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The Capital Market in Israel and Its Regulation

When the former governor of the Bank of Israel, Stanley Fischer, made the dramatic decision to reduce the market interest rate in 2008, very few people would have believed that the low interest rate environment would survive the next decade. During those ten years, economists, analysts, politicians, bankers, academics and journalists attempted to describe the various aspects of a zero interest rate environment. Only today, a decade later, we can begin to understand its broad effects on various areas of the market.

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In a long-term environment where the interest rate is zero—and in some investment channels, even negative—the public will naturally seek alternatives for investing its accumulated funds and properties, hoping to maximize a profit. Seldom do they consider the many risks involved in these kinds of investments when they do so.

A number of cases were recently publicized of alleged Ponzi and pyramid schemes in the Israeli capital market, and the collapse of companies in which the general public invested its money, most likely at a loss. These companies announced the immediate cessation of their activities and services. As of now, the clients who invested in these companies have been left with a great deal of uncertainty regarding their money.

The capital market plays a central role in modern economics and significantly influences the ability of various markets to actualize their financial growth potential. Its proper functioning greatly affects all branches of the market as well as the lives of individuals. One of the main purposes of the capital market is to serve as a mediator between those who have money in excess and those who need it. The capital market can be divided, in broad terms, into the stock market and the bond market. Through these markets, the government and companies can raise funds from the public.

The goal of the capital market is to channel current savings in the market toward new investments and development, therefore achieving financial growth and new opportunities for profit and expansion of capital. This process is called "capital formation" and serves as a condition for financial growth.

The Israeli capital market is supervised by a number of authorities: the Banking Supervision Department of the Bank of Israel; the Capital Market, Insurance and Saving Authority; the Israel Securities Authority and the Israel Antitrust Authority. The role of these authorities is, among other things, to effectively regulate and supervise the banks and the financial mediators at work in the capital market, whose main purpose is to protect public interests.

The goal of effective regulation and supervision of financial markets is to correct market failures, contribute to their development and progress and allow them to fulfill their purpose.

ABOUT MEIR ILIA

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THE GOALS OF REGULATORS

- **Systemic-stability regulation** – prevents insolvency in important financial bodies within the system. The role of the regulator is to ensure the financial stability of the entities under its supervision, thus maintaining systemic stability. Supervision involves setting down mandatory rules regarding "adequacy," and balance between the percentage of funds used by each specific bank and the reserve balances in their treasuries. It also involves determining various rates for mortgage eligibility or exposure for a major borrower, which constitute stabilizing factors for the whole system and not a specific bank.
- **Consumer protection regulation** – financial bodies provide services for clients, and there is a natural concern that they will manipulate things to serve their own interests. Financial products are complex and not every consumer will understand these products; therefore there is a need to regulate financial bodies' activities on the consumer level. Consumer regulation may also serve systemic-stability regulation and maintain the stability of the financial body as well as the rights of the consumer.
- **Determining monetary policy and macro-regulation of currency rates** in light of the fact that major financial bodies can strongly influence the rest of the market and have a significant ability to cause powerful shifts and changes. Because of this, the regulator must maintain the stability of the market, not just the stability of these financial bodies, by determining an appropriate monetary policy.

A FEW TIPS FOR COPING WITH RISK IN THE CAPITAL MARKET:

Below are a number of tips for avoiding risky investments. Note that this is not an exhaustive list, but merely some warning signs an investor should consider before moving forward with an investment.

1. Don't be tempted by promises of high returns on any investment. Remember that behind the promise of high profits, in the best-case scenario, lies a high risk, and in other cases, it may even be a scam. Think about the risks involved in the investment; after all, in a zero interest rate environment, how can you attain an unusually high return without taking significant risks?

2. Try to avoid investing under pressure and be wary of unsubstantiated statements such as: "A once-in-a-lifetime opportunity" or "prices will go up tomorrow." It's best to consult an appropriate licensed professional and not to invest based on gut feelings, advice from friends or advertisements. Consider all the risks and benefits; every coin has two sides.

3. Don't be tempted to act based on exclusive or "inside" information, such as, "Someone at the company said..." This may turn out to be illegal, and it's likely that the information is false or partial or fully included in the price of the investment. Furthermore, think about it—there's no reason for someone to impart crucial information to you while exposing himself to risk and not utilizing it himself.

4. Be very wary of relying on information obtained from reports in newspapers, on television, the Internet or any other type of media. Oftentimes, information distributed in the media, including success stories, are not substantiated enough to justify investing in a particular company. Consider economic facts and professional analyses performed by researchers. Don't be tempted to follow the "stars"—stars only exist in the sky.

5. Be careful not to give your personal information via email to anyone you don't know and can't be sure you can trust. Personal information includes: your ID number, bank account number, credit card number, passwords and codes.

ABOUT THE COMPANY

RH ROSENBLUM HOLTZMAN &CO.

Rosenblum Holtzman, CPA was founded in 1981. The firm provides a wide range of services to corporations, kibbutzim, non-profit organizations and private clients. These services include auditing annual financial statements, representing clients before the tax authorities, tax planning, internal auditing, information systems, risk management, information security, financial consulting, Sarbanes Oxley implementation, and evaluating corporate governance. The firm has special expertise in forensic auditing and assisting in legal proceedings involving accounting and financial evaluations. With over 100 employees, Rosenblum Holtzman provides a top tier professional service, while simultaneously allowing clients to receive personal attention from the partners.

Rosenblum Holtzman CPAs can be reached at 03-609-20-20 or through their website www.rhcpa.co.il.

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6. Don't trust links to websites of financial or regulatory bodies sent to you via email. You should enter the desired website independently through your browser. Additionally, it's best to immediately delete emails that appear suspicious without opening them or the files attached to them.

7. Don't purchase securities or financial assets on an unfamiliar website. Do so only through a bank or stock exchange member and ensure that the transaction is under regulation. Transferring assets to central bank accounts rather than an individual account listed specifically under your name is a significant risk. As you know, any financial investment is a risk, but an investment through an unregulated body is substantially riskier and you may end up losing your entire investment.

8. Beware of tempting offers for services or other business offers delivered by email, phone, or mail.

9. Beware of free "investment seminars" or "professional conventions" promising profits regardless of the state of the market. Remember that sometimes, people use courses and meetings like these to tempt participants to acquire financial instruments and/or to join investment platforms through unregulated bodies, while presenting false or partial information.

10. Pay attention to the contract you're signing and with whom you're signing it; what are the other party's responsibilities, and what are your securities? Additionally, check in on the investments from time to time. Remember that fast profits indicate a high level of risk. Ensure that the reports you're receiving accurately reflect the situation.

This article by no means constitutes a recommendation to perform any transaction and/or an investment consultation and/or an investment promotion and/or an offer to acquire any product whatsoever, and it cannot be taken as a replacement for a professional investment consultation in which the data and the needs of the individual are considered. Any person who makes use of the above information does so on his own volition and assumes full responsibility.