

## Client Update

### Non voluntary trading Registration of foreign companies traded abroad



Dear friends and Clients,

On July 14, 2015, the Israeli Securities Authority ("**the Authority**") published a proposal for new legislation that would enable the registration of shares of foreign companies traded abroad without the need to obtain their consent to do so (the "**proposal**" or the "**non voluntary registration proposal**").

#### 1. **General:**

1.1. As part of the joint efforts of the Authority and the Tel Aviv Stock Exchange ("**TASE**") to improve liquidity and trading in the stock market, it has been proposed that Israel should adopt a mechanism that will allow the registration of shares of very large foreign companies, traded abroad (one or more), which are recognized for the purpose of the dual listing mechanism under Chapter E'3 of the Securities Law, 1968 (the "**Securities Law**", "**Dual registration**" and "**Foreign stock exchange**").

1.2. The proposal outlines a mechanism for non voluntary registration which will give rise to the possibility of foreign shares being traded on the TASE. Accordingly, the TASA may register shares of foreign corporations that are listed for trading on foreign exchanges, after the TASE has examined whether the shares meet the conditions prescribed for the purpose of their listing, as detailed below. Upon the opening of the trading of such shares, investors will be able to buy and sell these shares, as with any other shares listed on the TASE.

## 2. **General conditions applicable to the non voluntary registration proposal:**

2.1. The trading of shares in accordance with the proposal does not require the consent or involvement of the foreign company. In addition, the trading will not be limited to particular investors, but will be open to all investors - both retail investors and institutional investors.

2.2. Non-application of duties of disclosure under the securities laws in Israel: in relation to non voluntary registered securities, the disclosure requirements will not apply to the foreign company's activities, the publication of a prospectus, or ongoing reports.

2.3. The rights of the holders of foreign shares: the holding of shares of the foreign company will be regarded as direct holdings, by which investors will be entitled to rights such as rights to dividend and voting in the company.

## 3. **Restrictions concerning the non-voluntary registry:**

3.1. Recognized stock exchanges: It is proposed to limit the non-voluntary registration proposal to overseas stock exchanges only. It is also proposed to remove from the scope of the proposal, shares that are entitled to regulatory relief in relation to the applicable regulation, if the company has invoked these reliefs.

3.2. Non-Israeli companies: the proposal limits the registration of the shares to companies that do not have an Israeli connection. Accordingly, it will be necessary to demonstrate that: (1) The Company was incorporated overseas; (2) Most of the company's business is overseas; (3) A majority of the board members or officers of the Company are not residents or citizens of Israel; and (4) more than - 50% of the Company's assets are located overseas. In addition, it is proposed that non-voluntary registration will be allowed as long as the trading volume of the foreign stocks in the countries whose stock exchanges are recognized for the purpose of the proposal, amounts in aggregate to at least 55% of the total trading volume in these shares.

- 3.3. Restrictions regarding market value and trading period: the proposal limits the non-voluntary registry of shares to foreign companies having a market capitalization minimum of US\$100 billion. This amount will be linked to one of the leading stock indices, adapting to changes which may occur in the market. It is also proposed to limit the registration of shares to companies listed on the stock exchange for at least a year.
4. The date when considering the above-mentioned conditions: the restrictive conditions listed above must exist both at the time of the foreign stocks trading for the first time, and subsequently. Accordingly, it is proposed that the TASE will consider the existence of the conditions (referred to above) twice a year, and if one of them is not met, then the shares will be removed from trading. Regarding the market capitalization threshold: the shares will only be removed from trading if their market value on foreign exchanges, at two consecutive points in time, was less than US\$90 billion.
5. Proposed legislation: In accordance with the above, the necessary legislative amendments have been proposed for establishing the non-voluntary registration, such as exemption from the rules of disclosure under the Securities Law; and amendment of section 46 of the Securities Law, which deals with equal voting rights and requires the issuance of one class of shares. Accordingly, the section does not apply to the non-voluntary registration. In addition the Authority has drafted Securities Registration (trading of shares of foreign corporation traded abroad), 2015, which set out the terms applicable to a non-voluntary registration.

For the full version of the position – [click here](#)

We will be happy to answer any questions or clarification on the matter.

The proposal in question is a version for public comments; accordingly, comments will be accepted until August 4, 2015. Herzog Fox & Neeman takes an active part in shaping the regulation in field of corporate and securities; we send routinely comments on behalf of our clients in order to adapt the regulation to the needs of the market in general and our clients in particular. Accordingly, entities who wish to send us their comments may do so, and we will send such comments to the ISA. Accordingly, we will update interested entities regarding the aforesaid procedure, and the current legislative situation.

Sincerely,

Herzog Fox & Neeman

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