

June 2025

## **Frequently asked questions - Proper Conduct of Banking Business Directive 461**

On 1.8.2025, Proper Conduct of Banking Business Directive 461, regarding "The Activity of a Banking Corporation as a Broker-Dealer" (hereinafter: "**Directive 461**") will enter into force. Directive 461, which applies to the entire Israeli banking system, is intended to regulate banks' activities in the field of capital markets and improve the risk management involved, with an emphasis on fairness and protection of investors.

According to the regulation, the Bank is required to **evaluate** the appropriateness of trade activities in securities and financial products that are defined as "complex products" to its customers, based on their knowledge, level of experience and understanding of the risks and prospects involved in this activity. Customers who seek to trade in complex products will be asked to fill out an online questionnaire. In addition, according to the regulation, the Bank is required to take all reasonable means to ensure optimal execution of transactions for the benefit of its customers ("Best Execution").

### **1. What is "Broker – Dealer Activity"?**

The Bank's activity includes receipt, execution and/or transfer of orders in financial instruments (derivatives, forex and securities) on behalf of customers, either as an intermediary (Broker) or as a principal trading on behalf of its nostro (Dealer).

- Leumi as a Broker – Leumi' trading room acts as an intermediary in securities trading in Israel (as a member of the Tel-Aviv Stock Exchange) and abroad, via foreign brokers, in a variety of assets: shares, bonds, ETFs, mutual funds and exchange traded derivatives.
- Leumi as a Dealer - Leumi' trading room trades at exchange rates, interest rates, goods and other derivatives, and executes over the counter (OTC) transactions as a principal.

### **2. Assessing the Appropriateness of Activity in Complex Products to the Customer**

#### **2.1. Why should the Appropriateness of activity in Complex Products to the Customer be assessed?**

As part of the Bank's duty of care and responsibility of trust towards its customers, the Bank assesses the appropriateness of the activity for customers in terms of the level of their understanding of the prospects and risks involved in the activity.

## 2.2. What are the financial products that the Bank defined as "complex products"?

The assessment process will only be performed in relation to complex products, as defined according to the regulation:

#	The Product Group	Description of the Products
1	Leveraged, securitized and hybrid Israeli and foreign securities	<u>Leveraged securities</u> - Securities that allow an investor to increase exposure to a market or a particular asset through leverage, such as derivatives, ETNs or leveraged bonds. <u>Securitized products</u> - Securities that are backed by assets or future cash flows such, as bonds backed by a loan or mortgage. <u>Hybrid securities</u> – Securities that combine features of stocks and bonds, such as convertible bonds, COCO bonds, etc.
2	Purchase and sale of traded options - Israeli and foreign securities and foreign currency options	A financial device that grants a right (not an obligation) to buy/sell a particular asset (such as shares, goods or currencies) at a particular price, at a future date or up to a certain date.
3	Structured deposits	Including with/without a guaranteed principal, DUCO.
4	Futures and options Transactions (Traded and OTC)	Including: Forward (not including Spot, Tom Next and SD), FX Forward, FX SWAP, FUTURES, Future Option.
5	SWAP transactions and interest rate options	Including: IRS ,IRX ,FRA ,Swaption.
6	Option writing	Activity approval processes ensure that the customer has sufficient knowledge and experience
7	Security lending	Lending of Israeli and foreign securities, Repo transactions, Securities lending through an agent. The work processes when joining the activity ensure that the customer has sufficient knowledge and experience
8	Highly complex products	Trading vis-à-vis the trading room takes place only against customers who have been found to have sufficient knowledge and experience.

### **2.3. In relation to who is the assessment process performed?**

In private accounts, the assessment process is examined according to each of the individuals authorized to operate in the account. In corporate accounts, the assessment process is performed at the corporation level.

### **2.4. How is the assessment process conducted?**

The assessment process relies on a knowledge and experience assessment, based on the completion of a questionnaire by the customer and/or the Bank's existing information.

### **2.5. What happens if the customer doesn't have sufficient knowledge and experience in a particular product group?**

If a customer seeks to give an order in a complex product, even though the Bank has determined that the customer doesn't have sufficient knowledge and experience, the Bank may allow execution of the order, subject to an advanced warning. However, in certain products, the Bank may, in its discretion, not allow the order to be executed.

## **3. What is "Best Execution"?**

The Bank strives to execute transactions for its customers efficiently, at a high level of service and in a competitive pricing. Best Execution means taking reasonable means to ensure optimal execution of the transaction, taking into account size, price, costs, speed and likelihood of execution and clearing in regulated markets - or outside regulated markets - where the bank operates. It is clarified that "Best execution" may not be achieved at all cases. The bank performs periodic controls and updates its execution policy accordingly.

## **4. What is a regulated market and when will activity outside a regulated market be allowed?**

A regulated market is a formal and supervised trading venue that operates according to regulation, such as the Tel Aviv Stock Exchange, Nasdaq, the London Stock Exchange, etc. In accordance with the Bank's policy, a purchase or sale of securities and/or financial products can also be executed outside a regulated market, while ensuring Best Execution and without the need for the customer's consent.

## **5. Is anything required from me?**

If your account involves activity in "complex products", or if you wish to perform a transaction in these products for the first time, you will be asked to fill out an online questionnaire in order to examine your suitability to operate in these products. Otherwise, no action is required from your end.