



Israel Securities Authority

Enhancing The Market  
to Drive the Economy

# Strategic Plan

2019-2022

## Contents

3

Message from the Chairwoman

5

ISA's Values

6

ISA's Vision and ISA's Strategic Objectives

7

The Scope of ISA's Oversight

9

ISA's Goals for the Coming Years

10

ISA's Goals // Maintaining a fair market

11

ISA's Goals // Enhancing the public market

13

ISA's Goals // Advancing technological innovation in the capital market

15

ISA's Goals // Promoting competition in the capital market

## Message from the Chairwoman

The Israel Securities Authority (ISA) operates under the Securities Law, which prescribes the role of the ISA to "protect the interests of the public investing in securities". Throughout its fifty-year history, the ISA has fulfilled this role professionally, actively, with dedication and determination, employing a balanced use of its tools of regulation, supervision and enforcement.

Since undertaking my position as the ISA chair about a year ago, I have engaged in a systematic process of articulating the ISA's strategic vision and objectives. This ongoing process included a thorough examination of the ISA's functions its approach to oversight, an analysis of investor and market needs, as well as the characteristics typical of successful capital markets abroad, and the special characteristics of Israel's economy.



Over the past year, we have held discussions with numerous market participants and outside experts, and have adopted the "open space" approach to create a unique encounter of the above with the ISA staff, to encourage free discussion and thought, and to generate new ideas and directions within the context of capital market regulation and reform.

This process has reinforced my views regarding the essential need to further develop Israel's public capital market as part and parcel of our national interest. This interest in market development relates to each and every Israeli citizen. A developed and efficient public capital drives the growth which is so vital to the Israeli economy. The public capital market enables efficient investment and therefore facilitates the achievement of two major objectives: the diversification of investment and savings opportunities for the public and the ability of business enterprises to raise capital to finance their activities and investments. The public capital market is designed first and foremost to serve the investing public and the local economy. It facilitates the efficient allocation of economic resources, promotes business activity and contributes to economic growth and employment. In addition, the public capital market provides Israeli companies with access to deep, readily accessible and cost-effective pools of capital for both equity and debt financing, and in so doing, enables these companies to launch and expand their activity, generate expertise, cultivate competitive advantage, diversify activity, enhance services, and develop high-quality products - the foundations on which they can enlarge their work force.

Simple logic, economic research and empirical evidence indicate that vigorous ties exist between a strong and vibrant local public capital market and a stable growth economy. Even a cursory glance around the world demonstrates a strong correlation between mature economies and well-developed, active public capital markets.

The plan we formulated is based on **the principle that it is incumbent on the Israeli capital market to support economic development in Israel**. This strategic goal will serve as a compass that will guide us when considering steps and measures to promote our market. They will be examined, inter alia, through the prism of whether and to what extent they contribute to the Israeli economy.

In articulating our goals for the coming years, we understand that the future has many challenges in store. Technological developments are changing consumer lifestyles in general, and present challenges, which beckon changes in how financial services are provided to investors.

In my view, a regulator should aim to anticipate the future in order to adjust the regulatory infrastructure to market changes and trends as well as to shifting global standards, so that the interests of the investing public are preserved and market oversight remains relevant. Regulation should address two overlapping needs - capital market development and the quality and scope of investor protection. The goal of simultaneously addressing these two needs can be achieved through a relentless pursuit of the values governing fair markets, through supervision and enforcement, and continuous, incessant and relentless work. Such work significantly contributes to reinforcing public confidence in the Israeli capital market, which in itself is a prerequisite for the market's vitality and strength.

In addition, it is my opinion that the Israeli capital market has reached a level of maturity and size which enables it to adopt behavioral norms in the form of self-regulation, similar to that practiced in the world's developed markets. I will therefore work to encourage self-regulation in the local market where and when possible.

It is important to underscore the fact that the capital market is part of a larger financial system. There is a need, therefore, to collaborate with government ministries and other financial regulators to drive the capital market to the next level to enable it to further develop and thrive.

I would like to thank the entire management team and the ISA's excellent staff, with which I have the privilege to work to achieve our common goals.

**Anat Guetta**  
Chairwoman, ISA



## ISA Values



### Integrity and fairness

The ISA adopts high standards of fairness and integrity in its operations, and exercises its authority in a thoughtful, equitable, substantive and measured manner.



### Transparencys

The ISA endeavors to operate under a high standard of transparency based on the desire to generate certainty and clarity, pursuant to its being responsible for overseeing disclosure in the capital market.



### Excellence

The ISA works towards improving its capabilities and towards deepening its expertise in capital markets and all areas of its activity, while continually improving working procedures and systems.



### Relevancy

The ISA works towards continually examining market developments and investor needs in Israel and abroad with the aim of supporting an advanced and attractive capital market.



### Accountability

The ISA operates under an ethos of accountability, which includes assuming total responsibility and taking the potential consequences of its actions into consideration.



### Effectiveness

The ISA operates to achieve its goals efficiently, through a prudent use of its resources.



### Partnership

The ISA, as part of Israel's financial system, works to foster cooperation and know-how for the protection of the public interests and development of the market.

## The Vision

The Israel Securities Authority will work to establish and enhance an attractive, fair, competitive and innovative public capital market with the aim of contributing to the further development of the Israeli economy, while protecting the interests of the investing public.

## Strategic Objectives

**Investors  
Protection**

- Enhancing the Public Market
- Technological Innovation
- Fair Market
- Competition



# The Scope of ISA Oversight

## Regulated Entities

Daily trading volume in TASE  
**NIS 5.5 Trillion\***



447

Public Companies



88

Bond Issuers



22

Stock Exchange  
Members



3,760

Individual Licensees



1,483

Mutual Funds



610

Exchange-Traded  
Funds (ETFs)



5

Licensed Trading  
Platforms



22

Underwriters



2

Credit Rating  
Agencies

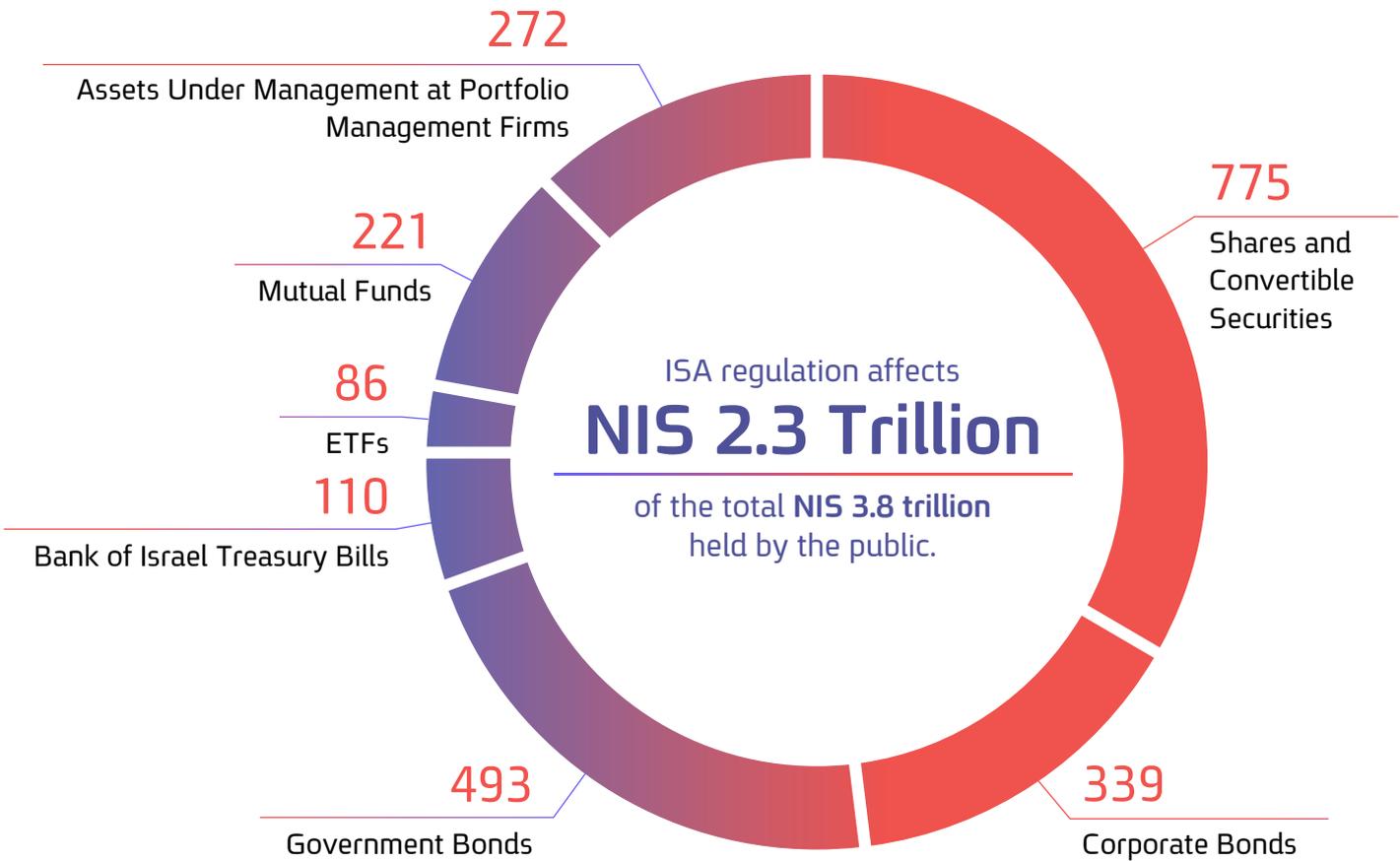


163

Portfolio Management,  
Investment Advisory  
and Investment  
Marketing Firms

\*Total trading volume on the TASE, including OTC

# Market Capitalization



Figures are current as of January 2019



Enhancing The Market  
to Drive the Economy

**ISA's Goals  
for the Coming Years**

## Maintaining a Fair Capital Market



Fostering and maintaining a secure, reliable and fair environment in the capital market is one of ISA's key goals. A fair and orderly market is a necessary condition for the participation of private and institutional investors, Israeli and foreign alike. It is a market that participants find trustworthy and reliable. It is a market in which participants believe that the ability to profit is not reserved for "insiders". Accordingly, the ISA will endeavor to continue to preserve the fairness of the capital market through the effective exercise of the regulatory, supervisory and enforcement tools at its disposal.

In the coming months, the ISA will release a comprehensive policy statement on enforcement, explaining its enforcement activity and tools. The policy statement will cover both the ISA enforcement activity and its involvement in private enforcement.

The ISA will continue to engage in relentless, proactive, independent enforcement regarding all transgressions of Israel's securities laws deemed detrimental to public confidence in the capital market. The ISA will exercise its discretion in the enforcement of the laws under its purview, vetting cases expediently and equitably, while weighing the various considerations stipulated in the Securities Law. In order to ensure effective enforcement, the ISA will expend extensive resources to enhance and consolidate its investigative and intelligence as well as its oversight and enforcement capabilities.

The ISA will examine its oversight systems, measuring resources and outputs against desired supervisory goals, aiming at improving their efficiency and alignment with accepted standards in comparable markets.

The ISA will act to bolster the position of gatekeepers, the role of which is to prevent potential failures deemed detrimental to the investing public and to warn the public of such failures. This includes reinforcing the status and duties of trustees, increasing the oversight of underwriters and distributors, setting best practice standards for gatekeepers, such as audit committees, directors and institutional investors, and examining the means of oversight and enforcement applied to auditors.

In addition, the ISA will encourage corporations and financial services providers to engage in effective self-enforcement, which will serve as a first ring of investor and client protection.

## Enhancing the Public Capital Market



The ISA regulates corporations which have offer securities to the public under a prospectus, regardless of whether the securities are traded on a stock exchange.

Over the past decade we have witnessed a continual upward trend in so-called "alternative investments", and a decline in the scope and attractiveness of the public capital market.

This decline can be attributed to myriad factors, including: falling interest rates; an ongoing marked increase in retirement savings and the channeling of substantial portions of these funds abroad and to vendors of various non-tradable assets; the development of new capital-raising opportunities in the private market, such as Israeli and foreign private funds, which provide large-scale financing to corporations; the brisk development of Israeli institutional investor activity as the suppliers of private financing, coupled with an inability of the public market to offer sufficiently wide-ranging, attractive alternatives to address the growing demand for investment; and technological developments.

The relative retreat of the public capital market does not coincide with Israel's public and national interest, since public markets offer unique advantages, which are absent from other investments. These advantages are critical from the standpoint of investor protection. They include, inter alia, the following:

- The public market is a regulated and transparent market, in which the investing public is provided all relevant information regarding the securities traded on it.
- The market for publicly traded securities is liquid, and the information regarding the value of the traded assets is more reliable.
- The public market enables investment in local currency, which correlates with the financial exposure of Israeli pension and provident funds.
- The public market facilitates a free exchange of opinions regarding asset prices, and as such, enables more reliable price discovery.
- The public market facilitates oversight and transparency regarding the manner in which public savings are invested and the manner in which Israel's largest companies are run.
- The public market is open to all, and the presence of large investment institutions in it benefits all other participating investors.

The ISA will endeavor to enhance and expand Israel's public market to make it the first and leading choice for retail investors as well as the institutional investors, which manage the public's financial assets and for the business enterprises seeking financing to grow their businesses. The ISA will work to promote a series of topics supporting this endeavor, including, among other things:

- Encouraging additional companies to publicly list their securities;
- Significantly strengthening the ties and integration of Israel's high-tech industry in the local capital market
- Increasing the free float of exchange-traded companies;
- Paving the way for additional trading platforms such as a secondary exchange;
- Improving public offering systems to increase the certainty among companies considering an offering and to encourage the participation of large institutional investors in public offerings;
- Enhancing information and market research in the capital market to encourage the professional analysis and pricing of publicly traded companies;
- Reducing unregulated activity targeting retail investors;
- Expanding the array of financial instruments suitable for long-term investment;
- Broadening the array of exchange-traded products, including securitized assets;
- Enhancing the investment alternatives open to mutual fund managers;
- Deepening cooperation in the area of dual listings;
- Removing entrance barriers for foreign investors in terms of the language and textual format of reports on the MAGNA (the ISA's online filing system).

## Advancing Technological Innovation in the Capital Market



The past decade has been characterized by the accelerated development of breakthrough technologies, with the introduction of innovative market technologies, including technologies for financial markets. The field of specialized financial technologies, known as "Fintech", is designed to improve access to as well as the efficiency and cost-effectiveness of financial services. This development has generated drastic changes in financial systems, as it transfers power from traditional commercial service providers to Fintech service providers and the consumers of these services. As a result, the role of financial intermediaries diminishes and payments to them decline. The scope of investments in Israel and around the world in the Fintech industry has grown considerably over the past few years, and Israel is a leading innovator in this field.

The aforementioned technological developments facilitate investor accessibility to a wide array of new and varied investment products, and afford companies unmediated access to new pools of investors. In light of these developments, the investing public has changed its habits with regards to financial services, and a new wave of young end-users has entered the market. This trend is expected to gain further traction in the coming years. In addition, technological innovation facilitates the mitigation of financial activity risk (a subject which was traditionally the purview of regulation) as well as efficiency in supervision through the launch of online self-service interfaces.

At the same time, however, technological changes challenge existing modes of regulation, which were designed decades ago, and as a result, the structure and manner in which regulation operates must be adjusted

Israel is at the forefront of innovation and is considered one of the leading countries in the field of high-tech entrepreneurship. Still, the Israeli capital market has yet to adopt advanced applications that match its position in this industry. The poor productivity seen in the finance and insurance sectors is due to their relatively slow adoption of technological innovation. As a result, there is a significant disparity between Israel's image as a "start-up nation" and the existence of a smart and advanced capital market - a situation which impinges on the quality of service which consumers could receive.

Understanding that Fintech technologies can promote investor welfare, the ISA intends to examine and track technological trends and developments. In addition, it intends to verify that it responds expediently and creatively to changes occurring in other markets, and that it creates a supportive regulatory environment to accommodate new activity, while addressing its inherent risks.

As a preliminary step, the ISA established the Fintech Innovation Hub, which is designed to provide regulatory assistance to technology companies developing new products for financial services.

During the past year the ISA has been engaged in the area of digital assets and Blockchain

technology. The ISA will continue to study the digital assets field, which at this point in time is characterized by sharp volatility and myriad risks. It will aim at developing the means to address investor protection while enabling growth in this field for the benefit of the Israeli industry and economy.

The ISA will work to proactively promote innovation, particularly in the area of Fintech with an eye to the future and mindful of its duty under the law. Among other things, the ISA plans to work towards removing barriers related to Fintech industry; promote Regulation-Tech and Supervision-Tech; enhance financial education; and deepening the knowledge and technological skill set of its staff.

## Promoting Competition in the Capital Market



The Israeli capital market is characterized by a high level of concentration in financial services and management of the public's financial assets. The banking system plays a key role in the capital market. Until approximately one year ago, banks held a large share of Israel's sole stock exchange and they still account for the majority of the brokerage services, retail investment advisory services and consumer credit provided to the public.

The public's portfolio of financial assets reaches approximately NIS 1.7 trillion, and the lion's share of investment activity in it is conducted by institutional investors. Five insurance companies currently manage the majority of the public's financial assets.

The reform of banking and financial services (known as the Strum Law) which was designed to enhance competition in the financial system, is advancing a process to reduce concentration and transfer some financial services currently provided by banks to other companies.

Healthy and effective competition enhances market efficiency and leads to the improvement of services and product offerings made available to the investing public. It also encourages innovation, reduces costs to consumers and improves the competitiveness of the local market in a global context. In addition, competition and an increase in the number of players contribute to the market's stability, liquidity and efficient price discovery. Hence, competition is necessary for the existence of a stable, active and efficient capital market.

In order to insure sufficient competition for the investing public the ISA will act to ensure that all relevant information will be disclosed to the public, facilitating the ability to compare services and product offerings, while affording investors the ability to easily and seamlessly switch service providers.

From the standpoint of the regulated entities, the ISA will work to ensure that existing regulation does not include unnecessary barriers to entry. It will strive to make sure that first-mover status, size and access to information or customers are not exploited to crowd out competition.

The ISA will endeavor to promote competition in the capital market to augment market efficiency, make it more accessible to the public and render it attractive to investors operating in world markets. Among other things, the ISA will welcome the activity of new financial and digital intermediaries to promote competition in brokerage services and mutual fund distribution in Israel. In addition, the ISA will work to remove barriers hindering the activity of the managers of other people's money - i.e., mutual fund managers and portfolio managers - under its supervision.

The ISA's activity to promote competition in the capital market will be conducted in close cooperation with the Ministry of Finance, fellow financial regulators, and as a matter of course, with the Competition Authority, which is the regulator specializing in promoting competition in Israel. This cooperation is already reflected in the work done recently by the ISA and the Competition Authority on competition in the market for brokerage services.



**Israel Securities Authority**