

THE INITIAL PUBLIC
OFFERINGS
LAW REVIEW

SECOND EDITION

Editor
David J Goldschmidt

THE LAWREVIEWS

THE INITIAL PUBLIC
OFFERINGS
LAW REVIEW

SECOND EDITION

Reproduced with permission from Law Business Research Ltd
This article was first published in April 2018
For further information please contact Nick.Barette@thelawreviews.co.uk

Editor
David J Goldschmidt

THE LAWREVIEWS

PUBLISHER

Tom Barnes

SENIOR BUSINESS DEVELOPMENT MANAGER

Nick Barette

BUSINESS DEVELOPMENT MANAGERS

Thomas Lee, Joel Woods

ACCOUNT MANAGERS

Pere Aspinall, Sophie Emberson,
Laura Lynas, Jack Bagnall

PRODUCT MARKETING EXECUTIVE

Rebecca Mogridge

RESEARCHER

Arthur Hunter

EDITORIAL COORDINATOR

Gavin Jordan

HEAD OF PRODUCTION

Adam Myers

PRODUCTION EDITOR

Simon Tyrie

SUBEDITOR

Caroline Fewkes

CHIEF EXECUTIVE OFFICER

Paul Howarth

Published in the United Kingdom
by Law Business Research Ltd, London
87 Lancaster Road, London, W11 1QQ, UK
© 2018 Law Business Research Ltd
www.TheLawReviews.co.uk

No photocopying: copyright licences do not apply.

The information provided in this publication is general and may not apply in a specific situation, nor does it necessarily represent the views of authors' firms or their clients. Legal advice should always be sought before taking any legal action based on the information provided. The publishers accept no responsibility for any acts or omissions contained herein. Although the information provided is accurate as of March 2018, be advised that this is a developing area.

Enquiries concerning reproduction should be sent to Law Business Research, at the address above.

Enquiries concerning editorial content should be directed
to the Publisher – tom.barnes@lbresearch.com

ISBN 978-1-912228-22-5

Printed in Great Britain by
Encompass Print Solutions, Derbyshire
Tel: 0844 2480 112

THE LAW REVIEWS

THE ACQUISITION AND LEVERAGED FINANCE REVIEW
THE ANTI-BRIBERY AND ANTI-CORRUPTION REVIEW
THE ASSET MANAGEMENT REVIEW
THE ASSET TRACING AND RECOVERY REVIEW
THE AVIATION LAW REVIEW
THE BANKING LITIGATION LAW REVIEW
THE BANKING REGULATION REVIEW
THE CARTELS AND LENIENCY REVIEW
THE CLASS ACTIONS LAW REVIEW
THE CONSUMER FINANCE LAW REVIEW
THE CORPORATE GOVERNANCE REVIEW
THE CORPORATE IMMIGRATION REVIEW
THE DISPUTE RESOLUTION REVIEW
THE DOMINANCE AND MONOPOLIES REVIEW
THE EMPLOYMENT LAW REVIEW
THE ENERGY REGULATION AND MARKETS REVIEW
THE ENVIRONMENT AND CLIMATE CHANGE LAW REVIEW
THE EXECUTIVE REMUNERATION REVIEW
THE FOREIGN INVESTMENT REGULATION REVIEW
THE FRANCHISE LAW REVIEW
THE GAMBLING LAW REVIEW
THE GOVERNMENT PROCUREMENT REVIEW
THE HEALTHCARE LAW REVIEW
THE INITIAL PUBLIC OFFERINGS LAW REVIEW
THE INSOLVENCY REVIEW
THE INSURANCE AND REINSURANCE LAW REVIEW
THE INTELLECTUAL PROPERTY AND ANTITRUST REVIEW
THE INTELLECTUAL PROPERTY REVIEW
THE INTERNATIONAL ARBITRATION REVIEW
THE INTERNATIONAL CAPITAL MARKETS REVIEW

THE INTERNATIONAL INVESTIGATIONS REVIEW
THE INTERNATIONAL TRADE LAW REVIEW
THE INVESTMENT TREATY ARBITRATION REVIEW
THE INWARD INVESTMENT AND INTERNATIONAL TAXATION REVIEW
THE ISLAMIC FINANCE AND MARKETS LAW REVIEW
THE LENDING AND SECURED FINANCE REVIEW
THE LIFE SCIENCES LAW REVIEW
THE MERGER CONTROL REVIEW
THE MERGERS AND ACQUISITIONS REVIEW
THE MINING LAW REVIEW
THE OIL AND GAS LAW REVIEW
THE PATENT LITIGATION LAW REVIEW
THE PRIVACY, DATA PROTECTION AND CYBERSECURITY LAW REVIEW
THE PRIVATE COMPETITION ENFORCEMENT REVIEW
THE PRIVATE EQUITY REVIEW
THE PRIVATE WEALTH AND PRIVATE CLIENT REVIEW
THE PRODUCT REGULATION AND LIABILITY REVIEW
THE PROJECTS AND CONSTRUCTION REVIEW
THE PUBLIC COMPETITION ENFORCEMENT REVIEW
THE PUBLIC-PRIVATE PARTNERSHIP LAW REVIEW
THE REAL ESTATE LAW REVIEW
THE REAL ESTATE M&A AND PRIVATE EQUITY REVIEW
THE RESTRUCTURING REVIEW
THE SECURITIES LITIGATION REVIEW
THE SHAREHOLDER RIGHTS AND ACTIVISM REVIEW
THE SHIPPING LAW REVIEW
THE SPORTS LAW REVIEW
THE TAX DISPUTES AND LITIGATION REVIEW
THE TECHNOLOGY, MEDIA AND TELECOMMUNICATIONS REVIEW
THE THIRD PARTY LITIGATION FUNDING LAW REVIEW
THE TRADEMARKS LAW REVIEW
THE TRANSFER PRICING LAW REVIEW
THE TRANSPORT FINANCE LAW REVIEW

www.TheLawReviews.co.uk

ACKNOWLEDGEMENTS

The publisher acknowledges and thanks the following law firms for their learned assistance throughout the preparation of this book:

A&L GOODBODY

ALLEN & OVERY

ASW LAW LIMITED

CHIOMENTI

DLA PIPER

FISCHER BEHAR CHEN WELL ORION & CO

HAN KUN LAW OFFICES

HERBERT SMITH FREEHILLS LLP

NIEDERER KRAFT & FREY LTD

PAKSOY

PROLEGIS LLC

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

TRILEGAL

URÍA MENÉNDEZ

WEERAWONG, CHINNAVAT & PARTNERS LTD

CONTENTS

| | |
|---|----|
| PREFACE..... | v |
| <i>David J Goldschmidt</i> | |
| Chapter 1 BERMUDA | 1 |
| <i>Becky Vernon and Neil Horner</i> | |
| Chapter 2 CHINA..... | 11 |
| <i>Chen Yang and Zhi Bin</i> | |
| Chapter 3 FINLAND..... | 20 |
| <i>Salla Tuominen</i> | |
| Chapter 4 GERMANY..... | 32 |
| <i>Stephan Hutter and Katja Kaulamo</i> | |
| Chapter 5 HONG KONG | 43 |
| <i>Christopher Betts, Antony Dapiran and Anthony Pang</i> | |
| Chapter 6 INDIA | 55 |
| <i>Bhakta Batsal Patnaik and Rachana Talati</i> | |
| Chapter 7 IRELAND..... | 65 |
| <i>Matthew Cole and Sheena Doggett</i> | |
| Chapter 8 ISRAEL..... | 74 |
| <i>Nitzan Sandor and Sharon Rosen</i> | |
| Chapter 9 ITALY | 85 |
| <i>Enrico Giordano and Federico Amoroso</i> | |
| Chapter 10 LUXEMBOURG..... | 97 |
| <i>Frank Mausen and Paul Péporté</i> | |

Contents

| | | |
|------------|--|-----|
| Chapter 11 | PORTUGAL..... | 113 |
| | <i>Carlos Costa Andrade and Ana Sá Couto</i> | |
| Chapter 12 | RUSSIA..... | 124 |
| | <i>Alexey Kiyashko and Alexander Kovriga</i> | |
| Chapter 13 | SINGAPORE..... | 136 |
| | <i>Siddhartha Sivaramakrishnan, Jin Kong, Ban Leong Oo and Sandra Tsao</i> | |
| Chapter 14 | SPAIN..... | 147 |
| | <i>Alfonso Ventoso and Marta Rubio</i> | |
| Chapter 15 | SWITZERLAND..... | 157 |
| | <i>Philippe A Weber, Thomas M Brönnimann and Christina Del Vecchio</i> | |
| Chapter 16 | THAILAND..... | 171 |
| | <i>Patcharaporn Pootranon, Nattaya Tantirangsi and Trin Ratanachand</i> | |
| Chapter 17 | TURKEY..... | 183 |
| | <i>Ömer Çollak, Ökkeş Şahan and Nazlı Tönük Çapan</i> | |
| Chapter 18 | UNITED KINGDOM..... | 193 |
| | <i>Danny Tricot and Adam M Howard</i> | |
| Chapter 19 | UNITED STATES..... | 210 |
| | <i>David J Goldschmidt</i> | |
| Appendix 1 | ABOUT THE AUTHORS..... | 223 |
| Appendix 2 | CONTRIBUTING LAW FIRMS' CONTACT DETAILS..... | 237 |

PREFACE

Welcome to the second edition of *The Initial Public Offerings Law Review*. This publication introduces the reader to the main stock exchanges around the globe and their related IPO regulatory environments, and provides insight into the legal and procedural IPO landscapes in 21 different jurisdictions. Each chapter gives a general overview of the IPO process in the region, addresses regulatory and exchange requirements, and presents key offering considerations.

The global IPO landscape is ever-changing. While several of the oldest stock exchanges, such as the New York Stock Exchange and London Stock Exchange, are still at the forefront of the global IPO market, the world's major stock exchanges now are scattered around the globe and many are now publicly traded companies themselves. IPOs take place in nearly every corner of the world and involve a wide variety of companies in terms of size, industry and geography. Aside from general globalisation, shifting investor sentiment and economic, political and regulatory factors have also influenced the development and evolution of the global IPO market.

Virtually all markets around the globe have experienced significant volatility in recent years; however, 2017 marked a resurgence for many IPO markets. The number of 2017 IPOs and total proceeds raised were led by the Asia-Pacific exchanges, with many other regions also experiencing improvement over recent years. Despite the increase in available private capital, which has enabled issuers to remain private for longer periods of time, there is continued optimism for 2018 in terms of both global deal count and proceeds. The strong global IPO pipeline includes many well-known companies across a range of industries, and it is anticipated that these companies will seek to list on a variety of stock exchanges around the world.

Every exchange operates with its own set of rules and requirements for conducting an IPO. Country-specific regulatory landscapes are often dramatically different between jurisdictions as well. Whether a company is looking to list in its home country or is exploring listing outside of its own jurisdiction, it is important that the company and its management are aware from the outset of the legal requirements as well as potential pitfalls that may impact the offering. Moreover, once a company is public, there are ongoing jurisdiction-specific disclosure and other requirements with which it must comply. This second edition of *The Initial Public Offerings Law Review* introduces the intricacies of taking a company public in these jurisdictions and serves as a guide for issuers and their directors and management.

David J Goldschmidt

Skadden, Arps, Slate, Meagher & Flom LLP

New York

March 2018

ISRAEL

*Nitzan Sandor and Sharon Rosen*¹

I INTRODUCTION

Local trade in securities began in the 1930s, before the establishment of the state of Israel. The Tel Aviv Stock Exchange (TASE), Israel's sole stock exchange, was established in September 1953 by a number of banks and brokerages, referred to as TASE members. Following the increase in listing of securities for trade on the TASE during the 1960s, the Israeli Securities Law 1968 (the Securities Law) was enacted and the Israel Securities Authority (ISA), the primary regulator for the Israeli securities market, was established.

2017 was a strong year for the Israeli capital markets, with 17 initial public offerings (IPOs) of equity, compared to 14 equity IPOs during 2012 to 2016. For the first time since the 2008 global financial crisis, the number of new issuers listing on the TASE exceeded the number of issuers delisting, such that at the end of 2017, 458 companies had equity listed for trade on the TASE.²

Public offerings of debt are very common in Israel, with approximately 66 billion new Israeli shekels raised in total in traded bonds offerings during 2017. Unlike US or European bond markets that are structured as dealer-based over-the-counter markets, most Israeli corporate bonds are listed for trade on the TASE and the vast majority of the trading volume in exchange-listed bonds takes place on the exchange.

Over the past few years, the Israeli corporate bond market has become increasingly attractive to foreign issuers, with a growing trend of IPOs of debt in Israel by non-Israeli companies (primarily, US real estate companies with income-producing real estate, typically issuing the debt through subsidiaries incorporated in the British Virgin Islands), aiming to benefit from the relatively low interest rates, high liquidity, low offering costs and short 'time to market' offered by the local market. The aggregate amount of debt raised in bond issuances by non-Israeli issuers in 2017 was approximately 9.4 billion shekels, compared to approximately 850 million shekels in 2011. While US real-estate companies continue to be the primary type of foreign issuers of corporate bonds in Israel, this trend has expanded to foreign issuers from other industries, including two US business development companies.

A recent further development with regard to this trend is the dual listing on the TASE of shares of issuers whose shares are listed on certain leading global stock exchanges, enabling the issuers to benefit from the special disclosure regime that is available to dual-listed companies under the Securities Law (the Dual Listing Regime), and the public issuance

1 Nitzan Sandor and Sharon Rosen are partners at Fischer Behar Chen Well Orion & Co.

2 '2017 Annual Review' published on the TASE website at www.tase.co.il/Heb/Statistics/AnnualReviews/Pages/annualreviews.aspx.

of debt in Israel pursuant to offering documents that are primarily based on the disclosure documents prepared under the laws of the jurisdiction of the foreign exchange, as further explained below.

IPOs in Israel are regulated by the ISA and the by-laws of the TASE.

II GOVERNING RULES

i Main stock exchanges

The TASE is the only stock exchange in Israel. The TASE attracts primarily domestic issuers, from all industries.

Trading on the TASE is carried out between the current TASE members on behalf of their customers. With physical trading floors long abolished, the TASE's electronic platform, the Tel Aviv Continuous Trading (TACT) system, handles trades for all traded financial instruments. The TASE also operates a separate electronic trading platform known as TACT Institutional, designed for trading in privately placed securities between institutional and qualified investors.

Israel is known as one of the major sources of cross-listed companies listed on Nasdaq. As of 31 December 2017, of the 458 Israeli companies whose shares were traded on the TASE, 61 companies were dual listed on the TASE and a foreign exchange, the large majority on Nasdaq.³

A fast track for dual listing on the TASE is available under the Dual Listing Regime for both domestic and foreign companies that have been traded for more than one year on certain US and UK exchanges (Nasdaq, the New York Stock Exchange (NYSE), the NYSE MKT (formerly AMEX) and the London Stock Exchange (LSE)), or that have a market cap on such exchanges of at least US\$150 million. The listing procedure under the dual listing track involves the filing of a simple registration form, which contains certain basic details regarding the issuer and the securities being registered and incorporates by reference certain of the issuer's disclosure documents previously filed with the foreign exchange where its shares are traded. Dual-listed companies are exempt from the ongoing Israeli reporting requirements, and are required to file with the ISA and TASE the same reports and filings (in English) as they file in the jurisdiction of the non-Israeli exchange.

The TASE maintains numerous equity and bonds indices, the most significant of which is the TA-125 Index, which is considered the benchmark index for the Israeli economy. A large portion of trading on the TASE is attributed to traded-index linked financial instruments, particularly exchange-traded notes. Consequently, inclusion in a leading TASE index is highly advantageous to issuers on the TASE, as it creates instant demand for the listed securities. Recent amendments to the TASE by-laws condition the inclusion of a non-Israeli issuer in many of the TASE's indices on such issuer having a 'nexus' (as such term is defined in the TASE by-laws) to Israel.

ii Overview of listing requirements

Pursuant to the Securities Law, in order to list shares on the TASE, a company must have only one class of voting shares ('one share, one vote'), subject to certain limited exceptions that apply to dual-listed companies, based on ISA pre-rulings and Israeli case law.

3 2017 annual review published by the TASE.

The TASE maintains listing rules that permit companies offering shares to the public for the first time in Israel to list under one of three listing alternatives. Emphasising the liquidity of the securities after the IPO, the TASE requires a minimum public-float value and rate and minimum distribution of public holdings under each alternative. The three different procedures allow issuers to adopt an appropriate listing regime in view of its shareholders' equity, public float, period of activity and company valuation requirements, as summarised in the table below.

| TASE listing alternatives for equity IPOs* (in NIS millions) | Alternative 1 | Alternative 2 | Alternative 3 |
|--|---------------|---------------|---------------|
| Shareholders' equity after listing | 25 | 35 | - |
| Public float value | 20 | 30 | 80 |
| Period of activity | 12 months | 12 months | - |
| 'Added value'*** in 12 months before listing | 4 | - | - |
| Value of public float derived from the shares issued to the public | 20 | 20 | 80 |
| Value of the company's shares | - | - | 200 |

* In addition, the TASE established rules that enable R&D companies to list their shares under more lenient terms than those set forth in the table, with an aim to attract high-tech companies in their early stages. Certain additional exemptions are available to certain types of issuers under the TASE by-laws.
 ** Profits before taxes plus employment expenses, depreciation and net finance expenses.

In addition, there are minimum public float rate requirements (ranging from 25 per cent to 7.5 per cent, depending on company valuation) and a requirement for a minimum distribution of public holdings (of at least 100 public holders, each holding shares worth at least 16,000 shekels).

Listing rules for a series of corporate bonds require companies to have, upon listing, shareholders' equity ranging from 16 million shekels to 24 million shekels; however, certain listing alternatives provide an exemption from this requirement. In addition, the value of the issued bonds must exceed 35 million shekels and there is a minimum distribution requirement of 35 holders, each holding bonds worth at least 200,000 shekels.

TASE listing rules establish a lock-up period that applies to shares held by pre-IPO shareholders of all newly listed companies (of 18 months for major shareholders and nine months for other shareholders, except that commencing three months post listing, 2.5 per cent and 12.5 per cent of the pre-IPO shares may be sold monthly by such shareholders, respectively), other than sales in a public sale offer, and commencing six months after the listing date, sales in off-market transactions provided that the buyer undertakes to subject the shares to the remaining lock-up period.

The cost of listing on the TASE is based on the size of the IPO (0.02 per cent of the proceeds for shares and 0.01 per cent of the proceeds for bonds), plus a fixed processing fee of several thousand shekels. In addition, a processing fee is required to be paid to the ISA of 0.03 per cent of the IPO proceeds, plus a fixed fee of several thousand shekels (25 per cent of the fees paid to the ISA are returned if the IPO is not consummated).

iii Overview of law and regulations

The Securities Law and regulations promulgated thereunder regulate the offering of securities in Israel, and the post-IPO reporting and compliance requirements. The Securities Regulations (Details, Structure and Form of Prospectus and Draft Prospectus) 1969 (the Prospectus Regulations), set forth the disclosure requirements applicable to a prospectus, which is the primary document used for the offering of securities to the public in Israel, and the Securities Regulations (Offer of Securities to the Public) 2007 (the Offering Regulations), regulate the methods for offering securities to the public in Israel.

The Israeli Companies Law 1999 (the Companies Law) and regulations promulgated thereunder regulate the corporate and governance requirements that apply to Israeli private and public companies (including foreign companies listed on the TASE, with the exception of foreign companies dual listed on exchanges eligible for the Dual Listing Regime). The Companies Law is generally based on US and English corporate law; however, as the large majority of Israeli public companies have a controlling shareholder, holding 50 per cent or more of the shares, many of the Israeli corporate governance rules are aimed at mitigating agency problems related to potential conflict of interest between the controlling shareholder and minority shareholders.

The ISA was established under the Securities Law, with the primary function to protect the interests of the public investing in securities. The ISA has the responsibility (among others) to review prospectuses in public offerings and approve them for public filing, and to oversee public company compliance during and following the IPO. The ISA also oversees the fair and proper operation of the TASE, and licenses and regulates underwriters and distributors. Additional functions of the ISA include the regulation of mutual funds, investment advisers and trading platforms. The ISA has investigative powers with regard to violations of the laws under its supervision, including the authority to conduct criminal investigations, as well as administrative enforcement powers. The supervision regime under the Securities Law is predominantly disclosure-based and the ISA generally does not examine the quality of the company or the securities offered.

As Israeli institutional investors are typically the major investors in Israeli IPOs, in debt IPOs the legal and commercial terms of corporate bonds are greatly influenced by the investment rules that apply to such investors, which include (among others) requirements for special approval procedures for investment in corporate bonds that do not contain certain covenants and limitations on the issuer, as set forth in the applicable regulations and guidelines and in the policies of such investors.

III THE OFFERING PROCESS

i General overview of the IPO process

While the large majority of IPOs in Israel are structured as primary offerings (i.e., investment in the issuer against the issuance of securities), several recent offerings included a secondary offering (i.e., the sale of securities by existing shareholders).

Key players

The key players involved in the public offering process include the issuer's internal team, outside legal advisers, auditors, offering managers (underwriters and distributors), underwriter counsel (typically only in underwritten IPOs) and appraisers, if the issuer's financial statements are based on material appraisals.

The Securities Law distinguishes between underwritten and non-underwritten offerings. In an underwritten public offering, in addition to advising on the pricing and participating in the marketing of the offering, underwriters commit to the effectuation of the offering by undertaking to buy the securities to the extent that they are not purchased by the public, and they also sign the prospectus, thereby assuming liability under the Securities Law for disclosure included in the prospectus. Conversely, the distributors' role is limited to the marketing and distribution of the securities, without assuming any liability for disclosure in the prospectus. The large majority of underwriters and distributors licensed in Israel are Israeli underwriters, although several international investment banks are registered as underwriters in Israel. In an underwritten IPO, the consortium of underwriters typically retain a separate counsel and accounting firm and conduct independent legal and financial due diligence, whereas in most IPOs that are not underwritten, distributors do not conduct due diligence or require opinions of counsel and reliance letters (with the exception of certain offerings by non-Israeli issuers, where it is customary for distributors to sign the prospectus and conduct due diligence). The majority of debt and equity IPOs in Israel are not underwritten.

Offering documents

The primary offering document in an Israeli IPO is the prospectus, which is prepared in the Hebrew language in accordance with the Prospectus Regulations, and typically includes the following information:

- a* details of the offering and a description of the securities offered and the underwriting agreement;
- b* a detailed description of the issuer's business;
- c* risk factors;
- d* major shareholders;
- e* use of proceeds;
- f* certain corporate governance matters and related-party transactions;
- g* financial statements, which are typically prepared in accordance with International Financial Reporting Standards (IFRS), although non-Israeli issuers may prepare financial statements in accordance with US GAAP or international accounting standards as adopted by the European Union;
- h* material appraisals, if information in the financial statements is based on such appraisals;
- i* rating reports in a debt offering that is rated by a recognised rating agency;
- j* board discussion and analysis (which is substantially similar to management's discussion and analysis in a US offering);
- k* management certifications on the adequacy of internal controls over financial reporting; and
- l* an opinion of counsel in a standard form, relating to the authority to offer the securities and the due appointment of the issuer's directors.

Typically, an IPO prospectus is structured as a 'prospectus subject to completion', which includes the anticipated amount and price of the offered securities, and may be supplemented prior to the public offering by a 'supplemental notice' filed not later than 75 days after the publication of the prospectus and at least five trading hours prior to the closing of the offering. The supplementary notice includes the final amount and price of the offered securities (subject to certain limitations on the scope of changes that may be made to the amount and price in the supplementary notice).

An Israeli IPO prospectus may also serve as a 'shelf prospectus', allowing the issuer to issue additional securities to the public in a relatively short and straightforward process during a period of 24 months after the IPO (which may be extended by an additional 12 months), provided that the issuer, its officers and controlling shareholder meet certain conditions, primarily relating to the absence of violations of disclosure laws.

If the issuer is eligible to list under the Dual Listing Regime (i.e., its securities are listed on Nasdaq, NYSE, MKT or LSE (Main Market)), subject to the approval of the ISA, it may prepare a prospectus comprised of an offering document prepared in the English language in accordance with the securities laws applicable to it (e.g., in accordance with the requirements of Form S-1 or S-3 for a US domestic issuer, Form F-1 or F-3 for a foreign private issuer, Form N-2 for closed-end management investment companies) and an Israeli 'wrapper', which primarily includes details of the offering and a description of the offered securities. In 2017, certain US listed companies, including (among others) US business development companies and a real estate investment trust, relied on this exemption to offer debt securities and preferred shares only in Israel, using offering documents that were mainly based on disclosures prepared in accordance with US securities laws.

In debt offerings, the offering documents would also include the indenture entered into between the indenture trustee (typically a local trust company) and the issuer. The Securities Law sets forth certain mandatory provisions that apply to the indenture, such as certain mandatory events of default, duties of the trustee and others provisions.

Offering process

An IPO in Israel typically takes three to five months, depending on (among other things) the complexity of the issuer's operations, the issuer's readiness for an IPO and market conditions.

After a preparation period of internal reorganisation, engagement of advisers, preliminary discussions on pricing and the IPO structure, due diligence, drafting of the prospectus and preparation of the financial statements, the first draft of the prospectus is approved by the company's board of directors, signed, and filed with the ISA and the TASE. Drafts of the prospectus may be filed confidentially, although marketing may only begin after the public filing of a draft prospectus or a prospectus.

The ISA review of the prospectus typically includes the review by accounting and legal reviewers. It is common for the review process to include at least one in-person meeting with the ISA staff at the ISA's offices. The TASE's review process is generally more technical, and is designed to ensure compliance with the TASE by-laws and listing requirements. During the review process, several additional drafts of the prospectus are typically filed with the ISA and the TASE. If the company has publicly filed a draft prospectus during the process, it is required to publicly file any subsequent draft simultaneously with its filing with the ISA and TASE. Once a near final prospectus is ready, the ISA's prospectus committee reviews and approves the prospectus. Subject to the committee's approval, the ISA chairperson then issues a permit to publish the final prospectus, which is subsequently publicly filed.

The marketing of the offering typically commences before the final prospectus is filed, following the publication of the first public draft of the prospectus. The marketing stage usually includes an investor roadshow and negotiations with investors on the terms of the offering, and in debt offerings, on the legal and commercial terms of the bonds.

The Securities Law provides that securities offered to the public under a prospectus must be sold at an equal price for all buyers, with the exception of reasonable early commitment fees and distribution fees.

IPOs in Israel may be effected in one of two methods.

Uniform offering

Almost all offerings of securities in Israel are made through a uniform offering, which is essentially a 'Dutch auction' that is open to all investors (including retail investors) on equal terms and does not involve a book-building process. It is prohibited to state a maximum price (or minimum interest rate) for the securities offered, although the ISA has recently proposed to amend the Securities Law to cancel this prohibition.

In order to enhance the likelihood of a successful offering, the issuer typically obtains early commitments from 'classified investors' (primarily, certain types of institutional investors as well as entities with shareholders' equity exceeding 50 million shekels) to place bids at the public auction in specified amounts and prices, in return for an early commitment fee (a discount on the purchase price). Early commitments are also provided through an auction open to classified investors. Up to 85 per cent to 95 per cent of the amount offered to the public can be secured through early commitments, depending on the size of the offering.

After the classified investor auction and before the public auction, the company files a supplementary notice (or the final prospectus, as applicable), detailing the final offered amount of securities and minimum price of the securities offered, as well as the early commitments obtained by the issuer.

Bids at the public auction are placed through TASE members. Classified investors that provided an early commitment are given precedence in allocation over bids made by the public for the same price, unless the offering is more than five times oversubscribed.

Two types of overallotment options are available to the issuer in a uniform offering, exercisable within one business day following the closing of the offering: the issuer may issue up to an additional 15 per cent of the offered amount to classified investors who provided early commitments, and, if the offering was oversubscribed, the issuer may issue up to an additional 15 per cent of the offered amount to all investors who bought securities in the offering.

Non-uniform offering

In a non-uniform offering, the allocation of securities among investors is made by the underwriter and the issuer, which may conduct a book-building process. A non-uniform offering is not open to the public (although it may be combined with a tranche of up to 30 per cent of the offered amount which may be offered to the public through a uniform offering), and only certain types of institutional investors may participate in such offering. In addition, an underwriter must underwrite at least 25 per cent of the offering, sign the prospectus and assume liability for the disclosure included in the prospectus, although the ISA has recently proposed to abolish the requirement for underwriting in non-uniform offerings.

The limitation on the types of investors who may participate in the offering and the underwriting requirement, coupled with the fact that the Israeli market is accustomed to the Dutch auction uniform offering method, make the non-uniform offering method significantly less popular in Israel and it is rarely used.

In a non-uniform offering, the issuer may grant the underwriter or underwriters an overallotment option to purchase up to an additional 15 per cent of the amount offered, during the period of 30 days from the closing of the IPO, in order to sell the securities or cover a short position taken in connection with the offering.

ii Pitfalls and considerations

Among the matters to consider before commencing an IPO process in Israel are the following.

Potential liability and the importance of conducting a comprehensive due diligence review as part of the process

Pursuant to the Securities Law, a prospectus must contain all information that may be material for a reasonable investor, and shall not contain any 'misleading information'. The offeror (the issuer or selling shareholder), the directors, chief executive officer and controlling shareholder of the issuer and the underwriter or underwriters – if the offer is underwritten – bear criminal, administrative and civil liability for misleading information included in the prospectus, including the failure to disclose material information. The liability also extends to experts who provided an opinion or report that was included in the prospectus (typically, audit reports, appraisals and opinions of counsel) with regard to a misleading item contained in such opinion or report. The Securities Law sets forth certain defences against liability, including the 'due diligence defence', which is available to persons who have taken all adequate measures in order to ensure that the disclosure does not include any misleading information and believed in good faith that no such misleading information was included; however, Israeli case law has narrowly interpreted this defence. In underwritten IPOs, the common practice is for the underwriter to receive comfort letters and negative assurance letters from the issuer's external counsel and officers; however, it is not common practice for the issuer to obtain such letters in IPOs that are not underwritten (which is the majority of Israeli IPOs in recent years).

Marketing restrictions

It is important to adhere to the publicity guidelines, as the ISA has in the past halted IPOs that did not follow the legal restrictions on marketing. Generally, the offer of securities to the public in Israel is permitted only based on a publicly filed draft or final prospectus. This general rule has been interpreted to apply to a wide range of communications, including advertisements, media interviews and investor presentations, and issuers must be mindful of the fact that all such communications during a 'quiet period' commencing one month prior to the publication of the prospectus may be deemed to violate the rule. Although the ISA has recently established guidelines permitting 'test the water' exercises with certain types of classified investors before the public filing of a draft prospectus, interaction with such investors must cease at least 15 days prior to the filing of the draft prospectus and all material information provided to such investors must be included in the prospectus. It is common practice to publicly file investor presentations to avoid the risk of material information not being included in the prospectus.

Future application of Israeli corporate governance rules

Israeli companies with publicly traded equity or debt securities are subject to a relatively onerous corporate governance regime, which requires special approval processes for

related-party transactions, including the requirement for the approval of the audit committee, board of directors and the majority of the minority shareholders for certain transactions with the controlling shareholder or in which the controlling shareholder may have a conflict of interest. In addition, a company with publicly held securities must appoint at least two 'external directors' who are not affiliated with the company or its controlling shareholder (subject to limited exceptions). The compensation of directors and officers of a public company is also subject to certain limitations and approval requirements under the Companies Law.

Stabilisation

Although local regulation permits stabilisation activities under certain conditions, in light of the nature of the offering structure in Israel, post-IPO stabilisation is not common practice, and there are no recent precedents for such stabilisation activities. The Securities Law and the Securities Regulations (Stabilisation) 2012 set forth strict limitations on post-IPO stabilisation activities, mainly consisting of a requirement that any transaction for the purchase on the TASE of offered securities during the 30-day period following the public offering be made by one designated pricing underwriter, and that the identity of the seller is not known to the stabilising underwriter, as well as limitations on the transaction prices and disclosure obligations relating to the stabilisation activities.

iii Considerations for foreign issuers

Historically, foreign companies typically listed on the TASE in connection with the acquisition (or contemplated acquisition) of an Israeli company listed on the TASE (such as Perrigo's listing on the TASE in 2005 and Mylan's listing on the TASE in 2015). However, in recent years, there has been an increase in the number of foreign-listed companies as a result of the recent trend of debt IPOs in Israel by US companies and the listing of the bonds for trading on the TASE.

Substantially the same listing requirements and procedures that apply to the listing of securities on the TASE by Israeli issuers apply to listings by non-Israeli companies. In addition, a non-Israeli issuer is required to provide to the TASE an opinion of foreign counsel confirming that, under the laws of the issuer's country of organisation and, if applicable, under the rules of the foreign exchange in which the issuer's securities are traded, the issuer may issue securities to the public in Israel in the manner contemplated in the prospectus and the securities are freely tradable on the TASE. Before the listing of a foreign issuer, the TASE may also seek to regulate certain issues related to withholding tax on dividends and interest (to the extent applicable).

One important consideration for non-Israeli issuers is the future application of Israeli corporate law to the issuer. Although the Companies Law primarily applies only to companies organised under the laws of the State of Israel, the Securities Law applies certain corporate governance provisions of the Companies Law to non-Israeli companies that offer their shares or debt to the public in Israel. Such provisions include (among others) limitations on related-party transactions and transactions with a controlling shareholder and requirements relating to the composition of the board of directors, audit committee and compensation committee, including a requirement to appoint 'external directors,' the fiduciary duties of directors, restrictions on distributions, and tender offer rules. The ISA is authorised to exempt a foreign issuer from the application of all or part of the provisions of

the Companies Law, if it determines that the home country laws provide sufficient protection for investors. In addition, foreign issuers listed under the Dual Listing Regime are exempt from the application of the Companies Law.

The structure of the prospectus for offers by non-Israeli issuers that are not listed under the Dual Listing Regime is generally the same as those of Israeli issuers, and the prospectus must be prepared in Hebrew, subject to certain exceptions. In addition, the ISA typically requires the issuer to include a comparison between Israeli corporate law and the corporate law of the issuer's jurisdiction of incorporation.

Issuers listed under the Dual Listing Regime benefit from various exemptions relating to the structure, format and content of the prospectus and, subject to the approval of the ISA, publish a prospectus comprised of an offering document prepared in the English language in accordance with the foreign securities law and an Israeli 'wrapper', which mainly includes details of the offering and a description of the securities being offered.

IV POST-IPO REQUIREMENTS

Following the IPO, listed companies are subject to ongoing reporting and disclosure obligations, including, among others:

- a* an annual report consisting of a comprehensive description of the issuer's business and certain corporate governance matters, audited annual financial statements and management discussion and analysis;
- b* quarterly reports consisting of material updates to the annual report accompanied by reviewed quarterly financial statements and management discussion and analysis. Certain issuers that are deemed 'small corporations' with no traded debt securities may exempt themselves from the quarterly reports requirement and only file semi-annual reports;
- c* reports relating to the occurrence of certain events set forth in the relevant Israeli securities regulations, such as changes in management, adoption of certain resolutions by the issuer's corporate organs, changes in the holdings of major shareholders; and
- d* immediate reports upon the occurrence of material or extraordinary events.

The ongoing reporting requirements apply to both Israeli and foreign issuers, except that, as previously discussed, companies subject to the Dual Listing Regime are exempt from the large majority of the Israeli reporting requirements, provided that they are required to file with the ISA the same reports and filings (in English) as they file in the jurisdiction of the foreign exchange on which they are also traded.

Following the IPO and listing on the TASE, the issuer is subject to general provisions of the Securities Law, such as the prohibition on insider trading and market manipulation, in addition to many of the Israeli corporate governance rules, subject to certain exceptions, as described above.

V OUTLOOK AND CONCLUSION

2017 was a very good year for the Israeli IPO market, with a sharp increase in the number and volume of equity IPOs and a continued increase in debt IPOs, particularly by non-Israeli issuers. The increasing interest by foreign issuers and investors has led to the emergence of various innovative structures of initial offerings of securities on the TASE, such as the first internationally marketed IPO conducted as a non-uniform offering, which combined a public

offering of shares and debt in Israel with an international offering to exempt investors worldwide in reliance on Rule 144A and Regulation S promulgated under the US Securities Act of 1933; the first offering in Israel of preferred shares by a US REIT traded on Nasdaq; and various debt offerings in Israel by US real estate companies and business development companies.

This trend is expected to continue and expand during 2018, with the anticipated introduction of certain amendments to the Securities Law and related regulations currently contemplated by the ISA, including (among others) the recognition of the Toronto Stock Exchange (TSX), Mainboard, Primary Listing, the Stock Exchange of Hong Kong Limited, Mainboard (HKEX), Primary Listing, and the Singapore Exchange Mainboard (SGX), Primary Listing, as eligible exchanges for the Dual Listing Regime, as well as certain changes to the Offering Regulations abolishing the requirement for an underwriting in non-uniform offers and the prohibition on setting a maximum price in uniform offerings.

ABOUT THE AUTHORS

NITZAN SANDOR

Fischer Behar Chen Well Orion & Co

Nitzan Sandor is a partner in the Corporate and Securities Department. Her practice concentrates on capital markets and M&A. Ms Sandor represents major Israeli public companies and dual-listed corporations on securities laws matters and has represented issuers in several of Israel's largest securities offerings. Ms Sandor advises on cross-border capital markets and corporate transactions, and also advises clients in connection with regulatory reforms in the corporate and securities laws and in the regulation of investment companies. *Chambers Global* has described Ms Sandor as having 'very good market knowledge' and 'ability to bring together international and local considerations.' Ms Sandor is listed in *The Legal 500* and has been awarded as a 'leading lawyer' by *IFLR 1000* and 'up and coming' by *Chambers Global*.

SHARON ROSEN

Fischer Behar Chen Well Orion & Co

Sharon Rosen is a partner in FBC's Corporate and Securities Department and leads the firm's US capital markets practice. Ms Rosen's practice primarily focuses on international capital markets, private and public M&A transactions, with an emphasis on cross-border transactions, and general corporate advice. Ms Rosen provides ongoing corporate and securities law advice to Israeli companies publicly traded in the United States. Prior to joining FBC in 2011, Ms Rosen was a member of the Corporate and Securities Department of a prominent law firm in New York and a member of its Israeli Practice Group (2004-2011). Ms Rosen is a member of the Israel Bar and the New York State Bar.

FISCHER BEHAR CHEN WELL ORION & CO

3 Daniel Frisch Street

Tel Aviv, 6473104

Israel

Tel: +972 3 6069693

Fax: +972 3 6944258

nsandor@fbclawyers.com

srosen@fbclawyers.com

marketing@fbclawyers.com

www.fbclawyers.com

Law
Business
Research

ISBN 978-1-912228-22-5