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## Israeli market opens up to foreign mutual funds

In a revolutionary move in the retail securities market new regulations were recently approved allowing foreign mutual fund managers to distribute mutual fund units to the public in Israel, without undergoing the Israeli regulatory process. The Israeli mutual funds market with currently some ILS 200 billion under management is dominated largely by three main fund managers. Against that background, the reform was largely promoted by the Israel Securities Authority having the aim of increasing competition in the Israeli mutual funds market and diversifying the offering of investment opportunities available to local investors.

The reform presents a unique opportunity for foreign fund managers to tap into a large liquid market which until now was limited in the diversity of the foreign exposure it could acquire in terms of markets, sectors and geographies, in particular for small retail investors.

The premise of the reform is that the offering into Israel and management of the mutual fund are governed by the regulatory regime of the country of origin such that the offering document is not vetted by the Israeli Securities Authority nor is the fund manager supervised by the ISA. It follows that the reform required a balancing act between allowing access to the market on the one hand and protecting Israeli investors on the other hand.

To create this balance the regulations set out a number of conditions for mutual fund managers seeking to distribute units into Israel. These primarily include receiving a permit from the ISA based on the foreign rules applicable to them and after demonstrating compliance with the regulations. Other conditions aimed at assuring the quality of the foreign fund manager relate to its size. These require assets under management are excess of \$20 billion, the fund manager having at least five foreign funds whose units have been offered to the public for at least five years in which the assets under management are not less than \$500 million each. In addition, funds offered into Israel must already be offered to the public in other countries and have a minumim value of \$50 million. Practically, funds meeting this criteria will be those operating under the UCITS directive or the US Investment Company act of 1940.

Finally, the regulation sets a level playing field for local and foreign fund managers in terms of advertisement and compensation arrangements with distributors.

Barring delays in publishing in the official gazette, mutual funds are expected to be able to start distributing in Israel by Q4 of 2016.

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