

## **SELF-PURCHASE BY BANKING CORPORATIONS**

### **Introduction**

1. (a) The Companies Law permits a company, provided the conditions for distribution are met, to purchase its shares as well as securities which may be convertible or realized for its shares.
- (b) Purchase by a banking corporation presents problems in various respects, among them the structure of Israel's capital market and the deep involvement in it of the banking corporations, the stability of the banking corporation, possible conflicts of interest, and the increased share of holdings in the hands of the remaining shareholders as a result of the purchase (with regard to the permit for holding means of control required under section 34 of the Banking (Licensing) Law, 5741–1981). The problems associated with purchase by a banking corporation have led various countries to prohibit purchase by a banking corporation, unless in exceptional cases.

### **Definitions**

2. **“Companies Law”**- Companies Law, 5759–1999;
- “Borrower”, “Group of borrowers”** - As defined in [Regulation no. 313](#);
- “Securities”** - Shares of the banking corporation or securities which may be converted into shares of the banking corporation or which may be realized for shares of the banking corporation;
- “Purchase”** - As defined under “distribution” in the Companies Law.

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### Prohibition of purchase

3. (a) Neither a banking corporation nor a corporation controlled by it shall purchase securities issued by it or provide financing for such a purchase, whether on market terms or not.
- (b) Without detracting from the general nature of the aforesaid in subsection (a), neither a banking corporation nor a corporation controlled by it shall extend credit to a borrower or group of borrowers, secured by securities issued by it, if the aforesaid collateral exceeds 0.5% of the banking corporation's capital or NIS 10 million, whichever is lower.
- (c) Despite the contents of this section, a banking corporation or a corporation controlled by it may finance the purchase of units in the Ma'of (future contracts and options) index, provided the units serve as collateral and the amount of securities issued by the banking corporation or the corporation controlled by it and included in the units of the Ma'of index *plus* the credit extended to the borrower or group of borrowers, as stated in subsection (b) do not exceed NIS 25 million. For the purpose of this subsection, "**units in the Ma'of index**" are a group of securities incorporating all the securities comprising the Ma'of index, and whose value in NIS is a multiple of the Ma'of's determining index, multiplied by the derivative's underlying asset. The amount of each of the securities included in the unit of the Ma'of index shall be of a value that is equal in NIS to the aforesaid multiple of the group, *multiplied by* the weight of that security in the Ma'of index.

### Exceptional cases

4. Despite the aforesaid in section 3, a banking corporation is entitled to provide financing for a purchase as part of a plan to buy securities by employees, if the financing of the purchase is examined and approved by the Supervisor of Banks.

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