

## Israeli Regulator Warns Fund Managers to Improve Data Security

By Matthew Kalman

Posted March 28, 2019, 4:18 PM

- Regulator suggests companies adopt survey “insights,” holds off on enforcement
- Compliance information goes beyond 2017 privacy protection regulations

Israel’s privacy regulator has directed investment portfolio managers of local and multinational companies to review their data security practices after finding that businesses weren’t complying with the country’s privacy law.

The Israel Securities Authority (ISA) March 6 sent a letter to more than 120 fund managers whose licensed investment management companies were surveyed in 2018 for compliance. The regulator said the survey exposed serious lapses in adherence to Israel’s 2017 privacy protection regulations, but offered no further details.

“The ISA issued this paper because they are serious about information security. It is a real threat,” Assaf Harel, a partner and head of the cybersecurity and privacy practice at Gorntizky and Co. law firm in Tel Aviv said. “The ISA mentions that they are planning to include information security and compliance with the relevant requirements in audits that they may conduct in the future. This could have an impact on portfolio managers and the expectation is that they will implement it.”

The regulator warned the fund managers that the law mandates data security and that the ISA will consider compliance part of any audit it performs on a company.

“Portfolio management companies must take the necessary actions to protect, among other things, the information relating to their customers (and in particular, the customer database),” the ISA said in the letter.

The ISA will conduct “a dialogue on information security risks,” particularly with companies the survey found to be less compliant, it said in its letter.

The regulator sent a survey report with the letter that included 27 “insights” on data security, such as advice on software updates, remote access and user authentication. The report includes technical details on how to address some of these issues that aren’t included in the privacy regulations. It also offers advice on protecting physical documents and discussing data security policy at the company’s board level, neither of which the existing regulations include.

The insights aren't enforceable regulations, and the ISA gave no deadline for when companies should apply the insights, leaving some ambiguity as to whether the 27 items in the memo are mandatory for regulated companies.

"The aim of these insights is to raise the level of the preparedness of the companies to deal with security threats and the dangers they pose," an ISA representative said March 26. "We can impose sanctions in those cases where there are violations that could harm the obligation to protect the confidentiality of clients' information."

Multinational investment managers contacted by Bloomberg Law confirmed they were studying the memo but declined to comment on internal procedures.

The authority's policy "seems to be evolving," Yoheved Novogroder-Shoshan, a technology and privacy law partner at Yigal Arnon and Co. law firm in Jerusalem said.

"I think we should take this as an indication of the policy that the regulator intends to apply to regulated companies," she said. "The fact that the validity of the license will depend on privacy and data protection and cyber compliance is quite significant."

The ISA's insights are similar to market-specific regulations in Israel's banking and insurance sectors, said Dalit Ben-Israel, a partner and head of the IT and privacy practice at Naschitz Brandes Amir law firm, in Tel Aviv.

"The question is how will they implement and enforce this specific document. They aren't saying," Ben-Israel said. "Unlike GDPR, which is more or less a principle-based law, our data security regulations are very prescriptive and some of the requirements are difficult for international vendors to comply with. This document is even more prescriptive."

To contact the reporter on this story: Matthew Kalman in Jerusalem at [correspondents@bloomberglaw.com](mailto:correspondents@bloomberglaw.com)

To contact the editors responsible for this story: Rebecca Baker at [rbaker@bloomberglaw.com](mailto:rbaker@bloomberglaw.com); Keith Perine at [kperine@bloomberglaw.com](mailto:kperine@bloomberglaw.com)