



## Legal Update: Capital Markets

August 2018

### Demutualization of the Tel-Aviv Stock Exchange: Opportunities and Challenges

In May 2017, the Israeli Securities Law was amended (Amendment No. 63) with a goal of turning the Tel-Aviv Stock Exchange (TASE) into a more competitive, efficient and profitable stock exchange, by outlining an ownership structure change of the TASE. The ownership structure change allows private investors, in addition to institutional investors, to acquire means of control over the TASE.

Recently, the TASE entered into an agreement with Manikay Partners (an investment adviser registered with the United States Securities and Exchange Commission, with an expertise in investments in stock exchanges that undergo structural changes) for the purchase by Manikay Partners of approximately 19.99% of the TASE shares. Manikay Partners undertook to locate additional investors to purchase an additional 51.8% of TASE shares. The additional investors that Manikay Partners identified and that will participate in the transaction are the Australian pension fund Sunsuper PTY, Moelis Australia Asset Management, the Danish philanthropic foundation Novo Nordisk Foundation, and the U.S. investment firm Dalton Investments.

A purchase of means of control exceeding 5% of the share capital of the TASE requires a permit by the Israel Securities Authority (ISA). Fischer Behar Chen Well Orion & Co (FBC) advised the purchasers in obtaining the holding permit from the ISA for their acquisition of approximately 72% of the TASE shares, and in constructing a trust mechanism for facilitating the acquisition.

According to the agreement, each purchaser will directly hold up to 4.99% of the TASE shares, with the balance held by a designated trustee. The shares held by the trustee consist of approximately 30% of the share capital of the TASE, and will be sold in a public offering to be carried out in the near future. FBC advised the trustee in obtaining a special shareholding permit from the ISA to act as a trustee for such shares.

The transaction is innovative and unique as, for the first time since 1953, the TASE is undergoing a major ownership structure change. Until now, the TASE was owned by TASE members who were 23 Israeli and foreign institutional investors. The sale of the means of control of the TASE to private investors can be viewed as a privatization of sorts, as the TASE is the only stock exchange in Israel, and is widely viewed as an Israeli 'national asset.' This is the first time that the ISA has granted permits to private investors and a trustee to hold TASE shares.

Sincerely,

**Fischer Behar Chen Well Orion & Co**

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