic relating to aspects of their activities with the Clearing House and, in particular, in relation to using the systems and infrastructure that are provided by TASE for the Clearing House's benefit.

The Clearing House has processes for identifying and reporting malfunctions and unusual incidents, including malfunctions originating from an external source, such as the clearing members. The Clearing House examines every reported malfunction or unusual incident, including the reasons for their occurrence and impact, so that it can prevent their recurrence in the future.

23.4 - Key consideration # 4:

An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.

The Clearing House's price list is included in TASE's price list and is published on TASE's website. The price list sets out the amounts of trading and clearing fees, listing fees and levies and the fees applicable to other services.

Every proposal to amend the Clearing House's fees needs to be approved by the Clearing House's board of directors, TASE's board of directors and the ISA. Any proposal to amend the Clearing House's fees is published on TASE's website, prior to the matter being discussed by TASE's board of directors. In the event of the public submitting comments regarding the proposed amendment, such comments are brought before TASE's board of directors when this matter is discussed.

23.5 - Key consideration # 5:

An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO[33] Disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.

TASE-CH has completed the 2023 self-assessment process for implementing the PFMI principles in accordance with the assessment and disclosure framework provided by CPMI-IOSCO[34]. The disclosure that is presented in this document, which is drawn up so as to express the results of the Clearing House's self-assessment, is publicly disclosed on TASE's website.

TASE-CH's self-assessment process for implementing the PFMI principles is performed once every two years. Additionally, every quarter TASE-CH publishes a quantitative disclosure, based on the methodology prescribed by CPMI-IOSCO, as a supplement to the information that is included in this self-assessment document.

Considerable information regarding securities trading volumes, prices and transaction values can be found on TASE's website.

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[33] Since September 1, 2014, the committee previously known as CPSS is now called CPMI; see also footnote 1.

[34] **Principles for financial market infrastructures: disclosure framework and assessment methodology**, CPSS (Committee on Payment and Settlement Systems, Bank for International Settlements: BIS) - IOSCO (Technical Committee of the International Organization of Securities Commissions), December 2012. http://www.bis.org/cpmi/publ/d106.htm.