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AI, Crypto, and Investment Services: Two Regulatory Developments to Watch

Client Updates

Two regulatory proposals published for public comment could mark important changes in Israel's financial regulatory landscape. While addressing very different areas, both proposals point toward a broader regulatory approach: bringing new technologies and digital assets more firmly within existing regulatory frameworks.

AI in Investment Services: Beyond the Robo-Adviser

The Israel Securities Authority (ISA) has published a draft directive addressing the use of technology, including AI, by licensed investment advisers, investment marketers, and portfolio managers.

The proposed directive may have a broader reach than initially meets the eye. It is not limited to businesses offering automated investment services or AI-powered platforms. Licensees using AI internally for research, analysis, or client services may also need to assess whether their activities fall within its scope.

At the heart of the proposal is a greater emphasis on internal accountability and ongoing oversight. Before adopting a technology, licensees would be required to assess its risks and materiality, and revisit that assessment at least annually or following any material change. They would also need to monitor the technology on an ongoing basis and appoint a designated person responsible for technology-related oversight.

The requirements would become more demanding as the risks increase. For higher-risk and more material uses, licensees would need to be able to explain how and why a particular output was generated. Where this is not possible, additional safeguards – such as enhanced monitoring or human approval – may be required. If these safeguards are insufficient to adequately mitigate the risks, the technology could not be used to provide the relevant service.

Comments may be submitted by the public by December 6, 2026.

For the full proposal draft (in Hebrew): click here

Digital Assets Enter the Securities Framework

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In a separate development, the Ministry of Finance has published a legislative memorandum proposing to bring digital investment assets within Israel's existing securities regulatory framework. Rather than establishing a standalone regulatory regime for crypto, the proposal would extend existing ISA licensing frameworks to these assets, with additional requirements to be set out in future ISA directives.

The implications could extend well beyond crypto trading platforms. Investment service providers would also be affected: investment advice, investment marketing, and portfolio management involving digital investment assets would fall within the Investment Advice Law, potentially requiring an ISA license even where the services relate exclusively to digital assets. In addition, digital assets transactions would be classified as involving special risk, meaning that portfolio managers would need to obtain the client's prior written consent before carrying them out.

Trading platforms would also face significant changes. Multilateral trading in digital investment assets would be brought within the ISA's stock exchange licensing framework, including foreign platforms serving clients in Israel. Existing Israeli operators holding a financial asset service provider license from the Capital Markets Authority could therefore need to obtain an ISA license.

Not all digital assets would fall within the proposed framework. Certain assets, including fiat-referenced stablecoins used for payment, would be excluded from the definition of digital investment assets. However, existing securities laws would continue to apply where an asset independently qualifies as a security.

Comments may be submitted by the public by November 22, 2026.

For the full memorandum and the explanatory notes (in Hebrew): click here

What Comes Next?

Both proposals are still at the draft stage and may change as the consultation and legislative processes progress. Nevertheless, they signal potentially meaningful changes for businesses operating in the investment services and digital asset sectors.

Our firm has specialized expertise in fintech and digital assets, as well as in investments, trading, and financial instruments. We invite you to contact us with any question or for consultation regarding the proposals, including mapping your activities against the proposed definitions, preparing for licensing, and submitting comments.

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