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Gearing Up Engines for the Sale of Israeli Credit Card Companies Leumi Card and Isracard

On 18 February 2018, the Bank of Israel published a long awaited document setting out criteria for receiving a control permit for controlling an Israeli credit card (or clearing) company. This publication follows the recently published reduction of interchange fee rates that await final confirmation by the Bank of Israel.

The background for the documents is the anticipated sale of the controlling interest in leading Israeli credit card companies Leumi Card and Isracard by Bank Leumi and Bank Hapoalim, respectively. These sales are the result of the “Strum Law”¹ from 2017 that requires Bank Leumi and Bank Hapoalim to divest their holdings in their credit card businesses in order to enhance competition in the Israeli credit market for households and small businesses.

In the document, the Bank of Israel mainly relies on the existing criteria already in place for receiving control permits for Israeli banks while introducing certain easements, notably the possibility for private equity funds to acquire credit card companies.

The main requirements and considerations applicable to potential acquirers include:

- A holding of at least 30% of the means of control in a credit card company which constitutes the controlling interest. In some cases this threshold may be reduced to an indirect holding of 20%, as long as the direct holding in the credit card company is at least 30%.
- One-third of the controlling interest may be pledged (i.e., 10%). Any shares exceeding the minimum holding requirement of 30% may also be pledged.
- Financial robustness demonstrated by equity equal to 150% of the value of the means of control constituting the controlling interest.
- In relation to an applicant that is a private equity fund, a current (or past) permit for controlling a similar corporation in an OECD country.

1. The Enhancement of Competition and Limitation of Centralization in the Israeli Banking Market (Legislative Amendments) Law, 2017.

- The experience of the fund managers and investment committee as officers or controlling interest holders in a similar corporation in an OECD country or in a corporation that controlled such corporation.
- Additional data shall be examined, such as the fund's leverage ratio and the level of decentralization among the limited partners in the fund. The management shall be required to demonstrate that receipt of funds from investors and limited partners is subject to anti money laundering examinations in compliance with OFAC, EU and Israeli policies.
- The means of control constituting the controlling interest shall be held by a trustee (as in the case of controlling interests in Israeli banks).

Financing the acquisition and dividends

The document states that the acquisition of a credit card company may not be financed by a vendor loan from the selling bank. Further, the dividend policy of the credit card companies requires approval of the Supervisor of Banks in the Bank of Israel.

It is noteworthy that the Bank of Israel has stated that it expects to approve/reject applications within four months from its confirmation that the required documents were provided.

According to local market estimates, Bank Leumi and Bank Hapoalim are expected to initiate the processes for the sale of the credit card companies within H1 of 2018. The banks are also examining the possibility of taking the credit card companies public and the chosen route will be affected by the price offers from potential purchasers and the pricing by the capital market.

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