

From Man to Algorithm: Digital Asset  
Management, Elgo-Trading

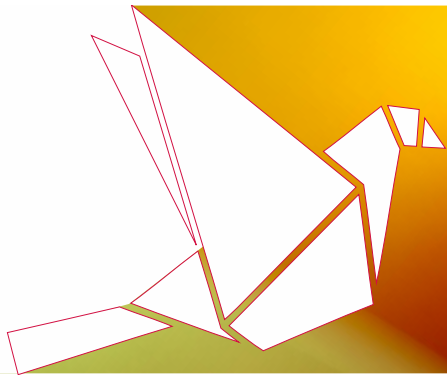
A revolution In Private Equity Real Estate: The  
First Prospectus

Regulatory Changes in Motion

Most Significant Trends In The Securities Field  
- 2016

Dear clients and friends,

As 2016 comes to an end, we would like to present you with an annual summary of the changes, updates and trends of the past year, which are characterized by the **development of specialized technologies in the field of financial services, the appearance of classic wealth management and banking services in the digital world, as well as changes in the field of private equity real estate, which have now become available to the general public.**



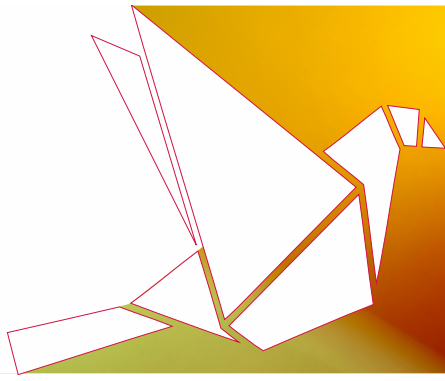
Our firm has played a significant role in steering key business and legal processes over the course of 2016, as well as in establishing new legislative arrangements.

This document briefly reviews the trends that affected the financial world during 2016 and the related legal aspects relevant to investors in the relevant fields. We would also like to take this opportunity to present you with an overview of HFN's legal work during the year and our predictions for 2017.

## Man vs. Machine: Investment Services in The Digital Age

If up until now we have grown accustomed to *people* making investment decisions, recent technological developments have radically changed the picture. Today, computers have become the investment advisors, portfolio managers are robots and investment decisions are often made using mathematical algorithms. Signal services, robot and social trading – have all taken the Israeli market by storm, resulting in the tightening of regulations in the applicable fields.

2016 was characterized by the regulation of the digital investment services sector, which managed to "slip under the radar" in previous years. According to the latest guidelines of the ISA, robot trading is now regarded as portfolio management and signal services constitute investment advice. Accordingly, a person who provides such services is required to obtain a license under Israeli law. The ISA's guidelines now establish rules regarding the provision of those services which companies in the



relevant field must implement and integrate within their organization. To read our client update on the subject, [click here](#).

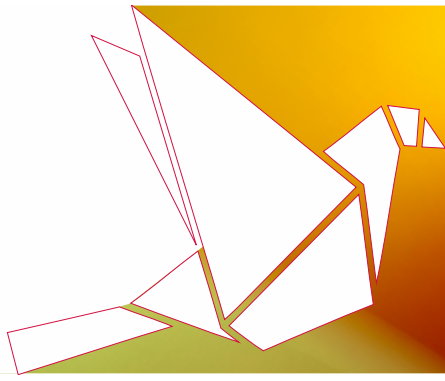
### **What awaits us in 2017?**

The growth rate of the digital investment services sector has attracted investors of all types, including countries, venture capital funds and private investors. Given the multiplicity of new players, investment houses and traditional financial institutions will need to adjust their operations and adopt digital investment services in order to remain relevant in the industry.

## **Wisdom of the Crowd: Online Financial Platforms and the Cooperative Economy**

The development of specialized technologies, and the lack of trust in traditional financial institutions, has led to the rapid development of alternative financial platforms and cooperative economic projects worldwide (e.g. Uber, Airbnb, Kickstarter). As part of this trend, we have witnessed significant developments in the field of peer-to-peer lending (P2P), lending by businesses (B2B) and other online financial platforms. Furthermore, the Crowdfunding industry is growing rapidly around the world, and continues to develop in Israel. For example, recently, a law was enacted to promote investment in the high-tech industry. The aim of this law is to enable young start-ups and small and medium businesses starting out, to raise funds from the public through crowdfunding sites, without the need to publish a prospectus.

The Israeli public's expressed interest in these platforms has garnered the attention of the various regulators which have begun to regulate the sector, and accordingly, to

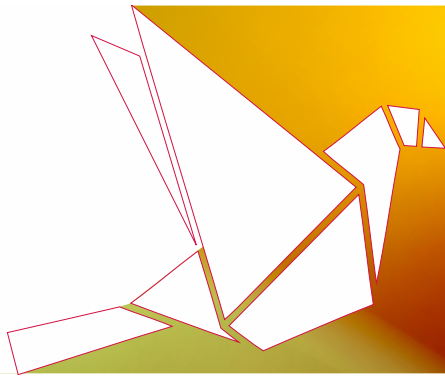


publish legislative proposals and positions. The trend towards regulation continues to evolve in 2017; just recently, the ISA published a draft regulation allowing the crowdfunding exemption from the need to publish a prospectus in the field of mass lending business (P2B - Peer-to-Business Lending). In addition, a [draft law proposal](#) has been published by the Ministry of Finance, which seeks to regulate the non-bank credit sector through an online platform for the provision of credit from lenders to individual borrowers (P2P).

Another important update that has occurred in the past year is an amendment to the Joint Investment Trust Law, and the regulations promulgated thereunder, which allow the establishment of traded venture capital funds to invest in the high-tech industry. The purpose of the amendments is to create a diversity of funding sources and effectively raise capital for high-tech companies in Israel.

### **What awaits us in 2017?**

The hi-tech and finance worlds are continuing to develop special technologies, all of which will create new markets, alternative financing sources and increased competition for institutional corporations, which will entirely reshape the business world we know today. The next step and the most intriguing of the technology developments, is the Blockchain Technology, which allows transactions to be executed without being dependent on external factors. Blockchain Technology will reduce transaction costs and make alternative financing even more attractive and credible. **Accordingly, we expect to see new P2P and P2B platforms. In addition, we expect to see the establishment of traded VC funds that will allow the public to be exposed to high-tech private investments.**



## Revolution in the World of Private Equity in Real Estate

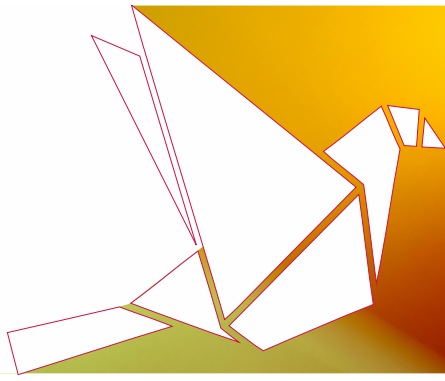
In January 2017, a first prospectus was published by the Hagshama group, in which our office advised. This prospectus heralds a revolution in raising private equity in real estate since corporations operating in this field, will now be able to offer securities to the public within a relatively short period of time, using the unique layout of a prospectus which has been approved by the ISA.

Up until now, investments in this field were offered only to a limited number of investors (35), and subject to numerous restrictions, particularly with regard to the type of information that is allowed to be published to the public. Moreover, in the past year, there have been significant regulatory changes that have significantly narrowed the operating possibilities and affected the ability of companies to recruit investors as well to invest in larger projects.

Within this context, the Hagshama group, has held extensive discussions with the ISA (accompanied by our firm) in order to find a solution for regulating the field that does not require modification of existing legislation. In accordance with the new framework that has been developed, prospectuses will be filed on the basis of the published model prospectus. The effect of this will be to shorten the examination time by the ISA. This solution has been implemented in the Hagshama prospectus, combined with the additional relief available under the corporate and securities laws.

### **What awaits us in 2017?**

The Hagshama prospectus has made waves in the capital market. There is a growing interest in the possibility to implement the solution - in the field of real estate investment and other areas. Our firm accompanies REITs starting from the construction stage and helps to build the marketing system and prepare prospectuses,



based on the new model in accordance with the ISA's guidance. In addition, we expect to find additional financing solutions from the public regarding the real estate investment field, which as mentioned, is developing. It is entirely possible that we will even see the listing of units on the TASE to be purchased by the public.

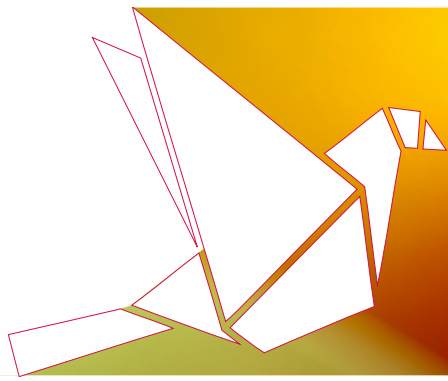
## One Out of Three: The Granting of Licenses for Trading Platforms

2016 marked a dramatic shift in Israeli trading platforms. During the past year new regulations came into force which required trading platform operators, which approach Israeli investors, to obtain a license from the ISA.

In order to obtain the license, trading platform operators were required to undertake the complex process of preparing the platform for compliance with the various criteria embedded in law, often requiring technological, organizational and marketing adjustments. After a long process that lasted over a year and a half, the ISA has only granted the license to a few select companies out of the 21 that applied. In light of these new regulatory requirements, HFN has a designated team assigned to assist trading platforms in the licensing procedures and accompany them through the various regulatory issues that arise as a result of the new regulations and supervision.

### What awaits us in 2017?

The licensing process was the first (and most significant) step in the regulatory process. With the completion of this process, we expect the implementation of further monitoring procedures by the ISA. Additionally, given the growing interest on the part



of other international players in the Israeli market, and the branding of supervised trading platforms, we can expect further development by the local industry.

**We are happy to answer any questions you may have on these matters and look forward to assisting you in the coming year.**

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