

Press Release

Economics Committee Approves Finance Minister's Regulations Restricting Conflicts of Interest in Managing the Public's Savings

Finance Minister Roni Bar-On: "This is an important regulatory measure, which will improve the protection of savings"

Today, the Knesset Economics Committee approved the regulations submitted by Minister of Finance **Roni Bar-On** concerning buying and selling of securities and buying of securities in specific offerings. The regulations approved today prevent institutional entities (provident funds, pension funds, and insurance companies) from conducting brokerage activities (buying and selling securities) through "stock exchange members" (stock exchange members carry out securities trading activity on behalf of the institutional entities) belonging to the same group. For example, a particular provident fund will not be permitted to buy securities through brokers belonging to its group or related to it through various types of ownership ties. The Economics Committee further approved regulations limiting the rate purchased out of offerings of groups of institutional entities related to the underwriters or distributors participating in these offerings.

Execution of securities transactions

Securities transactions are a component of the investment activity of institutional entities (provident funds, pension funds, and insurance companies); the prices of these transactions therefore also have an impact on the profits of those with savings in these entities. This activity may be affected by the links between the institutional entity and a "stock exchange member" related to that entity. A conflict of interest may form in which the stock exchange member operates based on profit considerations that may not be in the best interests of those with savings in that entity.

In order to eliminate such conflicts of interest, it has been established that institutional entities may not buy or sell securities through "stock exchange members" to which they are related. In addition, in order to ensure that the process of selecting a stock exchange member through which transactions will be executed is performed properly, the new regulations stipulate that institutional entities must conduct a competitive procedure to select stock exchange members to work with. The outline of the competitive procedure is to be approved by the investment committee of the entity, in order to ensure that securities transactions are performed at the optimal terms and prices. This competitive procedure is to be performed once every three years, with at least four participants.

Purchases of securities in offerings

Underwriting activity in Israel is characterized by a conflict of interest, in that investment houses manage savers' money, on one hand, while also conducting underwriting and securities distribution activities, on the other hand. In other words, in its role as a manager of the public's savings, the investment house purchases securities; and in its second role as an underwriter, it sells those securities on the capital market. This conflict of interest leads to two situations:

In "good offerings," the underwriter can reward the institutional entities related to it so that they purchase a greater share of the offering, at the expense of other parties unrelated to that underwriter.

In "bad offerings," the underwriter can use its related entities to avoid fulfilling its obligation.

In order to ensure that investment decisions are made by managers of institutional entities based solely on professional considerations, it has been established that, in the next two years, a group of institutional entities with over NIS 10 billion under management may buy up to 15% of an offering in which an underwriter related to the group participates. After two years, the maximum purchase rate will decrease to 10%. Note that this limit will apply to offerings of both tradable and nontradable securities.

This regulation will allow the entry of new players, including foreign underwriters, into the underwriting field.