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Note: *In any case of discrepancy between this translation and the original circular letter in Hebrew, the original will govern.*

STATE OF ISRAEL
Capital Markets, Insurance & Savings Authority

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**REFERENCE TO THE STOCK EXCHANGE CLEARING HOUSES REGARDING
CAPITAL REQUIREMENTS IN ECONOMIC SOLVENCY REGIME BASED ON
SOLVENCY II- POSITION OF THE COMMISSIONER**

1. GENERAL

The Insurance Circular number 2017-1-9, from June 1, 2016, which deals with "The provisions for the implementation of an economical Solvency regime based on Solvency II" (hereinafter: "**Solvency Circular**") sets provisions for the calculation of the economic Solvency ratio of Insurance Companies based on Solvency II.

Part III of the Appendix to the Solvency Circular states that Insurance Companies are required to calculate capital requirements due to the default risk of Counterparties. In the footnote 216 to the Appendix, the Clearing house of future and financial instruments was excluded from the application of this directive and it was determined that it was not required to calculate capital requirement in respect of derivatives in which the counterparty is the Clearing houses of future and financial instruments¹.

On June 29 the Securities Authority announced that the Stock Exchange Clearing houses can be viewed as a Qualifying Central Counterparty (QCCP) in accordance with international financial infrastructure standards.

2. POSITION OF THE COMMISSIONER

In view of the above, the position of the Commissioner of the Capital Market, Insurance and Savings is that for the purpose of calculating the capital requirement in respect of insolvency risk, Insurance Company may not calculate a capital requirement due to counterparty's insolvency risk component for any exposure in which the counterparty is a Stock Exchange Clearing houses.

Dorit Selinger
Commissioner of Capital Market, Insurance and Savings

¹ The reason for this is that the Clearing House of future and financial instruments serves as a central counter party CCP in derivative trading, and therefore takes the risk that one of the parties will not complete its part of the transaction.