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24 March 2011

Via Courier

Ms. Ester Levanon, CEO
The Tel Aviv Stock Exchange Ltd.
54 Ahad Ha'am Street
Tel Aviv 65202
Israel

**Re: The Plan to Shift to T+1 Settlement in Israeli Equity Markets;
Issues Impacting Cross-border Institutional Investors and their
Global Custodian Intermediaries**

Dear Ms. Levanon:

We write on behalf of the members of the Association of Global Custodians¹ to convey members' views regarding the planned transition to settlement of equity securities transactions in Israel on Trade Date Plus One ("T+1"). To be sure, T+1 settlement would expand the settlement timeline in Israel from the current T+0 timeline, and the Association welcomes the evident recognition that an expanded timeline in Israel is needed and appropriate.

By providing additional process time, the shift to T+1 should lead to *reduced local incidence* of unmatched trades and failed settlements. However, cross-border investors and their various intermediaries face a number of complications and process challenges *beyond local market conventions* that affect the time required to affirm trade terms, provide settlement instructions, and take all necessary steps to complete settlement.

¹ The Association is an informal group of 11 member banks, listed on the letterhead above, that provide securities safekeeping and asset-servicing functions to cross-border institutional investors worldwide. Members provide custody-related services to most types of institutional investors, including investment funds, pension funds, and insurance companies; and in that role facilitate transactions and settlements of transactions for cross-border investors in Israeli securities markets.

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These challenges can be particularly acute in any market where the settlement timeframe is less than the global standard of T+3, and, significantly, the processing complications and resulting risks can affect cross-border investors' choice of investment destinations.

In the Association's comments below, we outline these complications and risks briefly and describe the value to global investors and intermediaries that would flow from globally-harmonized settlement timeframes in all markets, including in Israel. With that information in view, the Association encourages you to expand the scope of your transition plan by establishing settlement at T+3, or less ideally, T+2.

Current Global Settlement Timeframes Generally

T+3 settlement is standard for equity market transactions across the globe, though a few markets have considered a gradual move toward T+2 settlement. A recent Association member review of world markets confirms that only 3 markets of the 90 reviewed -- fewer than 4 percent -- have a settlement timeframe of T+0 or T+1.

Currently, T+1 settlement is largely confined to central bank/government securities markets. The capability of a central bank to coordinate payment and delivery in a single integrated system differentiates these situations from the general run of securities markets. Members believe it is difficult to draw conclusions based on those specialized examples about the capacity of globally-dispersed investors and their intermediaries to manage T+1 settlements in any routine way. In any case -- and particularly as compared to the T+3 global standard -- T+1 or even T+2 settlement timeframes effectively impose special trade-related costs, risks and process steps on cross-border investors' trades, which tends to reduce the appeal of tight-settlement jurisdictions as investment destinations for global investors' capital.

Factors Affecting Cross-border Investors' Trade Match and Settlement Capabilities

Non-resident investors and their remote and local intermediaries need more time than do local market participants to review and affirm trade terms and then take the necessary actions to facilitate settlement of the obligations. Communications among multiple parties, coupled with follow-on action steps by those parties, are essential to the handling of institutional investors' transactions generally, *but in the case of cross-border institutional investors' trades*, the complexity of communications and follow-on steps is compounded by the need for coordinated interaction among multiple parties in

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multiple locations, often spanning many global time zones. Time zone differences necessarily affect the ability of such dispersed parties to coordinate all required steps, and that fact amplifies the process time required to successfully complete confirmations of cross-border trades on T+0. Moreover, those timing dynamics pose particular constraint with respect to trades executed late in the trading day based on geographically remote investor instructions. As a result, with confirmation on such trades incomplete until T+1 or later, settlement actions typically cannot be completed until T+2 or the global standard, T+3. Additionally, completion of cross-border trade settlement is aggravated by the problems inherent in effecting and completing the necessary foreign exchange transactions, particularly in a T+1 (or, as at present in Israel, a T+0) environment.²

To be sure, progress has been made globally in adopting universal messaging standards and communication protocols, but market participants can only take advantage of this progress through an investment in technology that enables speedier communication of confirmation and settlement information and related action steps. That investment has not yet fully penetrated the various levels of entities involved in multi-party institutional trades. Without widespread adoption of the correct technology that can enable straight-through-processing -- coupled with the expertise to use it -- communications gaps and lags will continue to inject delays in confirmation/settlement processes. Thus, in members' experience progress toward STP to date supports rolling settlement on a T+3 basis, while a T+1 settlement timeframe presents material challenges at the confirmation stage as well as in respect of settlement; and those challenges multiply as volume increases.

² As is implicit in the text above, particular local process conventions can have differential and adverse impact on cross-border investors and their intermediaries. We note, for example, that the new T+1 regime will introduce a second batch settlement cycle for equity transactions. (Currently, there is only one daily batch cycle in Israel.) However, the second batch as currently designed will not be a full cycle since it will exclude new OTC instructions. We note that most cross-border investor activity is OTC, so excluding OTC instructions from the second batch will have particular differential impact on settlements of cross-border investors' trades. Including new OTC instructions in both batches, however, would level the playing field relative to cross-border investors, which we imagine is one goal of the proposed settlement timeframe change.

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Harmonizing the Israeli market settlement timeframe with the global standard should enhance the overall safety and soundness of local market settlement and increase the appeal of Israeli markets as an investment destination.

The Association encourages you to consider the value of harmonizing your securities settlement conventions with the T+3 standard found in nearly all major markets. In members' view, that step would reduce fails and the costs and risks of settlement delays for non-resident investors, which should increase settlement safety and soundness in Israel as a general matter. In any case, your efforts to reduce the special process costs associated with transacting in Israeli equity markets should encourage an expanded flow of cross-border capital to Israel.

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We appreciate the opportunity to convey members' views on these issues. Members stand ready to provide supplemental information and would be pleased to meet at your convenience. For additional information or to arrange a meeting, please contact the undersigned as an initial matter.

Sincerely, yours,



Dan W. Schneider
Baker & McKenzie LLP
Counsel to the Association