

ISRAEL: AN INTRODUCTION

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OVERVIEW

The Israeli economy remained relatively stable in 2014, despite numerous unique challenges it faced. In July 2014, a violent conflict broke out between Hamas and the State of Israel. Although the violence lasted nearly 50 days, during which parts of Israel were attacked on a daily basis, the Israeli economy was not materially adversely affected.

As in previous years, public debate continued regarding the high cost of living, including rising prices of consumer goods, food, supplies, and most significantly, real estate property. This issue has retained a prominent place in Israeli public discourse since 2011 and we expect it to remain so over the next year. It is our hope that despite the tumultuous situation in the Middle East and global financial uncertainties, the Israeli economy will continue to flourish as it has in the past, including with the help of careful, moderate and thoughtful legislation and government regulation.

SURGE OF ISRAELI IPOs

Throughout 2014, we witnessed a continuing trend of Israeli companies successfully carrying out Initial Public Offerings (IPOs) of their securities on foreign stock exchanges. Although the most popular exchange was New York-based NASDAQ, some Israeli companies opted for other exchanges or jurisdictions. Conversely, despite the significant rise in the TA-25 stock market index (which follows the 25 companies with highest market cap on the Tel Aviv Stock Exchange), a significant number of companies delisted from the TASE.

DEBT RESTRUCTURINGS

The Israeli market is characterized by a relatively small number of strong conglomerates. Following liquidity difficulties caused by the economic downturn in recent years, several of those local conglomerates have attempted, some successfully, to reach debt reconstructing arrangements with their respective creditors. This trend continued in 2014, which saw several “haircuts” as part of such debt composition arrangements.

MAJOR LEGISLATIVE AMENDMENTS AND ENACTMENTS; REGULATORY DEVELOPMENTS

Enhancement of Competition

In December 2013, the Knesset (Israeli legislature) enacted the Law for the Advancement of Competition and the Reduction of Concentration, 2013, popularly referred to as the “Anti-

Concentration Law”. This new legislative action was enacted *inter alia* in response to the social activism that began several years ago and which has played a central role in the public discourse throughout 2014. The main goal of the Anti-Concentration Law is to increase competition in the Israeli markets, thus lowering prices and allowing for a more affordable cost of living. Among other things, the law mandates governmental regulators to take competition-related considerations into account when making regulatory decisions. In addition, the law introduced restrictions on certain pyramidal corporate structures and certain cross-holdings of financial and real-asset corporations. Similarly, the Restrictive Trade Practices Law, 1988 was amended and the Law for the Encouragement of Competition in the Food Industry, 2014 was enacted. Together, these laws aim to increase competition in the food industry, specifically by influencing the relationships and arrangements between farmers, manufacturers, suppliers, vendors, and retailers.

The Israeli Companies Law and Corporate Governance

During 2014, Israel saw the first effects of several amendments to the Israeli Companies Law, 1999. Amendment No. 20 deals mainly with compensation arrangements of executive officers and directors, and obligates the board of directors of public companies (subject to certain exceptions) to adopt compensation policies. Such compensation policies are adopted following consideration of recommendations of the statutory compensation committee (tasked with overseeing the compensation policy), and (usually) approval of a special majority of the company’s shareholders. The compensation policy, which should normally be adopted for a three-year period, must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders and must take into account various factors relating to both the company and individual office holder.

Amendment No. 22 addressed the issue of transactions with a controlling shareholder of a publicly-traded company or transactions in which such shareholder has a personal interest. Among other things, this amendment specified what role the audit committee must play in the approval of such transaction, the methodology that must be employed and the procedures and guidelines that must be followed. Most interestingly, Amendment No. 22 (subject to certain exceptions) required the audit committee, or a body appointed by the committee, to ensure a competitive procedure is undertaken in relation to such transaction.

Certain regulations promulgated under the Companies Law were also amended in 2014 and imposed new requirements on Israeli companies traded solely on foreign stock exchanges. For instance, such companies are now required to disclose the compensation of the five highest compensated officers, on an individual basis, in the notice of an annual general shareholder

meeting. The amended regulations also provide a framework for shareholders to influence the upcoming shareholder meeting's agenda or vote electronically.

Conflicting Approaches in Regulatory Developments

Another trend observed in 2014 was the conflicting approaches in the government's regulatory policies and the Knesset's approach towards governmental regulation. While regulatory reliefs were observed in certain fields, such as zoning and planning, in other fields mixed approaches were found, such as with the regulation of publicly-traded companies and anti-trust. For instance, notwithstanding the new requirements imposed on publicly-traded companies (see above), certain reliefs were offered to emerging growth companies wishing to go public (especially in the fields of life sciences and high-tech).

The Regulation of Credit Rating Agencies Law

The Regulation of Credit Rating Agencies Law, enacted this year, subjects credit rating agencies to the Israel Securities Authority's scrutiny and sets forth the requisites for qualifying as a credit rating agency. Furthermore, the law specifies certain principles and procedures that must be implemented as part of ongoing operations, which relate to, *inter alia*, transparency, independence requirements and the methodology for determining a corporation's credit rating.

TAXATION

This year, the Israel Tax Authority ("ITA") launched a new voluntary disclosure program, which enables non-compliant taxpayers to come forward and arrange their reporting and tax obligations in exchange for which the ITA (in collaboration with the State's Attorney) undertakes not to initiate any criminal proceedings against such taxpayers. The new program applies to any undisclosed income and assets, whether in Israel or abroad, passive or active, and is in effect until the end of 2016.