

BANK OF ISRAEL BILL MEMORANDUM, 5769-2009

Chapter One: Interpretation

1. Definitions

In this Law -

"Financial Entity" – one of the following:

- (1) Banking Corporation;
- (2) A Provident Fund or a Managing Company as defined in the Control of Financial Services (Provident Funds) Law, 5765-2005¹;
- (3) An Insurer within its meaning in the Control of Financial Services (Insurance) Law, 5741-1981²;
- (4) A Joint Investment Trust Fund as defined in the Joint Investment Trust Law, 5754-1994³;
- (5) A Portfolio Manager as defined in the Regulation of Investment Advice, Portfolio Management and Investment Marketing Law, 5755-1995⁴;
- (6) A Member of a Stock Exchange under the Stock Exchange Code, within its meaning in Section 46 of the Securities Law, 5728-1968⁵ (herein - the Securities Law);
- (7) A Clearing House as defined in Section 50A of the Securities Law;
- (8) The Postal Company when providing financial services on behalf of the Subsidiary Company, within its meaning in Section 88(k) of the Post Law, 5746-1986⁶;

¹ Sefer Hahukim 5765, p. 767

² Sefer Hahukim 5741, p. 208

³ Sefer Hahukim 5754, p. 308

⁴ Sefer Hahukim 5755, p. 416, _____ -

⁵ Sefer Hahukim 5728, p. 234

(9) Any other entity providing financial services, as determined by an order issued by the Governor, with the Committee's approval.

"The Committee" – the Monetary Committee appointed under Section 17;

"The Public Committee" – the Public Committee appointed under Section 31;

"The Council" - the Administrative Council appointed under Section 21;

"The Governor" - the Governor of the Bank appointed under Section 8;

"Personal, Business or Political Relation" – within its meaning in the Government Companies Law⁷ (herein – the Government Companies Law), and the provisions of Section 18C of the latter shall apply in this regard;

"Price Stability over the Course of Time" – A situation in which, on the basis of the monetary policy established by the Committee, it is expected by the Committee that within no more than two years, the inflation rate will be within the price stability range determined as per Section 3(b);

"Currency" - as defined in Section 1 of the New Shekel Currency Law, 5745-1985⁸;

"Foreign Currency" - currency notes or coins which are legal tender in any country and are not legal tender in Israel;

⁶ Sefer Hahukim 5746, p. 79

⁷ Sefer Hahukim 5735, p. 132

⁸ Sefer Hahukim 5745, p. 216

"Office Holder in a Corporation" – a director, an executive active in the corporation, a partner with the exception of a limited partner, or the holder of any other office responsible, on the corporation's behalf, for the field in which a breach has been committed under Section 55(a) or for the field in which an offense has been committed under Section 56.

"Relative" of a person – any of the following:

- (1) Spouse, brother, parent, parent's parents, offspring, spouse's offspring or the spouse of any of these;
- (2) A corporation in which such person, or any of those detailed in Subsection (1), holds office or possesses an interest therein; in this regard, "Possessing an Interest" – as defined in the Securities Law, and regarding a corporation which is not a company – including anyone considered as possessing an interest in the company were the corporation a company;

"Supervision Authority" – any of the following, with regard to the Financial entities it supervises:

- (1) The Supervisor of Banks;
- (2) The Commissioner of Capital Markets, Insurance and Savings at the Finance Ministry;
- (3) The Securities Authority as defined in Section 2 of the Securities Law;
- (4) Any other authority in Israel imbued by law with supervision powers regarding a Financial Entity.

"Banking Corporation" - as defined in the Banking (Licensing) Law, 5741-1981⁹, including an Auxiliary Company as defined in that law.

Chapter Two: The Bank of Israel, its Functions, Objectives and Autonomy

⁹ Sefer Hahukim 5741, p. 232

2. The Bank of Israel, its Status and its Seat

- (a) The Bank of Israel is a corporation authorized to undertake any obligation, possess any right and perform any legal act (hereinafter – the Bank).
- (b) The Bank's objectives, functions and management shall be as defined in this Law.
- (c) The Bank's seat shall be in Jerusalem, and it may open branches at any other location.

3. The Bank's Objectives

- (a) The Bank's objectives shall be:
 - (1) to maintain price stability as its primary objective;
 - (2) to support other objectives of the Government's economic policy, especially growth and employment, provided that, in the Committee's opinion, this support shall not impair achieving Price Stability over the Course of Time;
 - (3) to support the stability of the financial system and its orderly activity.
- (b) With regard to Subsection (a)(1) - the price stability range shall be determined by the Government in consultation with the Governor.

4. The Bank's Functions

- (a) The Bank's functions shall be:
 - (1) Directing the monetary policy;
 - (2) Holding and managing the foreign currency reserves of the State;
 - (3) Supporting the orderly activity of the foreign currency market within Israel;

- (4) Acting as banker of the Government;
- (5) Regulating the economy's payment and clearing systems so as to ensure their efficiency and stability, including their conformity with the Payment Systems Law, 5768-2008¹⁰;
- (6) Issuing Currency and regulating the cash system within the economy.
- (7) To supervise and regulate the banking system by, and according to, its powers as set out in the banking laws and in any other law; in this regard, "Banking Laws" - the Banking (Licensing) Law, 5741-1981, the Banking Ordinance¹¹, 1941, and the Banking (Service to Customer) Law, 5741-1981¹².

5. The Bank's Autonomy

To achieve its objectives as set out in Section 3, and to carry out its functions as aforementioned in Section 4, the Bank shall be autonomous in choosing the actions necessary to execute the policy and to exercise its powers.

6. The Bank's Administration

The Bank shall have a Governor, a Monetary Committee, and an Administrative Council.

Chapter Three: Distribution of Profits

7. Distribution of Profits

- (a) At the end of three months, after the conclusion of each year, the Bank shall transfer to the Government profits as follows:

¹⁰ Sefer Hahukim 5768, p. 184

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¹² Sefer Hahukim 5741, p. 258

- (1) If, at the end of that year, the Bank's Capital is at a rate of 2.5%, or more, of the Bank's assets, profits shall be distributed to the Government at an amount equal to the Net Profit for that year;
- (2) If, at the end of that year, the Bank's Capital is at a rate exceeding 1% of the Bank's assets but is less than 2.5% thereof, the profits distributed to the Government shall equal 50% of the Net Profit for that year;
- (3) If, at the end of that year, the Bank's capital is at a rate of 1% or less of the Bank's assets – no profits shall be distributed.

(b) In this Section-

"the Bank's Capital" – as presented in the Bank's annual financial report prepared under Section 58(a) (herein – the Annual Financial Report) for the relevant year, after deducting the profits which are to be transferred to the Government for that year.

"Net Profit" – as presented in the Annual Financial Report, after deducting the Balance of Losses accrued; the Net Profit shall exclude as yet unrealized profits;

"Balance of Losses" – as presented in the Annual Financial Report.

Chapter Four: The Governor and the Deputy Governor

8. The Governor

The Governor of the Bank shall be appointed by the President of the State upon the recommendation of the Government.

9. Functions of the Governor

- (a) The Governor shall manage the Bank and shall also serve as the chairperson of the Committee and as member of the Council.
- (b) The Governor shall serve as advisor to the Government on economic matters.

10. The Deputy Governor and His Functions

- (a) The Government shall, upon the Governor's recommendation, appoint a Deputy Governor.
- (b) The Governor shall determine the Deputy Governor's functions.
- (c) The Deputy Governor shall be a member of the Committee and the Council.

11. Taking the Governor's Place

In case the Governor is unable to carry out his functions or has ceased to serve, the Deputy Governor shall take his place and shall be authorized to exercise his powers until a new Governor is appointed,.

12. Terms of Office of the Governor and the Deputy Governor

- (a) The Governor and the Deputy Governor shall be appointed for a term of five years, and may be reappointed for only one term.
- (b) The provision of Subsection (a) notwithstanding, the Deputy Governor's tenure shall terminate at the end of one year after the beginning of a new Governor's tenure, if his tenure has not ended at an earlier date; however, the Government may decide, upon the Governor's recommendation, that the Deputy Governor shall continue his tenure to its conclusion.

13. Prohibition of Other Occupation

- (a) During any and all of their terms in office the Governor and the Deputy Governor may not -
- (1) be members of the Knesset, members of a municipal authority council or candidates for same;
 - (2) be members in the management body of a group of individuals managing a business for profit, and in any management body of a group of individuals which may create a conflict of interest with the fulfillment of their functions under this Law;
 - (3) Hold any other post or engage, directly or indirectly, in any business or in any other occupation ;
 - (4) Own shares or any similar right in a Banking Corporation;
 - (5) Hold in Israel cash and securities not in accordance with rules set by the Government regarding ministers and deputy ministers, subject to the necessary changes.
- (b) The provision of Subsection (a) notwithstanding, the Governor or the Deputy Governor may hold any of the posts hereunder, provided this does not impair the Bank's autonomy, objectives and functions under Sections 3 and 4 or its ability to fulfill its functions under the Law -
- (1) be appointed as member of a commission appointed by the Government or the Knesset, and regarding the Deputy Governor – to serve as the Bank’s representative in the Securities Authority;
 - (2) hold an academic post;
 - (3) be, with the consent of the Government, a member of an international commission and an international institution;
- and provided the function, except under Subsection (2), is without any remuneration; the rules applicable to State employees shall also apply to a post as per above with remuneration, subject to the necessary changes; the Council may approve any deviation from such rules.

14. Terms of Remuneration of the Governor and his Deputy

- (a) The Government shall determine the Governor's salary, service and pension terms.
- (b) The Deputy Governor's salary, service and pension terms shall equal 90% of those of the Governor.

15. Termination of the Governor's Tenure

The President of the State may, upon the proposal of the Government, terminate the tenure of the Governor, if he deems that the Governor is unfit to continue his tenure due to one of the following:

- (1) He has committed an act unbefitting his status as Governor;
- (2) He has violated Section 13;
- (3) He has become permanently incapable of carrying out his functions.

16. Termination of the Deputy Governor's Tenure

The Government may, either at the Governor's proposal or after consultation with him, terminate the tenure of the Deputy Governor if it deems that he is unfit to continue his tenure due to one of the following:

- (1) The Governor is of the opinion that he does not fulfill his functions appropriately;
- (2) He has committed an act unbefitting his status as Deputy Governor;
- (3) He has violated Section 13;
- (4) He has become permanently incapable of carrying out his functions.

Chapter Five: Monetary Committee and Administrative Council

Sub-Chapter A: Monetary Committee

17. Monetary Committee and Its Functions

- (a) There shall be a Committee of the Bank, whose function shall be to determine the monetary policy, to pursue its implementation, to examine, from time to time, monetary and economic developments and progress in attaining policy objectives, and to discuss other issues related to monetary policy.
- (b) The Committee shall determine the actions to be undertaken by the Bank so as to achieve the objectives listed in Section 3.
- (c) The Committee's resolution regarding the interest rate shall have a time limit, and any change in this rate, or its maintenance as is, shall be decided by the Committee.
- (d) The Committee shall fulfill any other function imposed upon it by this Law.

18. Publication of Deliberations and Resolutions

- (a) The Committee shall submit to the Government and shall publish a summary of its deliberations and resolutions, their reasons and the numerical results of the voting, within two weeks of the deliberation date.
- (b) The Committee's resolution regarding the interest rate, or regarding the use of other monetary instruments, shall be published immediately after the resolution is reached, including a summary of the reasons therefor.
- (c) The Committee may decide to postpone, for a period of up to six months, the publication of a certain deliberation's summary, in whole or in part, as per Subsection (a), or of the publication of a resolution to use other instruments or of the summary of reasons of

a resolution about the interest rate as per Subsection (b), if it deems that the publication, at that time, may impede the results of the monetary policy; the Committee may extend the said non-publication period for additional periods of up to six months each; upon publication of the postponed deliberation or resolution or reasons' summary, postponed as aforesaid, the reasons for the postponement shall be published as well.

- (d) The Committee is authorized not to publish as per Subsection (a), if it believes the publication may impair the status of the Bank or of the State abroad, or the Bank's or the State's relations with Financial Entities abroad; in this Section "Financial Entity" – an entity similar to the entities detailed in the definition of "Financial Entity" in Section 1, which is incorporated abroad.
- (e) Where the Committee decides to postpone publication or not to publish at all as per Subsections (c) or (d) (herein – the Non-publication Decision), the Governor shall report to the Minister of Finance in writing the details of the deliberation or the decision, the reasons for the decision, and the reasons for the non-publication decision.

19. Composition of the Committee and Term of Tenure

- (a) The Committee shall consist of six members, amongst them the Governor, who shall serve as chairperson, the Deputy Governor, a Bank employee appointed by the Governor and three additional members from amongst the public.
- (b) A member from amongst the public shall be qualified for appointment if he is a resident of Israel, at the age of twenty five or more, and fulfills one of the following:
 - (1) He possesses a Doctorate in Economics or Business Administration and has at least a five year experience in the

monetary, financial or macro-economic field;

(2) He possesses a Master's degree in Economics or Business Administration and has at least a ten year experience in the monetary, financial or macro-economic field;

(c) The members from amongst the public shall be appointed by the Government, in accordance with the recommendation of the Public Committee as per Section 32(a).

(d) The members from amongst the public shall be appointed for a term of four years and may be reappointed.

20. Management of Investments

The rules applicable to the Governor and Deputy Governor under Section 13(a)(5) shall apply to Committee members.

21. The Committee's Work Procedure

(a) The Committee's chairperson shall convene the Committee at least eight times annually; he shall convene a special meeting of the Committee at the request of at least two members, provided the number of special meetings does not exceed four annually.

(b) The lawful quorum at Committee meetings and resolutions shall be a majority of its members, including the Governor or, with the Governor's consent, the Deputy Governor,

(c) The Committee's resolutions shall be passed by majority; where the votes are even, the chairperson shall have an additional vote.

(d) The validity of the Committee's resolutions shall not be impaired when the position of a member becomes vacant, or when there is a defect in the member's appointment or continued tenure.

- (e) Each member of the Committee may receive information in the possession of the Bank, which he requires to fulfill his function; an application to receive said information shall be made to the Governor or whomever he authorized for this purpose.
- (f) The Committee may, in special circumstances, hold meetings through use of any means of communication, provided all participating members can hear each other simultaneously.
- (g) The Committee shall determine its work procedures so far as they are not prescribed by this Law.

Sub-Chapter B: Administrative Council

22. Administrative Council

- (a) There shall be an Administrative Council at the Bank; The Council's functions shall be:
 - (1) To supervise the orderly and efficient management of the Bank;
 - (2) To approve the work plan and budget for the Bank's administrative activity;
 - (3) To approve the financial report as per Section 58;
 - (4) To approve salary terms and changes occurring therein, subject to the provisions of Section 23, including accompanying terms, and the Bank's salary structure;
 - (5) To appoint an internal auditor, as per the proposal of the Audit Committee;
 - (6) To appoint an accountant-auditor for the Bank and to terminate his services;
 - (7) Any other function imposed upon it by law.

- (b) The Council shall annually publish the Bank's budget, divided into fields of activity and programs, and the principles of the Bank's work plan and the Council's principal decisions, in the scope and format it determines and as it sees fit.

23. Salaries of Bank Employees

- (a) The Bank shall not agree to changes in salary, retirement terms or pension, or regarding other employment related financial benefits, and it shall not introduce such changes or benefits, unless it is in accordance with one of the following:
 - (1) Changes and updates introduced according to rules agreed upon between the Minister of Finance and the Governor;
 - (2) Based upon salary policy in the public service, regarding changes agreed upon and lawfully introduced for all employees in the public sector employed in a similar employment format, and taking into account the unique manpower requirements of the Bank which will enable it to achieve its objectives, and fulfill its functions according to this Law and its designation as a central bank.

- (b) Where the Bank has decided upon changes in salary, retirement terms or pension, or other employment related financial benefits according to Subsection (a)(2) (herein – the Changes) – the following provisions shall apply:
 - (1) Following the Council's approval regarding the Bank's decision about the aforementioned Changes, the Council shall write, as soon as practicable after its approval but no later than seven days after the date of such approval (herein – the Changes Notice), to the Minister of Finance and shall notify him of its intention to execute the Changes.

The Minister of Finance shall examine the Changes and may, prior to his decision, request the Council for clarifications regarding the said Notice – all this within 30

days as of the date of receiving the Changes Notice; the Council shall provide its clarifications to the Minister of Finance within 14 days as of the date of receiving the clarification request.

- (2) The Minister of Finance shall provide his position regarding the Changes Notice within 30 days as of the date of receiving the Notice or – if clarifications were required – of the date of receiving the clarifications as per clause (1) (herein – the Approval Period); where the Finance Minister agrees with the Changes, they shall be regarded as approved; where the Minister of Finance decides, after examining the Changes Notice and its reasons, among other considerations, not to approve the Changes, he shall so notify the Council in writing, and he shall detail his reasons (herein in this Subsection – Objection Notice).
- (3) The Council shall respond to the Objection Notice within 30 days as of its receipt (herein in this Subsection – the Response Period); where the Council notifies the Minister of Finance that his objections are acceptable – the Changes shall be revised in accordance with the Objections and the revised changes shall be considered as approved.
- (4) Where the Council has notified the Minister of Finance that the Objection Notice, in whole or in part, is unacceptable to the Council, or where no notice is provided by the Minister of Finance until the end of the Approval Period, the Professional Committee shall be convened in order to deliberate the matter, within 14 days as of the end of the Response Period or the end of the Approval Period, as the case may be.
- (5) The Professional Committee shall provide its decision to the Prime Minister, to the Minister of Finance, and to the Governor within 60 days as of the date this Committee should have convened in accordance with the provisions of

Subsection (4), and after providing the Minister of Finance and the Governor, or their representatives, with proper opportunity to present their contentions before it.

(6) The Minister of Finance or the Governor may object to the decision of the Professional Committee before the Prime Minister within 30 days as of receiving the Professional Committee's decision; the Prime Minister shall notify the Minister of Finance and the Governor of his decision within 45 days as of the date the objection was made; where the Governor or the Minister of Finance do not provide their objections to the Prime Minister, the Professional Committee's decision shall come into effect and the Changes made therein shall be considered as approved.

(7) The amounts of money designated for implementing the Changes shall not be transferred to those determined in the agreement or arrangement until they are approved under this Section; until the approval of the Changes under this Section the Bank may, at its discretion, transfer these amounts of money into a bank account designated for this purpose.

(8) Any law notwithstanding, any agreement or arrangement is void if it contradicts the provisions of Subsections (a) and (b).

(c) Deviating Agreement or Arrangement

(1) (a) Where the Minister of Finance is of the opinion that the Bank is party to an agreement or to an arrangement deviating, prime facie, from the provisions of Subsections (a) and (b) (herein - Salary Deviations), he shall so notify the Council, detailing the prima facie Deviations;

(b) (1) Within 7 days of receiving the notice of the Minister of Finance, the Bank shall cease payment of all amounts that are prima facie

Deviations, and it shall transfer amounts not yet paid into a bank account designated for this purpose; these amounts shall not be paid to the employees until a decision has been reached in the matter as per clauses (2) to (7);

- (2) The provisions of the Salary Protection Law, 5718-1958¹³, shall not apply to the payment of the amounts deposited as aforesaid until such date as the Bank is permitted, in accordance with the provisions of this Section, to transfer them to those entitled to them under the provisions of the agreement or arrangement.
- (c) Within 45 days as of the provision of the notice as per Clause (a), after having heard the position of the parties to the agreement and as far as he is not convinced by it, the Minister of Finance shall provide the Council with a detailed and reasoned objection regarding the Salary Deviations (herein in this Subsection - the Deviations Notice);
- (2) The Council shall respond in writing to the Deviations Notice within 30 days of its receipt (herein in this Subsection – the Response Period); where the Council has notified, after hearing the parties to the agreement that it accepts the objections of the Minister of Finance, it shall ensure the correction of the Deviations in accordance with the notice of the Minister of Finance within 60 additional days.
- (3) (a) Where the Council notifies in writing that it rejects the objections of the Minister of Finance, in whole or in part and the Minister of Finance is not convinced by the Council's reasons, he shall so notify the

¹³Sefer Hahukim 5718, p. 86

Council in writing within 14 days as of the date he received the Council's notice (herein – the Notice Period).

- (b) Where the Minister of Finance does not notify the Council until the end of the Notice Period, the amounts of money, which are purported to be in deviation, shall be returned to those entitled to them under the agreement or arrangement and this shall be regarded as a final decision that no Salary Deviation has taken place.
 - (c) Where the Minister of Finance notifies in writing, within the Notice Period, that he is not convinced by the Council's reasons, or where the Council does not provide a notice by the end of the Response Period, the Professional Committee shall convene to deliberate the issue within 14 days as of the date of the notice of the Minister of Finance under this clause or as of the end of the Response Period, as the case may be;
- (4)
- (a) The Professional Committee shall deliver its reasoned decision to the Prime Minister, to the Minister of Finance, and to the Governor with 120 days as of the date on which it should have convened in accordance with Clause (3)(c), and after it heard the Minister of Finance and the Governor or their representatives and the other parties to the agreement and has provided each of them with an opportunity to respond to the positions presented by the others;
 - (b) Where the Professional Committee does not decide the issue, the Minister of Finance or the Governor may bring the matter before the Prime Minister as per Clause (5), within 30 days as of the date for rendering a decision by the Professional Committee.

- (5) The Governor or the Minister of Finance may object to a decision of the Professional Committee before the Prime Minister within 30 days of having received the decision; where the Governor or the Minister of Finance have not presented objections to the Prime Minister, the decision of the Professional Committee shall be final.
- (6) The Prime Minister shall provide his final decision within 45 days as of the date of the objections of the Minister of Finance or the Governor; where the Prime Minister does not provide his decision as aforesaid, the Objections Notice shall become final within 30 days.
- (7) Where a final decision regarding the existence of a Deviation under Subsections (2) to (7) has been reached, and the Deviation has not been corrected, the Minister of Finance may act according to any power he possesses under Section 29 b(b) of the Basic Budget Law, 5745-1985¹⁴ (herein – the Basic Budget Law); and in this regard the aforesaid Section shall be read as if instead of "as aforesaid in Subsection (a)" it reads "a final decision has been reached regarding its invalidity under Section 23 (c) of the Bank of Israel Law, 5769-2009 (in this Subsection – the Bank of Israel Law)", instead of "as introduced for all of the State employees" it reads "the rules finalized under Subsection 23 (a)(1) of the Bank of Israel Law or of the agreements and arrangements approved at the Bank", and instead of "Section 29a(a)(2)" it reads "Section 23(c) of the Bank of Israel Law".
- (8) Where a final decision has been reached regarding an agreement or an arrangement to the effect that it is deviating, and that the provisions of Subsection (7) apply thereto, the provisions of Section 31 of the Contracts (General Part)

¹⁴ Sefer Hahukim 5745, p. 60, Sefer Hahukim 5765, p. 654

Law, 5733-1973 shall not apply thereto¹⁵.

- (d) Dates defined in this section may be extended with the agreement of the parties concerned.
- (e) In this Section – and
"The Professional Committee" – a three-member professional committee composed as follows:
 - (1) the Chairperson of the Professional Committee to be appointed by the Attorney General, who is qualified to serve as a judge in the Labour Tribunals, and he may be a person who has served as judge or has retired from his office in the service of the State or the Public Service;
 - (2) Two representatives from amongst the public, to be appointed by the Prime Minister and the Minister of Finance with the consent of the Governor, at least one of whom possesses knowledge and understanding in the field of Public Service salary.

24. Composition of the Council and Term of Tenure

- (a) The Council shall consist of seven members, amongst them the Governor, the Deputy Governor and five members from amongst the public.
- (b) A Council member from amongst the public shall be a person who fulfills the provisions of Section 16a of the Government Companies Law, *mutatis mutandis*, provided he fulfills the condition of Subsection (1) of that Section and also one of the conditions of Subsection (2) of that Section and he possesses substantial stature in the fields relating to the Council's work and he possesses

¹⁵ Sefer Hahukim 5733, p. 118

sufficient experience in senior positions.

- (c) The members from amongst the public shall be appointed by the Government in accordance with the recommendation of the Public Committee as per Section 32(a).
- (d) The Government shall determine, in consultation with the Governor, the Council member from amongst the public to serve as Chairperson.
- (e) Each of the members from amongst the public shall be appointed for a term of four years, and may be reappointed for only one term.

25. Audit Committee and its Functions

- (a) The Council shall appoint from its members from amongst the public an Audit Committee; the number of members in this committee shall not be less than three; the Chairperson of the Council shall not be a member of the Audit Committee.
- (b) The Audit Committee shall appoint one of its members as Chairperson.
- (c) The function of the Audit Committee shall be to locate defects in the administration of the Bank and suggest to the Council ways to rectify them; in order to execute its function as aforesaid the Committee shall discuss, among other topics, the work plan of the Internal Auditor and shall follow up its execution; the Committee shall also discuss the audit reports of the State Comptroller and of the Internal Auditor of the Bank, and the reports of the Accountant – Auditor, and other subjects brought before it by the Council or by the Governor; a discussion of the aforesaid shall be held in consultation with, among others, the Internal Auditor or the Accountant-Auditor, as the case may be.

- (d) The lawful quorum at the Audit Committee meetings and resolutions shall be a majority of its members, including the Chairperson.
- (e) The resolutions of the Audit Committee shall be passed by majority; where the votes are even, the chairperson shall have an additional vote.
- (f) The validity of the Audit Committee's resolutions shall not be impaired when a position of a member becomes vacant or due to a defect in a member's appointment or continued tenure of a member.
- (g) Without derogating from Section 6 of the Internal Audit Law, 5752-1992¹⁶ (herein – the Internal Audit Law), the Internal Auditor shall present a report of his findings to the Council Chairperson and to the Chairperson of the Audit Committee, as well;
- (h) The provisions of the Internal Audit Law notwithstanding, in Section 6a, the provision regarding the management of the public body shall apply regarding the Audit Committee, and the provision in Subsection (b) regarding the Commissioner shall apply to the Council Chairperson; in Section 7, Subsection (a) the provision regarding the Commissioner shall apply to the Audit Committee, and in Subsection (b), the Governor, the Council Chairperson and the Chairperson of the Audit Committee may impart to the Internal Auditor tasks as provided; the findings shall be presented to whoever has imparted the tasks.
- (i) The Internal Auditor shall receive notices of the Audit Committee's meetings and may attend them.

¹⁶ Sefer Hahukim 5752, p.198

- (j) The Internal Auditor may request the Audit Committee's Chairperson to convene the Committee for a discussion of an issue detailed in his request, and the Audit Committee's Chairperson shall convene it within a reasonable time as of the date of the request.
- (k) A notice about an Audit Committee meeting, in which an issue related to the audit of the Financial Reports is to be raised, shall be submitted to the Bank's Accountant-Auditor, who may then attend the meeting.

26. The Council's Work Procedure

- (a) The Council's Chairperson shall convene the Council at least six times annually; he shall convene a special meeting of the Council at the request of at least two members.
- (b) The lawful quorum at Council meetings and resolutions shall be a majority of its members, including the Chairperson, Governor or Deputy Governor.
- (c) The Council's resolutions shall be passed by majority; where the votes are even, the Council's Chairperson shall have an additional vote.
- (d) The validity of the Council's resolutions shall not be impaired when the position of a member becomes vacant, or when there is a defect in a member's appointment or continued tenure.
- (e) Each of the Council members may receive any information in the possession of the Bank, which he requires to fulfill his function; a request to obtain said information shall be made to the Governor or to whomever he authorized for this purpose.

- (f) The Council may, in special circumstances, hold meetings through use of any means of communication, provided all participating members can hear each other simultaneously.
- (g) The Council shall determine its work procedures so far as they are not established in this Law.

Sub-Chapter C: Joint Provisions for the Monetary Committee and Administrative Council

27. Remuneration of Committee and Council Members

The Government, in accordance with the recommendation of the Minister of Finance, in consultation with the Governor, shall determine the remuneration or expenses to which Committee and Council members from amongst the public are entitled; the said remuneration or expenses shall be included in the Bank's budget.

28. Disqualification from Participation in a Discussion

A member of the Committee or the Council, who may have a conflict of interest regarding an issue to be discussed in the Committee or Council, shall not participate in the discussion and voting concerning that topic.

29. Disqualification from Tenure in the Committee and Council

- (a) The following may not be members from amongst the public in the Committee or Council -
 - (1) Members of Knesset, members of a municipal authority council, or candidates for same;
 - (2) A Bank employee, a State employee, an employee of a corporation created under law, an employee of a Government Company, an employee or office holder in a Financial Entity, or a person possessing an interest in a Financial Entity;

- (3) Any person whose business or occupation may create a conflict of interest regarding his function as a Committee or Council member, as the case may be;
 - (4) Any person having or whose Relative has a Personal, Business or Political Relation to a cabinet minister or to his Relative.
- (b) The Attorney General or whomever he appoints in this matter shall determine whether a candidate for tenure fulfills the provisions of this Section.

30. Termination of Tenure of Committee or Council member

- (a) The Government may, regarding a Committee member – after consultation with the Governor, and regarding a Council member – after consultation with the Council's Chairperson, and regarding the Council's Chairperson – after consultation with the Governor, terminate the tenure of a member from amongst the public in the Committee or in the Council, if it deems he is unworthy to continue his tenure due to one of the following:
- (1) The member has committed an act inappropriate to his status as a Committee or Council member, as the case may be;
 - (2) The member has violated Section 28, or a condition of Section 29, disqualifying him, is fulfilled;
 - (3) The member has become permanently incapable of carrying out his functions.
- (b) The tenure of a Committee or Council member from amongst the public who is absent from four consecutive meetings of the Committee or Council or from six meetings of the Committee or Council within twelve consecutive months, shall terminate, unless the Chairperson of the Committee or the Chairperson of the Council, as the case may be, finds the absence justified.

31. Public Committee for the Appointment of a Committee or Council Member

- (a) A Public Committee shall be established, which consists of three members, as follows:
 - (1) The Committee's Chairperson, appointed by the Attorney General and qualified to serve as a district court judge; this member may have either served as a judge or has retired from a position in the State Service or in the Public Service;
 - (2) Two members, appointed by the government from a list proposed by the Minister of Finance, who are either experts on the economy, or are holding senior academic posts or have held an academic post.

- (b) A person is qualified to be a member of the Public Committee if he fulfills the conditions in Sections 17, 17A and 24(c) of the Government Companies Law; any person having, or whose Relative has, a Personal, Business or Political Relation to a cabinet minister, or his Relative, may not be a Public Committee member.

32. Public Committee Functions

- (a) The Public Committee shall examine the qualifications and suitability of candidates for Council or Committee membership, and shall decide, after consultation with the Governor, the candidates to be recommended to the Government as per Sections 19- (c) and 24 (c), respectively.

- (b) The Public Committee shall determine the procedure for presenting candidacy for Council and Committee membership from amongst the public.

- (c) The powers of the Public Committee and its resolutions shall not be impaired when the position of a member becomes vacant, or when

there is a defect in his appointment or continued tenure.

- (d) The Government shall determine, in accordance with the proposal of the Minister of Finance, provisions regarding remuneration for Public Committee members, to be paid by the State.

Chapter Six: Activities to Fulfill Functions

33. Activities to Fulfill Functions

In order to achieve its objectives and fulfill its functions under this Law, the Bank may perform any activity it deems necessary, including all those in the financial, money and foreign currency markets it deems fit, including the following:

- (1) Issuing securities of the Bank, provided issuing securities of a new type valid up to thirteen months shall be carried out after consultation with the Minister of Finance , and issuing securities of any type valid over thirteen months shall be carried out with his consent;
- (2) Any kind of activity or transaction customary in the capital, money and foreign currency markets, including in the derivatives' markets, in relation to securities, gold or other instruments in those markets; provided the purchase or sale in the market of bonds of the Government of Israel whose term exceeds thirteen months from the purchase or sale date, as the case may be, shall be executed after consultation with the Minister of Finance, and so that the purchase or sale as aforesaid shall not materially impair the ability to raise local debt in order to finance the Government's activity;
- (3) Granting credit to Banking Corporations and accepting deposits therefrom, all under conditions set out by the Committee, including conditions regarding the type and extent of collateral required

against the granting of credit as aforesaid and including conditions imposed upon the Banking Corporations regarding their activities, including interest rates and other payments they may charge their customers. The aforementioned notwithstanding, in exceptional circumstances, when the Committee is of the opinion that there exists a genuine threat to the stability of the financial system, or its orderly activity, the Committee may establish conditions which differ from those it established in regular circumstances for financial activity under this Section.

- (4) In exceptional circumstances, when the Committee is of the opinion that there exists a genuine threat to the stability of the financial system, or its orderly activity, the Bank may execute financial operations, as per Subsection (a)(3), which the Committee deems necessary for maintaining the stability of the financial system and its orderly activity, also vis-à-vis Financial Entities which are not Banking Corporations, all subject to conditions established by the Committee and to receiving the full information the Bank requires at such dates and in such manner as it shall establish; where the Financial Entity, subjected to the aforesaid operations of the Bank, is supervised by a Supervisory Authority, such operations shall be executed by the Bank after consulting the head of the Supervisory Authority.

34. Pledging Securities as Collateral for Credit

- (a) Where securities are pledged as collateral for granting credit by the Bank under this Chapter, the pledge shall be valid against other creditors of the debtor and it shall be regarded as a senior fixed lien, provided the securities are registered in favor of the Bank with a Financial Agent, as defined in Section 50A of the Securities Law.

- (b) The provisions of Section 19(b) of the Pledges Law, 5727-1967¹⁷ (in this Section – the Pledges Law) notwithstanding, the Bank shall not realize a securities pledge, which has been created as collateral against the granting of credit under this Chapter as per Section 17(3) of the Pledges Law, unless it has served notice of its intention to do so, two business days in advance, upon the debtor and upon any person whose right may be impaired by the realization.
- (c) The provisions of Subsection (b) notwithstanding, the Bank may realize a pledge as per that Subsection without prior notice, if at the opinion of the Governor or whomever he authorized for this purpose, one of the following has occurred, provided the Bank serves notice about the realization immediately after it, to the debtor or to any person whose right may be infringed by the realization:
- (1) A delay in realizing the pledge may materially impair the ability to obtain payment of the undertaking which is secured through realizing the pledge;
 - (2) There exist other terms, which require immediate realization of the pledge, in whole or in part.
- (d) Regarding the duty to serve notice under this Section, the transfer of the securities pledged to the Bank, to an account exclusively owned by it, shall not be viewed as realization.
- (e) The provisions of this Section shall apply notwithstanding the provisions of any other law, including the Companies (New Version) Ordinance, 5743-1983¹⁸, the Pledges Law and the Companies Law, 5759-1999¹⁹, and they shall also apply to a right in a security and a securities account, regarding the securities therein

¹⁷ Sefer Hahukim 5727, p. 48

¹⁸ Dinnei Medinat Israel, New Version 37, p. 761

¹⁹ Sefer Hahukim 5759, p. 189

as these may be from time to time; however, this Section shall not derogate from the Bank's right to act regarding a securities pledge and its realization under the provisions of any other law.

- (f) The provisions of Subsection (a) shall not derogate from the effect of a securities pledge serving as collateral for the undertaking of the debtor toward a third party, if prior to this law it was valid against other creditors of the debtor under the provisions of any law.

35. Liquid Assets of Banking Corporations

- (a) The Governor, with the approval of the Committee, may direct that all or any kind of Banking Corporations, hold Liquid Assets at a certain rate and composition, and may determine such rate either as a certain percentage of all deposit liabilities of the Banking Corporation or of all its assets, or both, or in any other manner, and may also determine different rates for the kinds of deposits or assets, to be defined in directions issued in this matter; the Governor may determine whether a particular liability of a Banking Corporation is to be regarded as a deposit.
- (b) In this Section, "Liquid Assets" - balances deposited at the Bank and other assets as the Governor, with the approval of the Committee, may determine in this regard.
- (c) No interest shall be paid to Banking Corporations on their balances, in whole or in part, held at the Bank under this Section, unless the Governor, with the approval of the Committee, determines otherwise, and at a rate he determines in this manner.
- (d) A Banking Corporation shall, at the demand of the Governor and on dates he determines, submit to the Bank a report of its liabilities and assets as is necessary for calculating the amount of Liquid

Assets to be held by it and particulars of the Liquid Assets actually held.

36. Failure of Banking Corporation to Hold Liquid Assets

- (a) If a Banking Corporation fails to hold Liquid Assets in accordance with Section 35, it shall pay interest to the Bank at a rate to be determined by the Governor with the approval of the Committee, on the difference between the total amount of Liquid Assets which it has been required to hold, and the total amount of Liquid Assets it held in respect of any period during which such difference existed.
- (b) The Governor may, with the Committee's approval, direct a Banking Corporation, that during a period specified in his direction and in the manner specified therein, such Banking Corporation discontinue or limit granting credit, investing, or distributing profits to its shareholders.

37. Information and Reports to the Bank

- (a) In order to attain its objectives and to fulfill its functions, the Bank may demand from a Supervisory Authority any information or report, relating to all Financial Entities or any type thereof, supervised by the Supervisory Authority, as the Bank deems fit. Where the Bank does not receive the information or report as aforesaid from the Supervisory Authority within a reasonable time, or where the said information or report is required from Financial Entities not supervised by a Supervisory Authority, the Bank may demand the information or report from the Financial Entities.
- (b) In order to attain the Bank's objectives and to fulfill its functions and in order to pursue the developments in the foreign currency market in Israel, the Governor, with the Committee's approval, may issue an order requiring any person or class of persons, as he determines, to provide to the Bank information relating to the

following transactions -

- (1) Transactions, carried out by a resident of Israel, in foreign currency, in a foreign security and in real estate situated abroad;
 - (2) Transactions between residents of Israel and non-residents, either in Israel or abroad;
 - (3) Transactions carried out in Israel or in respect of property in Israel, by non-residents, including transactions in Israeli currency with Banking Corporations;
 - (4) The possession, by a resident of Israel, of foreign currency and a foreign security and real estate situated abroad;
 - (5) The taking out of Israel of any asset and bringing, into Israel, Israeli currency or a claim to Israeli currency.
- (c) In an order as per Subsection (b) the Governor may, with the Committee's approval, establish definitions for transaction, resident of Israel, non- resident and foreign security, and any other definition as he deems fit.
- (d) The Governor or whomever he authorized for this purpose may direct a person to provide any additional information regarding transactions mentioned in Subsection (b) which they deem necessary.

Chapter Seven: Management of Foreign Currency Reserves

38. Management of Foreign Currency Reserves

- (a) The Committee, with the approval of the Minister of Finance, shall determine the changes in principles according to which the desired level of foreign currency reserves is determined over the long term.

- (b) The Committee, in consultation with the Minister of Finance , shall determine the guidelines for the investment policy of the foreign currency reserves.
- (c) The Bank may carry out activities in foreign currency as it deems fit, in accordance with Section 33.
- (d) The Committee shall report to the Minister of Finance , within three months as of the end of every six months of each year, details about the management of the foreign currency reserves as at end of the said period, in a format to be concluded between them.
- (e) The Committee shall publish, within three months as of the end of each year, details about the principal kinds of currency and securities composing the foreign currency reserves as at the end of that year, in a manner which shall not impair the orderly management of the foreign currency reserves.

Chapter Eight: Currency Notes and Coins

39. Issuing Legal Tender

- (a) The Bank may issue and re-issue Currency.
- (b) Currency issued by the Bank shall be legal tender in Israel in the amount of its face value.

40. Power to Issue Currency

- (a) The Governor, with the approval of the Council and the Government,

shall determine the face value, form, contents and other particulars of the Currency notes to be issued; the notes shall bear the facsimile signature of the Governor.

- (b) The Governor, with the approval of the Council and the Government, shall determine the face value, composition, weight, design and other particulars of the coins to be issued.

41. Commemorative Coins and Special Coins and Numismatic Items

- (a) A coin issued by the Bank, which has been declared by the Governor, with the approval of the Council and the Government, to be a commemorative coin or a special coin, or numismatic items issued to the public by the Bank which are legal tender in Israel, shall be delivered by the Bank, for their marketing, only to a company appointed therefor by the Minister of Finance with the Governor's approval.
- (b) The Governor shall determine, with the approval of the Council and the Government, the face value, composition, weight, design and other particulars of the coins to be issued.
- (c) The provision of Subsection (a) shall not prevent the Bank from keeping commemorative coins, numismatic items or special coins or from presenting them as gifts to whomever it deems fit.

42. Prohibition to Issue Currency

- (a) No person, other than the Bank, shall issue, re-issue or circulate Currency notes, coins, any document or other thing, which the Governor has determined might be used as currency substitute.
- (b) If a person issues a currency substitute in contravention of Subsection (a), the Governor may confiscate it.

43. Cancelling and Replacing Currency Notes and Coins

- (a) The Governor may order that Currency notes and coins specified in the order shall cease to be legal tender in Israel (in this Section – the Cancellation Order).
- (b) A person who, during a period determined in the Cancellation Order, delivers to the Bank, or to whomever the Bank designated in that Order, Currency notes or coins which have ceased to be legal tender according to that Order, is entitled to receive in exchange therefor legal tender of equal value.
- (c) The Governor may determine, in a Cancellation Order, a fee regarding the provisions of Subsection (b).
- (d) A Cancellation Order shall not derogate from any law establishing the currency unit or any division thereof.
- (e) Once a Cancellation Order has been issued, then, wherever any amount is payable in cash, which can only be paid by using a cancelled Currency note or coin, such amount shall be rounded to the nearest amount which can be paid in legal tender, and where it can be rounded either upwards or downwards, it shall be rounded upwards.
- (f) A Cancellation Order may determine that the provisions of Subsection (e) shall apply also to a non-cash payment and with respect to an account-book entry, either compulsorily or at the option of the person effecting the payment or entry.
- (g) The Governor may determine, by order, provisions for withdrawal from circulation of Currency damaged through use or destroyed and for its replacement under conditions determined by the order, including a fee the Bank shall collect therefor.

44. Currency Services

The Governor, with the approval of the Council, may determine by rules the services the Bank may provide regarding Currency, the entities to which these shall be provided and the conditions under which this will be done; he may also prescribe the fees which may be charged for said services.

45. Rules for Regular Operation of the Currency System

The Governor, with the Council's approval, may establish rules necessary for the orderly operation of the Currency system, including rules -

- (1) enabling supply of Currency to the economy, in a regular and orderly manner and of proper quality;
- (2) requiring Banking Corporations to take actions as shall be determined to exchange Currency notes or coins in circulation, so as to prevent or cease the use of counterfeit currency in circulation, whether in case new legal tender is issued, or due to any other reason related to the economy's Currency system, including proper quality of the Currency.

Chapter Nine: Managing Accounts

46. The Bank as the Government's Banker

- (a) The Bank shall be the sole banker of the Government regarding its Banking Activity, provided all this is in Israeli currency. In this regard, "Banking Activity" – any kind of activity in which a Banking Corporation may engage under the Banking (Licensing) Law.
- (b) The provision of Subsection (a) notwithstanding, the Government may, in accordance with an agreement between the Governor and the Minister of Finance, obtain certain services from Banking Corporations or Financial Entities, provided this is done only in order to manage the Government's debt and fiscal activity;

- (c) Any change in the payments to be paid by the Government to the Bank for services rendered to it under Subsection (a), and any change in the manner of determining the interest the Bank is to pay to the Government for its deposits at the Bank, or in the manner of determining the interest the Government is to pay the Bank for overdraft balances – shall be agreed upon by the Governor and the Minister of Finance.
- (d) The Government's policy regarding receiving loans and issuing securities shall be determined at least once in three months, in consultation with the Governor.

47. Loans to Government

- (a) The Bank shall not provide a loan to the Government to finance its expenditures, including by manner of direct purchase at the issuance of bonds the Government issues.
- (b) The provision of Subsection (a) notwithstanding, the Bank may provide to the Government, at its request -
 - (1) a temporary advance to bridge a gap in the Government's cash flow in executing its budget (herein –Temporary Advance), provided the total Temporary Advance shall not exceed, at any time, 10 billion NIS for no longer than 150 days per year; this sum shall be updated annually, as of January 2013, based upon the consumer price index for December 2012, in accordance with the rate of change in the consumer price index published by the Central Bureau of Statistics.
 - (2) a loan for the purpose of repaying its debts to the Bank incurred under law, except for debts under Paragraph (1); the loan's conditions and repayment dates shall be agreed between the Minister of Finance and the Governor, based

upon market conditions.

48. Managing Accounts

- (a) The Bank may manage accounts for Banking Corporations and for other Financial Entities, under conditions determined by the Governor, including charging management or other fees, provided granting credit to Banking Corporations and accepting deposits therefrom are in accordance with Sections 33(3) and (4).
- (b) An account may be managed in either Israeli or foreign currency.

Chapter Ten: The Economy's Foreign Currency Activity

49. Prohibition of Transactions

- (a) The Government, in accordance with the proposal of the Minister of Finance and in consultation with the Governor, may determine by order that transactions under Section 37(b)(1) to (5), in whole or in part, shall be prohibited.
- (b) The provision of Subsection (a) notwithstanding, the Minister of Finance, with the Prime Minister's consent and in consultation with the Governor, may determine as per Subsection (a), if he believes that circumstances arise justifying the promulgation of the order not by the Government, but such order shall expire if not ratified by the Government within 14 days.
- (c) An order under Subsections (a) and (b) may be either general or pertain to a particular matter or to a particular kind of matters or to particular kinds of persons.

- (d) An order under Subsection (a) and an order under Subsection (b), the latter having been ratified by the Government as aforesaid, shall expire at the end of six months as of its entry into force, unless the order determines a shorter period.
- (e) The Government, in accordance with the proposal of the Minister of Finance and in consultation with the Governor, may extend the order's validity for additional periods of six months each.

Chapter Eleven: Exchange Rate

50. Exchange Rate

- (a) The currency's rate of exchange into foreign currency shall be determined by the foreign currency market, unless the Government determines, in consultation with the Governor, another method.
- (b) If the Committee deems fit, it may decide that the Bank intervene in the trade in the foreign currency market, even if by doing so it causes a temporary deviation from the desired level of foreign currency reserves as per section 38, provided the intervention is to attain the Bank's objectives and to fulfill its functions, as per Sections 3 and 4; immediately following this intervention, the Committee shall report it to the Minister of Finance.
- (c) The provision of Subsection (b) notwithstanding, where the Committee believes the Bank should intervene in the trade in the foreign currency market not for monetary policy reasons, or not in order to support the stability of the financial system, it may, with

the approval of the Minister of Finance, decide upon such intervention; however, if the approval of the Minister of Finance cannot be obtained prior to the intervention due to the urgency of the required action, the Committee may be entitled to intervene with the said trade, and the Committee shall report to the Minister of Finance the actions undertaken immediately afterwards.

- (d) Where the Governor believes that intervention under Subsection (b) is necessary, and the Committee's approval prior to such intervention cannot be obtained, he may intervene in the trade and he shall report to the Committee and to the Minister of Finance about the actions undertaken soon after the intervention.

Chapter Twelve: Reports to the Public

51. Annual Report about the State of the Economy

Within three months after the end of each year, the Governor shall submit to the Government and the Finance Committee of the Knesset a report which contains a survey and analysis referring to the state of the economy and to the economic policy in the previous year.

52. Periodic Report on Monetary Policy

- (a) No less than twice annually, the Committee Chairperson shall submit to the Government and the Finance Committee of the Knesset a report, which contains a survey of the developments in the field of price stability and the economic developments in the relevant time period, and the required policy, in the Committee's opinion, in order to maintain price stability within the range determined by the Government as per Section 3(b), and to support

the other objectives of Section 3.

- (b) Where the inflation rate deviates, during six consecutive months, from the range determined by the Government as per Section 3(b), the said periodic report shall include details about -
 - (1) The reasons for the deviation;
 - (2) The policy the Committee undertakes to readjust the inflation rate to the determined range, and the Committee's estimate of the time period required to do so.
- (c) In this Section, "a Deviation of the Inflation Rate" - the rate of change between the Consumer Price Index published just before the calculation and the Consumer Price Index published for that month in the previous year;
"Consumer Price Index" – the consumer price index published by the Central Bureau of Statistics.
- (d) Soon after the submission of the said report as per Subsection (a), the Governor shall present it to the Knesset Finance Committee.

53. Annual Report about the Foreign Currency Reserves

Within three months as of the end of each year the Committee Chairperson shall submit to the Government and to the Knesset Finance Committee a report which shall include the principles according to which the desired level of foreign currency reserves is determined over the long term, and the guidelines according to which the Bank's foreign currency reserve investment policy is determined.

54. Other Reports

The Government and the Finance Committee of the Knesset may, at any time, demand that the Bank submit to them a report concerning any matter relating to the activities of the Bank in executing its functions under this Law.

Chapter Thirteen: Financial Sanction

55. Financial Sanction

- (a) If the Governor has reasonable grounds to assume that any person has committed one of the following, he may impose upon him a financial sanction in the sum as per Section 61(a)(3) of the Penal Code, 5737-1977²⁰ (herein – the Penal Code):
- (1) violation of a condition to grant credit or to accept deposits under Section 33(3) or Section 33(4);
 - (2) failure to submit a report under Section 35(d);
 - (3) violation of an instruction to cease or limit the granting of credit, an investment or distribution of profits under Section 36 (b);
 - (4) For a Financial Entity - failure to submit information when required to do so under Section 37;
- (b) In the event of a continuous violation, the financial sanction set forth for the violation at issue shall be increased by a financial sanction at the rate of one-fiftieth thereof for each day on which the violation continues.
- (c) In the event of a Recurrent Violation, the financial sanction that may be imposed for said violation if it were a first violation shall be increased by a sum equal to one-half of said financial sanction; for this purpose, a “Recurrent Violation” is a violation of one of the provisions listed in Subsection (a), within two years of a previous violation of the provision due to which a financial sanction was imposed upon the violator.

²⁰ Sefer Hahukim 5737, p. 266

- (d) A financial sanction shall be paid at the Governor's demand within thirty days as of the date on which it is delivered; the demand shall be issued after notice is given to the person to whom it is intended about the intent to issue it, and after he is given an opportunity to present his contentions; said notice shall state that due to a continuous violation the violator shall be charged a further financial sanction under the provisions of Subsection (b).
- (e) If a financial sanction is not paid on time, it shall be increased, for the period of arrears, by annual interest at the Bank of Israel rate plus four percent - until payment is made.
- (f) The financial sanction shall be remitted to the State and the Tax (Collection) Ordinance²¹ shall apply thereto.
- (g) (1) A demand for payment of a financial sanction may be appealed in Jerusalem Magistrate's Court within thirty days of the delivery of the demand;
- (2) Filing of an appeal shall not delay the payment of a financial sanction, unless the Governor consents thereto, or the court issues an order otherwise;
- (3) If the appeal is upheld, the financial sanction shall be refunded, plus indexation differentials and interest, from the date it was paid to the date it is refunded.
- (h) (1) An Office Holder in a Corporation must supervise and do everything possible to prevent contraventions under Clauses (1) to (4) by the corporation or by any of its employees;
- (2) Where the Governor has reasonable grounds to presume, that an Office Holder in a Corporation has contravened his supervision duty under Clause (1), he may impose upon him
-

a financial sanction of an amount equal to half the amount defined in Section 61(a)(3) of the Penal Code;

- (3) Where the corporation contravenes any of the Clauses (1) to (4) detailed in Subsection (a) above, a presumption exists that the Office Holder in the Corporation has contravened his duty under Clause (1) herein, unless he proves he has done everything possible to fulfill his duty.

Chapter Fourteen: Penalties

56. Penalties

- (a) Any person who issues or circulates Currency notes, coins, any document or other thing, which the Governor has declared capable of being used as a substitute for Currency, in contravention of the provisions of Section 42, is liable to imprisonment for a term of two years.
- (b) Any person who commits any of the following is liable to imprisonment for a term of one year:
 - (1) Failed to hold Liquid Assets at a rate or composition determined by the Governor under Section 35(a);
 - (2) Carried out a transaction, which an Order under Section 49 determines to be prohibited;
 - (3) Has breached the secrecy duty in contravention of Section 62(a).
- (c) The provisions of Section 2(b) of the Penal Code shall not apply to offenses and penalties under this Law, or to offenses and penalties established by the Governor or Bank employees under any other law.

57. Supervision Duty

- (a) An Office Holder in a Corporation must supervise and do all that is possible to prevent offences under Section 56 by the corporation or by any of its employees; any person violating this provision is liable to half the fine prescribed for that offence under Section 56.
- (b) Where an offence under Section 56 is committed by a corporation or by any of its employees, a presumption exists that the Office Holder in the Corporation has breached his duty under Subsection (a), unless he proves he has done everything possible to fulfill his duty.

Chapter Fifteen: Miscellaneous Provisions

58. Financial Report

- (a) Within three months as of the end of each year, the Bank shall prepare an annual financial report, reflecting the composition and value of the Bank's assets and liabilities for the last business day of the year; the report shall be prepared by an accountant-auditor, appointed as per Section 22(a)(6), in accordance with generally accepted accounting principles for central banks.
- (b) Such reports shall be approved by the Council and shall be submitted to the Government and to the Finance Committee of the Knesset, and shall be published in a manner determined by the Council.

59. Audit by State Comptroller

- (a) The Bank is an Audited Body, within its meaning in Section 9(6) of the State Comptroller Law (Consolidated Version), 5718-

1958²² (herein – the State Comptroller Law).

- (b) The provisions of the following sections of the State Comptroller Law shall not apply to the Comptroller's audit of the Bank:
 - (1) Section 10(b), in respect of a proposal by the Government;
 - (2) in Section 14(a), the passage from "if he deems it necessary" to the end of Subsection (a);
 - (3) Section 20(c), in respect of submitting the report to the Prime Minister and to the Minister concerned;
 - (4) Section 21, in respect of the Government's request.
- (c) The provisions of this Section shall apply to the Bank and its employees in respect of their activity under any other law, as well.

60. Fees

The Governor, with the approval of the Council and with the consent of the Minister of Finance, may determine, by order, provisions regarding fees to be paid to the Bank for services it provides under this Law or any other law, to Banking Corporations or to any other person.

61. Exemption from Taxes

Regarding payment of taxes, municipal taxes, fees and other compulsory payments, the Bank has the same status as the State.

62. Secrecy

- (a) No person shall disclose information supplied or produce a document submitted to him under this Law; provided that he may do so if the Governor deems this necessary for the purpose of criminal indictment.
- (b) The provisions of Subsection (a) notwithstanding, the Governor may disclose information or present a document to the Securities

²² Sefer Hahukim 5718, p. 92

Authority within its meaning in Section 2 of the Securities Law, or to the Commissioner of Capital Markets, Insurance and Savings at the Ministry of Finance (in this Section – the Transferee Entity), provided he is apprised that the information or document is requested for the fulfillment of the Transferee Entity's functions.

- (c) In respect of the disclosure of documents and information to a court of law, the Bank has the same status as the State.

63. Restrictions after Retirement

The provisions of the Public Service (Restrictions after Retirement) Law, 5729-1969²³ (herein – the Public Service Law), shall apply to persons who retire from the Bank, including members of the Committee and Council, with the necessary changes; Section 3 of the Public Service Law shall apply to the Governor, to the Deputy Governor, to an employee whom the Governor has appointed as member of the Bank's management, and to an employee who, immediately prior to his retirement, was ranked at the top five grades of the Bank's employees.

64. Representation before International Financial Institutions

- (a) The Bank shall represent the State in any matter relating to the State's membership in the International Monetary Fund, in the Bank for International Settlements, in the International Bank for Reconstruction and Development, and in any other international financial institutions as per the Government's decision.
- (b) The Bank may perform any act required for the purpose of the above representation, including investment in shares of a financial institution.

²³ Sefer Hahukim 5729, p. _____

65. Bills of Exchange Ordinance

For the purpose of the Bills of Exchange Ordinance²⁴, the Bank shall be deemed to be a banker within its meaning in that Ordinance.

66. Evidence as to Currency

A certificate, purporting to have been issued by the Governor or by a person authorized by him in writing, attesting that the attached thereto is Currency or counterfeit currency, shall be evidence of that fact so long as the contrary is not proved.

67. Implementation

The Government is charged with the implementation of this Law.

68. Amendment to the Banking Ordinance No. _____

In the Banking Ordinance, 1941²⁵ -

- (1) In Section 8(B1), the word "realization" shall be deleted, and the words "Section 44A of the Bank of Israel Law, 5714-1954" shall be replaced by "Section 35 of the Bank of Israel Law, 5769-2009."
- (2) In the initial portion of Section 8D(a), the words "with the approval of the Government" shall be replaced by "with the approval of the Committee as defined in the Bank of Israel Law, 5769-2009";
- (3) In Section 15(A2)(a) -
 - (a) In the title of the Section, "to the Bank of Israel and to a supervisory authority" shall replace "to a supervisory authority".
 - (b) In Subsection (a), "to show a document" shall be followed by "to an employee of the Bank of Israel to enable him to perform his function and also".

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²⁵ I.R. 1941, Supp. 1, p. 69(p), 85(a); Sefer Hahukim 5765, p__

69. Amendment to the Control of Financial Services (Insurance) Law- No.
In Section 50B(a) of the Control of Financial Services (Insurance) Law, 5741-1981²⁶, "within its meaning in Section 2 of the Securities Law, " shall be followed by "to the Bank of Israel".

70. Amendment to the Basic Budget Law No._____

In the Basic Budget Law -

- (1) In Section 21, in the definition of "Budgeted Entity", the words "Bank of Israel" shall be deleted;
- (2) In Section 32, the end of the definition of "Budgeted Entity" shall be followed by "as well as the Bank of Israel";
- (3) In Section 33(a), "the information shall be provided with the consent of the minister concerned" shall be followed by "and regarding the Bank of Israel – with the consent of the Prime Minister";
- (4) In Section 33A(c)(4), "Section 29(a)" shall be followed by "and regarding Bank of Israel employees – under Section 23 of the Bank of Israel Law, 5769-2009";
- (5) In Section 35, the end of Clauses (1) and (5) shall be followed by "and regarding a Bank of Israel employee - under Section 23 of the Bank of Israel Law, 5769-2009".

71. Amendment to the Internal Audit Law – No._____

In Section 12(a) of the Internal Audit Law, Paragraph (2) is deleted.

72. Amendment to the Payment Systems Law – No._____

In Section 16(c) of the Payment Systems Law, 5768-2008, the word "realization" shall be deleted, and "Section 44A of the Bank of Israel Law, 5714-1954" shall be replaced by "Section 34 of the Bank of Israel Law, 5769-2009."

²⁶ Sefer Hahukim 5741, p. 208, Sefer Hahukim 5768, p. 165

73. Amendment to the Short Term Loan Law – No. ____

In Section 6 of the Short Term Loan Law, 5744-1984²⁷, the ending which begins with the words "for the increase or decrease of the means of payment" shall be replaced by "in order to achieve the objectives of the Bank of Israel and to fulfill its functions as detailed in Sections 3 and 4 of the bank of Israel law, 5769-2009".

74. Repeal

(a) The Bank of Israel Law, 5714-1954²⁸ (herein – the Previous Law) - is repealed.

(b) The Currency Control Law, 5738-1978²⁹ – is repealed.

75. Commencement

This Law shall commence on.....(herein – the Commencement Date).

76. Transitional Provision

(a) The Governor and the Deputy Governors, serving before the Commencement Date, shall continue their tenures to their conclusions.

(b) Upon the commencement of this Law, the members of the Council and the Committee, appointed from amongst the public for the first time, shall be appointed as follows:

One of the Council's members shall be appointed for one year, two of the Council's members and one of the Committee's members shall be appointed for two years, the fourth of the Council's members and the second of the Committee's members shall be appointed for three years, and the fifth of the Council's members

²⁷ Sefer Hahukim 5744, p.69

²⁸ Sefer Hahukim 5714, p. 192

²⁹ Sefer Hahukim 5738, p. 108

and the third of the Committee's members shall be appointed for four years.

- (c) Where no Committee under Section 17 is appointed, or no Council under Section 22 is appointed, the powers vested in this Law in each, as the case may be, shall be vested in the Governor until the appointment of either as aforesaid.
- (d) The salary and pension terms, determined for the Governor and the Deputy Governor before the commencement of this Law, shall continue to apply, after the commencement, to the Governor and the Deputy Governor appointed before the commencement of the Law.
- (e) The provisions of Section 23 shall not apply to changes in salary, in retirement terms or pension, or to other employment related financial benefits, of any of the following listed below, so that the provisions of Chapter C of the Basic Budget Law shall continue to apply to these changes.
 - (1) Members of the Bank's management, who began their employment prior to the commencement of this Law, except for management members employed under a personal employment contract;
 - (2) An employee who retired from the bank prior to August 19, 2008.

Explanatory notes

General

The current Bank of Israel Law, which was enacted over fifty years ago, in 1954, reflects the views, prevailing at that time, about the role of a central bank, and is to a great extent based on economic thinking in that period.

In the last two decades, very significant reforms have been introduced in central bank legislation in many countries, focusing on the independence of central banks, and in particular their independence of the political system, and on their objectives. The Levin Committee appointed, in December 1997 by the then Prime Minister Mr. Benjamin Netanyahu, to examine the changes needed to the Bank of Israel Law also recommended, after an exhaustive study of the subject that included comparisons with central banking in other countries, changes in line with the international norms.

The main changes in central bank legislation implemented in many countries, and those recommended by the Levin Committee, give legal backing to the assertion that the central bank's main objective is to achieve and preserve price stability, and by virtue of law, strengthen the central bank's independence in deciding on the tools to reach its objectives and on how to use them. This is based on the recognition in Israel and world wide—recognition that has grown over the years, particularly since the 1980s, and that results from research and also from practical experience—that price stability is essential for the achievement of such important objectives as sustainable growth and high levels of investment and employment over time. It also became more firmly accepted that monetary policy is the most efficient means of affecting the rate of inflation and achieving price stability. A clear positive correlation was found between the degree of central banks' independence and the level of success in reducing inflation and keeping it low and stable.

The financial crisis that started in 2007 highlights the vital role of central banks in actively dealing with the effects of the crisis and in attempts to achieve and ensure financial stability.

There is a worldwide consensus that a central bank with the appropriate policy tools available, which it is empowered to operate at its sole discretion, has a distinct advantage in ensuring price stability. It is for the Government to define the range it considers to be price stability. The division of powers and responsibility is thus that the central bank will act by means of the instruments at its disposal to achieve and maintain price stability, and subject to that will help the Government to attain other objectives, especially growth and employment; the Government, on its part, will act via fiscal policy and structural changes that will encourage competition to reach its real targets, including growth, employment and a reasonable balance of payments. Experience since the outbreak of the global financial crisis in 2007 has proved that an independent central bank, equipped with the appropriate tools, which it is empowered to operate at its sole discretion, has a distinct advantage also in ensuring financial stability, and it is well placed to serve as an auxiliary force in supporting the Government's policy in that area.

Defining the central bank's objectives and granting it independence, also in choosing and operating policy tools, require the establishment of public and internal control mechanisms, to ensure that its independence goes hand-in-hand with responsibility, accountability and transparency vis-à-vis the Executive Branch (the Government), the Legislative Branch (the Knesset) and the public.

In light of the developments referred to above, it is recommended that the current law be replaced by a new law, that will reflect the principles of central banking accepted around the world.

Section 1 in the Bill

The proposed Section 1 is similar to Section 1 in the current law, although several changes have been made. The definitions of the Advisory Committee and the Advisory Council have been deleted. Under the current law, the Governor consults

with these bodies and reports to them, with no obligation to accept their advice or act in accordance with it. In line with the new principles in the Bill, a Monetary Committee and an Administrative Council will be established, and they will be empowered to make decisions. It is therefore proposed to abolish the Advisory Committee and the Advisory Council established under the current law, and the various provisions in the current law requiring that those bodies be consulted and reported to have also been amended accordingly.

Definitions of the “Committee”, the “Council”, and the “Public Committee” have been added. The “Committee” refers to the Monetary Committee which it is proposed be established, under Section 17 in the Bill, whose function will be, *inter alia*: to determine monetary policy; to decide on actions required to achieve the objectives set out in Section 3 in the Bill; to decide on changes to the principles according to which the desired long-term level of the foreign exchange reserves is determined and the policy guidelines for investing the reserves; to decide the terms for making credit available to Banking Corporations and for accepting deposits from them; to decide whether circumstances justify the Bank's carrying out financial transactions it is authorized to perform vis-à-vis additional Financial Entities and the conditions for implementing such transactions; and to decide on intervention by the Bank in trading in the foreign exchange market if and when necessary for the attainment of the Bank's objectives.

The “Council” is the Administrative Council which it is proposed be established, under Section 22 in the Bill, whose function will include, among other things, approving the Bank's work plans, the budget for the Bank's administrative activity, the Bank's pay structure, salary terms and changes in them in accordance with the control mechanisms detailed in Section 23 in the Bill, the Bank's financial report, and activities in the area of Currency issue.

The “Public Committee” is a committee which it is proposed be established, under Section 31 in the Bill, to ensure a proper procedure for the appointment of members from amongst the public of the Monetary Committee and the Administrative Council.

The term "Financial Entity" is defined, *inter alia*, for the purpose of determining entities with which the Bank may carry out financial transactions that the Monetary Committee considers necessary to maintain the stability of the financial system and its orderly activity, and regarding which the Bank may ask for reports for the purpose of achieving its objectives and performing its functions. "Supervisory Authority" is defined, relating to authorities that supervise Financial Entities. "Price Stability over the Course of Time" is defined, for purposes of determining the hierarchy of the Bank's different objectives as detailed in section 3 of the Bill. "Office Holder in a Corporation" is defined for purposes of imposing a supervisory obligation in order to prevent certain violations of the Law by a corporation and to prevent the commitment of certain offences by a corporation. "Relative" and "Personal, Business, or Political Relation" are defined, to determine the conditions for disqualifying candidacy for membership in the Monetary Committee, the Administrative Council, and the Public Committee.

Section 2 in the Bill

Section 2 in the Bill is essentially the same as Sections 2 and 4 in the current law.

Sections 3 to 5 in the Bill

It is proposed that the objectives and the functions of the Bank be defined, stating specifically that the Bank is independent in its choice of actions to achieve its objectives and in the performance of its assigned functions (the proposed Section 5).

Section 3 of the current law lists several objectives of the Bank. As these objectives may from time to time contradict each other in the short term, the proposed Section 3 states that maintaining price stability will be the main function, as in practice is the case currently. The range to be defined as price stability will be determined by the Government in consultation with the Governor. The Bank will also support the other objectives of the economic policy set by the Government, provided that in doing so it does not impair the achievement of price

stability over the course of time. As defined in proposed Section 1, Price Stability over the Course of Time is attained when based on the monetary policy decided upon by the Monetary Committee, it is expected that the rate of inflation will be in the price stability range within a period of up to two years.

Defining the maintenance of price stability as the Bank's main function derives from, among other things, the fact that monetary policy can above all affect price stability, and thus it can support investment, growth and employment over time.

The Bill also defines support of the stability of the financial system and its orderly activity as another objective of the Bank of Israel. It is now accepted in many countries around the world that their central banks are responsible for this aspect too, because of the central position of the financial system in the economy, the mutual relations between it and real activity, and the fact that the central bank is the sole body that is able to serve as a lender of last resort for Banking Corporations and other Financial Entities. The global financial crisis that started in 2007 showed how essential was the role of central banks in dealing effectively with its consequences, and more generally, in the effort to achieve and ensure financial stability.

The functions of the Bank in the proposed Section 4 are essentially similar to those in the current law, but they are described in greater detail, and also contain the added function of regulating the payment and clearing systems in Israel. To complete the list of the Bank's functions, it is proposed to include (Subsection (7)), the function of supervising and regulating the banking system by, and according to, its powers as set out in various laws. Attention is drawn to the close interrelations between the functions of regulating the payment and clearing systems and of supervising and regulating the banking system on the one hand, and the function of supporting the orderly activity and stability of the financial system, on the other.

Section 6 in the Bill

The proposed Section 6 on the Bank's administration states that the Bank shall have a Governor, a Monetary Committee, and an Administrative Council.

Section 7 in the Bill

This Section replaces Sections 5–7 in the current law. The current law specifies the amount of the Bank's capital, which can only be increased, with the approval of the Knesset Finance Committee, by directive from the Minister of Finance. The current law also states that the Bank shall have a reserve fund and specifies the amount, which the Governor is empowered to increase with the approval of the Minister of Finance and the Knesset Finance Committee. The Bank's capital and the reserve fund have been increased several times in the past, and on 31 December 2008, after a revaluation under Standard No. 12 of the Israel Accounting Standards Board, the Bank's capital was NIS 848 million (the amount prior to the revaluation was NIS 60 million), and the reserve fund stood at NIS 3,317 million (prior to the revaluation, NIS 260 million). It is proposed that instead of the law setting the amount of capital and a mechanism for increasing it, a mechanism be introduced for distributing the Bank's profits based on the desired minimal capital level for the Bank. It is also proposed to abolish the reserve fund.

The current law obliges the Bank to transfer all its profits to the Government. It is proposed to introduce the following mechanism for calculating the profits to be transferred to the Government at the end of every year: if at the end of the year the Bank's capital, after deducting the profits to be transferred to the Government for that year would be 2.5 percent or more of the Bank's assets, the total Net Profit for the year will be transferred to the Government; if at the end of the year the Bank's capital, after deducting the profits to be transferred to the Government for that year, would be between 1 percent and 2.5 percent of the Bank's assets, 50 percent of the Bank's Net Profit for that year will be transferred to the Government. If at the end of the year the Bank's capital, after deducting the profits to be transferred to the Government for that year, would be less than 1 percent of the Bank's assets, no profit will be transferred to the Government.

References to “Equity”, “Net Profit”, and “Balance of Losses” in the proposed Section will be consistent with the use of the terms in the Bank's annual financial report for the relevant year. It is proposed to clarify that in line with the accounting standards adopted by the European Central Bank (ECB) and many other central banks, Net Profit will not include unrealized profits. It is proposed to clarify also that in accordance with the norm in many central banks, Net Profit will be calculated after deducting the accumulated Balance of Losses, so that when there is a profit in any year, it will first be offset against the balance of the deficit, if any, and only if any profit remains after covering the deficit, will it be transferred to the Government in accordance with the proposed mechanism.

Section 8 in the Bill

It is proposed that, as in Section 8 in the current law, the Governor be appointed by the President, on the recommendation of the Government. The appointment of a Governor other than directly by the Executive Branch (the Government) is the norm in most countries, and is an indication of the independence of the central bank.

Section 9 in the Bill

The Section as proposed is similar in essence to Section 9 in the current law, according to which the Governor manages the Bank, with the addition that he will act as Chairperson of the Monetary Committee and as a member of the Administrative Council. It is proposed to maintain the function of the Governor as advisor to the Government on economic matters.

Sections 10–12 in the Bill

It is proposed that, as under Section 10 in the current law, the Government shall appoint a Deputy Governor, but unlike the current law, the proposed Section 10(a) states that the appointment shall be on the recommendation of the Governor, and not just in consultation with him as at present; this is based on the need for the Deputy Governor to work together with the Governor. It is also proposed to

remove the possibility that exists in the current law to appoint two Deputy Governors, as the need for such becomes superfluous in the proposed organization structure with a Monetary Committee and an Administrative Council. The Deputy Governor will also serve as a member of the Monetary Committee and the Administrative Council. Section 10(b) proposes that the Governor will determine the Deputy Governor's functions, in addition to his role as Acting Governor. The current law states that in the absence of the Governor, his place shall be taken and his powers exercised by the Deputy Governor. The proposed Section 11 states specifically that the Deputy Governor will take the Governor's place if the Governor is unable to carry out his functions or has ceased to serve, not, as in the current law, in every case of the Governor's absence.

The proposed Section 12(a) states, similar to Section 12(a) in the current law, that the appointments of the Governor and Deputy Governor shall be for a term of five years, but unlike the current law that enables them to be reappointed without limitation, it is proposed that it be stated specifically that they can be reappointed for only one additional term. Section 12(b) relates to the situation of a serving Deputy Governor when a new Governor is appointed. As in this case the Deputy Governor was not appointed by the new Governor, it is proposed to enable the new Governor to recommend another Deputy Governor at the end of the new Governor's first year in office, if the Deputy Governor's tenure has not ended at an earlier date.

Section 13 in the Bill

In the Bill, the prohibition on the Governor and Deputy Governor from pursuing any other occupation is tightened, and as well as being prohibited from engaging in the occupations listed, they will be prohibited from holding money or securities in Israel except under rules set by the Government regarding Ministers and Deputy Ministers, *mutatis mutandis*. It is proposed that the Governor and Deputy Governor may hold certain listed posts, provided this does not impair the Bank's independence, objectives and functions, and that it does not impair its ability to fulfill its functions, and that the post, except for an academic teaching post, is

without remuneration. A paid academic post shall be subject to the rules applicable to employees in the public sector, *mutatis mutandis*.

Section 14 in the Bill

Under Section 14 of the current law, the Government fixes the salary of the Governor and the Deputy Governor. Currently the pension to be paid to the Governor and the Deputy Governor are fixed in accordance with the Pensions of Office Holders in Governing Authorities Law 5729–1969. It is proposed that the salaries, service and pensions terms of the Governor be determined by the Government, and that the salary, service and pensions terms of the Deputy Governor be 90 percent of those of the Governor.

Section 15 and 16 in the Bill

The proposed Section 15 is similar to Section 15 of the current law, but it is proposed to delete Subsection (a)(1) which states that the tenure of the Governor may be terminated if disagreement exists between the Government and the Governor on basic questions of policy relating to the functions of the Bank. Such a clause has no place in the law, as it impairs the independence of the Governor and the Bank of Israel. It is also proposed that Section 17 of the current law, that entitles the Governor to receive a salary until the end of the term of office for which he was appointed in the event of his resignation in view of a disagreement with the Government, be deleted.

The other reasons in the Bill for terminating the tenure of the Governor are similar to those in the current law. This also applies to the proposed Section 16, which is, in large measure, similar to Section 18 of the current law, which lists the instances under which the tenure of the Deputy Governor may be terminated. It is proposed to add to the list of grounds for terminating the tenure of the Deputy Governor his failure, in the opinion of the Governor, to fulfill his role appropriately.

It is proposed to delete Sections 16 and 19 of the current law, as there is no justification for the ruling that the Governor or Deputy Governor whose tenure has

been terminated under certain circumstances is entitled to receive a salary till the expiration of the term of office for which he was appointed.

Section 17 in the Bill

In most countries the view is accepted that the responsibility and the authority to determine monetary policy and control over its implementation are not held by only one person, but by a committee with decision-making powers.

In accordance with that approach, the proposed Section 17 constitutes one of the most significant changes from the current situation. According to the Bill, monetary policy will not be decided upon by the Governor alone after consulting with office holders in the bank and with members of the Advisory Committee, but by a committee, chaired by the Governor, consisting of office holders in the Bank and members of the public. Under the proposed Section 17, a Monetary Committee will be established at the Bank that will determine monetary policy, monitor its implementation, examine monetary developments and progress towards the achievement of its policy objectives, and decide on actions the Bank needs to take to attain the objectives listed in proposed Section 3. It is proposed that the Committee's resolutions on the interest rate have a time limit, and that every decision on the interest rate, including a decision to leave it unchanged, be taken by the Monetary Committee. The proposed Subsection (d) specifies that the Committee fulfill any other function imposed on it by the Bill. Thus, for example, the Committee will determine the principles for deciding on the desired level of the foreign exchange reserves and the guidelines for policy for investing the reserves, and will decide the terms for making credit available to Banking Corporations and for accepting deposits from them; it will determine whether the conditions exist under which the Bank is entitled to perform financial transactions also vis-à-vis other Financial Entities, and also whether the conditions exist to perform transactions in the context of intervention by the Bank in trading on the foreign exchange market.

Section 18 in the Bill

The proposed Section 18 reflects another basic principle, and that is the requirement for transparency and accountability incumbent on the Bank, which counterbalances the principle of the Bank's independence, and serves as a mechanism for public control over the Bank's policy and operation. Accordingly, it is proposed that the Committee submit to the Government and publish a summary of its discussions on the interest rate and on other subjects, and its decisions, including the reasons for the decision and the results of the voting, within two weeks from the date of the discussion. It is proposed that the results of the voting be given numerically, without names, in order to preserve the proper atmosphere for a focused, pressure-free discussion.

It is also proposed that the Law state that a decision by the Monetary Committee on the interest rate or on the use of another monetary instrument be published immediately after the decision has been taken, with a summary of the reasons. In Subsection (c) it is proposed that under certain circumstances, if it deems that the publication at that time may jeopardize the results of the monetary policy, the Monetary Committee be permitted to postpone the publication of the summary of the discussion, or of the decision to use a monetary instrument, or of the summary of the reasons for the interest rate decision. However, when they are published, the Committee must also publish the reasons for the postponement. Despite the above, the Committee is authorized not to publish a summary of a particular discussion or a particular decision at all, if it believes the publication may jeopardize the status of the State or of the Bank abroad or their ties with financial entities abroad.

If the Monetary Committee decides to postpone the publication of or not to publish at all a summary of a discussion or a decision, as above, it is proposed that the Governor must report in writing to the Minister of Finance the details of the discussions or the decision, and the reasons for the decision not to publish or to postpone publication.

Sections 19 and 20 in the Bill

The proposed Section 19(a) deals with the composition of the Monetary Committee. It is proposed that the Monetary Committee comprise six members—

the Governor as chairperson, the Deputy Governor, a Bank employee appointed by the Governor, and three members from amongst the public who will be appointed by the Government on the recommendation of the Public Committee as specified in Sections 31 and 32 of the Bill.

It is proposed that the members of the Monetary Committee appointed from amongst the public be subject to the fitness-to-serve conditions imposed on directors of Government Companies as specified in the first part of Section 16(a) of the Government Companies Law, according to which a member appointed from amongst the public must be a resident of Israel, at least twenty-five years old; however, in light of the importance of the expertise and special experience in the monetary, financial or macroeconomic fields required for the position, it is proposed that special suitability requirements be specified, as detailed in Subsection 19(b) of the Bill. Additional conditions designed to prevent conflict of interests between membership of the Monetary Committee and a member's other occupations and contacts are specified in proposed Section 29.

It is also proposed that the prohibition on the Governor and Deputy Governor from holding money and securities in Israel, not in accordance with the rules set by the Government applicable to Ministers and Deputy Ministers, *mutatis mutandis*, apply to the other members of the Monetary Committee, to avoid possible conflict of interests.

It is proposed that members of the Monetary Committee appointed from amongst the public be appointed for a four-year tenure, but due to the special expertise and experience required from them, it is proposed that they may be reappointed for an unlimited number of extra tenures.

Section 21 in the Bill

This proposed Section deals with several matters related to the work procedures of the Monetary Committee. Subsection (a) proposes that the chairperson be empowered to convene the Monetary Committee, and that he do so at least eight times a year, and that he convene a special meeting of the Monetary Committee if

at least two members so request, provided that the number of special meetings does not exceed four a year. The current practice is that the Governor holds monthly discussions, and decisions on the interest rate are made once a month. It is proposed that the law not specify that the Monetary Committee meets once a month, but that the Monetary Committee be enabled to choose the times for interest rate decisions, similar to the situation in the US, Canada, and other countries. The proposed wording enables the Monetary Committee to meet more often than the minimum frequency specified legally.

The proposed Subsection (b) deals with the lawful quorum for Monetary Committee meetings and decision-making, and requires that the quorum be a majority of Committee members, including the Governor, or, in his absence and with his consent, the Deputy Governor.

It is proposed in Subsection (c) that decisions be passed by majority, and in the case of a hung vote, the chairperson will have an additional vote.

Subsection (d) proposes that if a member's position becomes vacant or if there is a flaw in the member's appointment or continued tenure, the validity of the Committee's decisions will not be impaired.

Subsection (e) proposes that each of the members of the Committee is entitled to receive information available from the Bank needed to fulfill his function as a member of the Committee, and that a request for said information shall be addressed to the Governor or to a person whom the Governor authorizes, and this, in order to regulate the receipt of information that the Bank is asked to provide.

Subsection (f) proposes that the Committee may, in special circumstances, hold meetings via various means of communications, provided all participants can hear each other simultaneously.

The Committee will determine work procedures not prescribed in the Bill.

Section 22 in the Bill

This Section constitutes one of the most significant changes in the Bill. The Section proposes that matters related to the administration of the Bank, including approval of its work plan and budget for its administrative activities, will no longer be determined by the Governor alone, but by an Administrative Council, the majority of whose members, including the chairperson, will be from amongst the public, and not from the Bank. It is proposed that the Administrative Council discuss and approve matters relating to the administration of the Bank, and that there be a distinction between the Monetary Committee and its functions and the Administrative Council and its functions. The composition of the Administrative Council will be different from that of the Monetary Committee, and the qualifications for membership of the Administrative Council will be different from those for membership of the Monetary Committee.

According to this Section, the Administrative Council will supervise the orderly and efficient governance of the Bank. The management of the Bank will formulate the Bank's work plan, the budget for its administrative activities, and the Bank's salary structure, as well as the salary conditions of its employees and changes to those conditions, and will present them to the Administrative Council for approval. It will also be a function of the Administrative Council to approve the Bank's financial report. It is also proposed that the Administrative Council appoint an internal auditor for the Bank, on the recommendation of the Audit Committee to be appointed under Section 25, and will appoint an accountant-auditor for the Bank who will approve the financial report; the Administrative Council will be empowered to terminate the accountant-auditor's employment.

Subsection (b) proposes that to ensure transparency and public control, the Administrative Council annually publish the Bank's budget, divided into areas of activity and programs, the main items in the work plan and its main decisions, in the scope and format it will determine.

Sections 23 and 75 in the Bill

In order not to breach the principle of the independence of the Bank more than necessary on the one hand, and to ensure proper control on the other, it is proposed to set a new method for the Bank to introduce changes in its staff's salaries and control over them. In addition to approval of the salary changes by the Administrative Council, whose composition and the method of appointing its members provide certain public control in this matter, it is proposed that a Professional Committee be established, that will decide on matters where there is difference of opinion, if any should arise, between the Minister of Finance and the Bank over changes needed in salaries or with regard to salary deviations. The Professional Committee will be headed by someone qualified to serve as a judge in a Labor Court, who will be appointed by the Attorney General; this may be someone who served as a judge, or who resigned from a position in public service. In addition, the Professional Committee will have two other members, representatives of the public, who will be appointed by the Prime Minister and the Minister of Finance, with the agreement of the Governor; at least one of the appointees will be well-versed in public-sector wages (subsection (e)). It is proposed that the Governor or the Minister of Finance be entitled to object to the decisions of the Professional Committee before the Prime Minister.

In Subsection (a)1 of Section 23 it is proposed that the Bank, at its own discretion, be entitled to change salaries, conditions of retirement or pensions of Bank employees, in accordance with rules agreed by the Minister of Finance and the Governor. These rules will include changes and updates that the Bank will be entitled to implement itself, for example, the implementation of the work agreement dated 19 August 2008 signed by the management of the Bank and the Workers Committee, the implementation of future agreements under the mechanism described in Subsection (b), or the application of a master agreement or national wage agreement in the public sector. The rules will also set a mechanism agreed in advance for updating the salaries of the Bank's staff.

In accordance with proposed Subsection 23(a)(2), the Bank will be entitled to change salaries, conditions of retirement or pensions, based on wage policy in the public service, on changes agreed and lawfully introduced relating to all public sector employees under similar employment formats, taking into consideration the

Bank's special manpower requirements to enable it to achieve its objectives and to fulfill its functions and its purpose as the central bank. In accordance with Subsection (b), the Bank must report such changes to the Minister of Finance within seven days of their approval by the Administrative Council. The Minister of Finance will be entitled to approve the changes or to object to them within thirty days ("Objection Notice"), and the Administrative Council must discuss the Minister's reasoned objections within thirty days of receiving them. If the Administrative Council accepts the Minister's objections, it will make the relevant changes and they will be considered approved. If the Administrative Council does not accept the Minister's objections, it will have to notify the Minister accordingly, and the matter will be referred to the Professional Committee, which must hold its first meeting on the matter within fourteen days. The Professional Committee will meet and discuss the proposed changes also in a case where the Minister of Finance has not indicated his stand on the changes proposed by the Bank, within fourteen days from the end of the thirty-day period in which the Minister was entitled to notify the Administrative Council of his views. The Professional Committee must make its decision within 60 days, after giving the Minister of Finance and the Governor, or their representatives, a reasonable opportunity to present their views to the Professional Committee. The Minister of Finance and the Governor are entitled to express their objections to the decision of the Professional Committee to the Prime Minister within thirty days of receipt of the decision of the Professional Committee, and the Prime Minister must advise them of his decision within forty-five days. If no objections are expressed to the Prime Minister, the decision of the Professional Committee becomes effective and the changes it incorporates are considered approved.

The Bank will be entitled, at its own discretion, to deposit money intended for the application of the changes in a special designated bank deposit, until the changes are approved (subsection (b)(7)).

Subsection (c) proposes a mechanism for supervision and control of salary deviations, i.e., for implementing salary changes that do not accord with the rules in Subsection 23(a)(1), or that do not accord with agreements as per Subsection (b). If the Minister of Finance is of the opinion that there are apparent salary

deviations, he will submit his reasoned objections in writing to the Administrative Council. The Bank will be obliged to stop paying its staff the money which constitutes the apparent deviation within seven days, and will pay it into a special designated account. It is proposed that as is specified in the Basic Budget Law, 5745–1985, the provisions of the Protection of Wages Law, 5718–1958 will not apply to payment of the amounts so deposited, until such time as the Bank is entitled to transfer it to those entitled to receive them according to the agreement or the arrangement. The Minister of Finance, after hearing the position of the parties and not being convinced by their views, will produce a detailed notification of his objections within forty-five days of his original submission. The Administrative Council will discuss the Minister's objections within thirty days of receipt of his reasoned objections. If after hearing the parties to the relevant agreement, the Administrative Council accepts the objections of the Minister of Finance, it will have to correct the deviations within sixty days. If the Administrative Council advises that it does not accept any or some of the Minister's objections, and if the Minister is not convinced by the arguments of the Administrative Council, the Minister must notify the Administrative Council accordingly within fourteen days, and the matter will be referred to the Professional Committee, which must hold its first meeting on the matter within fourteen days. If the Minister does not notify the Administrative Council that he does not accept its position within fourteen days, the money deposited in the designated deposit will be paid to the staff, and this will be regarded as a final decision that there was no salary deviation. The Professional Committee will meet and discuss apparent deviations even if the Administrative Council did not submit its reaction to the objections of the Minister of Finance within fourteen days from the end of the thirty-day period within which the Administrative Council was entitled to submit its reaction. The Professional Committee must make a decision within one hundred and twenty days, after hearing the parties to the relevant agreement. If the Professional Committee has not reached a decision within the given period, the Minister of Finance and the Governor will be entitled to present the matter to the Prime Minister within thirty days from the end of the period in which the Professional Committee was to have decided. The Minister of Finance and the Governor are also entitled to submit to the Prime Minister their objections to the decision of the Professional Committee within thirty days of receipt of the

Committee's decision, and the Prime Minister will advise them of his decision within forty-five days. If no objections have been submitted to the Prime Minister, the decision of the Professional Committee will be final. If the Prime Minister has not given a decision as stated above, the "Objection Notice" of the Minister of Finance will become final in thirty days. If a decision has been reached that there was a deviation in salaries, and the deviation has not been corrected, the Minister of Finance will be entitled to exercise the authority granted him under Section 29B of the Basic Budget Law.

It is proposed that the times given in this section be extendable subject to the agreement of the parties involved.

Section 24 in the Bill

It is proposed that the Administrative Council be composed of seven members—the Governor, the Deputy Governor, and five members from amongst the public, appointed by the Government per recommendation of a Public Committee whose membership and duties are specified in Sections 31 and 32 of the Bill. It is proposed to impose on the members of the Administrative Council from amongst the public the conditions of fitness for service of directors of a Government Company as set forth in Section 16a of the Government Companies Law, *mutatis mutandis*, it being emphasized that they must, *inter alia*, have experience in senior managerial posts and a recognized standing in the fields of relevance in the Administrative Council's work. It is also proposed that the members from amongst the public be appointed to a four-year term and that they may be appointed to only one additional term.

It is proposed that the Governor not serve as Chairperson of the Administrative Council because, under Section 9, he manages the Bank. According to the proposed Subsection (d), the Administrative Council shall be chaired by one of its members from amongst the public, chosen by the Government in consultation with the Governor.

Section 25 in the Bill

It is proposed that the Administrative Council appoint at least three of its members as an Audit Committee. Since the purpose of this Committee is to detect deficiencies at the Bank, it is proposed that the Audit Committee be composed only of members from amongst the public. It is also proposed that the Chairperson of the Administrative Council not be a member of the Audit Committee, as is set forth in the Companies Law, 5759-1999 (hereinafter: the Companies Law). The role of the Audit Committee, as established in the proposed Subsection (c), is based *inter alia* on the provisions of the Companies Law, and is to detect deficiencies in the management of the Bank and to propose to the Administrative Council ways to correct them. For this purpose, the Audit Committee shall, *inter alia*, discuss the Internal Auditor's work plan and monitor its performance and shall discuss the audit reports of the State Comptroller and the Internal Auditor, the reports of the accountant-auditor and other matters brought before it by the Administrative Council or the Governor; the discussions of these matters shall take place in consultation with the Internal Auditor of the Bank or the accountant-auditor, as the case may be.

In Subsection (d), it is proposed to establish a provision relating to the lawful quorum for meetings and decision-making of the Audit Committee. It is proposed not to settle for a lawful quorum constituting a majority of Audit Committee members, but rather to determine that the majority should also include the Chairperson of the Audit Committee.

It is proposed to determine that decisions of the Audit Committee be made by majority vote, with the Chairperson of the Audit Committee having an additional vote in the event of a tie (Subsection (e)). It is also proposed to determine that if the place of a member of the Audit Committee is vacated, or if a flaw occurs in his appointment or in the continuation of his tenure, this shall not impair the decisions of the Audit Committee (Subsection (f)).

The Internal Audit Law, 5752-1992, applies to the Bank of Israel. However, since it is proposed to establish an Administrative Council for the Bank, several

provisions relating to the Internal Auditor should be amended as a result of this change. According to Section 5(c) of the Internal Audit Law, the superordinate of the Internal Auditor of the Bank of Israel is the Governor. It is proposed that the Internal Auditor shall present a report about his findings not only to the Governor, as required by Section 6(a) of the Internal Audit Law, but also to the Chairperson of the Administrative Council and the Chairperson of the Audit Committee. This resembles and corresponds to the provisions in Section 152 of the Companies Law, which state that the Internal Auditor's report shall be presented to the Chairperson of the Board, the Director General, and the Chairperson of the Audit Committee.

According to Section 6a of the Internal Audit Law, the management of a public entity shall discuss the findings of an internal auditor's report within forty-five days of the date on which the report is presented, and a copy of the minutes of the discussion shall be forwarded to the internal auditor's superordinate. If the management of the public entity fails to act as aforesaid, any member of said management may address the internal auditor's superordinate in writing and demand that a discussion be held. It is proposed that said discussion be held by the Audit Committee instead of the management of the public entity and that, if the Audit Committee fails to hold said discussion, any member of the Audit Committee may address the Chairperson of the Administrative Council and demand that the discussion be held.

According to Section 7(a) of the Internal Audit Law, an internal auditor's work plan entails the approval of his superordinate. It is proposed that the Internal Auditor of the Bank of Israel present the proposed work plan to the Audit Committee for approval instead of to the Governor; the purpose of the change is to allow the plan to be discussed by several individuals and approved by a group composed entirely of persons who are external to the Bank, as opposed to an individual. It is also proposed that the Governor, the Chairperson of the Administrative Council, and the Chairperson of the Audit Committee be entitled to instruct the Internal Auditor to discharge internal-audit duties additional to those set forth in the work plan. It is also proposed that the findings be presented to the party that assigns said duties, in a manner resembling the provisions of Section 152 of the Companies Law.

It is proposed that the Internal Auditor shall receive notice about the convening of meetings of the Audit Committee, be entitled to take part therein, and be entitled to ask the Audit Committee to convene for discussion of a specific topic. It should also be established that the accountant-auditor shall receive notice about the convening of a meeting of the Audit Committee for discussion of a topic related to the auditing of the Bank's financial report, and be entitled to participate therein.

Section 26 in the Bill

The proposed Section deals with several matters related to the working procedures of the Administrative Council. Subsection (a) proposes that the authority to convene the Administrative Council should belong to its Chairperson, that the Chairperson should convene the Council at least six times each year, and that the Chairperson should call a special meeting if at least two members of the Council so request. The Administrative Council may convene more frequently than the minimum frequency set forth in the Law.

In Subsection (b), it is proposed that a provision be established concerning the lawful quorum for meetings and decision-making of the Council. It is proposed not to settle for a lawful quorum composed of a majority of Administrative Council members, but rather to determine that the majority also include the Chairperson of the Council and the Governor or the Deputy Governor.

It is proposed to determine that decisions of the Council shall be made by majority vote, with the Chairperson of the Council having an additional vote in the event of a tie (Subsection (c)). It is also proposed that if a member's place is vacated or if a flaw occurs in his appointment or in the continuation of his tenure, this shall not impair the decisions of the Council (Subsection (d)).

In Subsection (e), it is proposed to determine that a member of the Administrative Council may receive information available at the Bank for the performance of his duties as a member of the Administrative Council, and that a request for said information shall be addressed to the Governor or to a person whom the Governor

authorizes, and this, in order to regulate the receipt of information that the Bank is asked to provide.

It is proposed in Subsection (f) to allow meetings to be held via various means of communications but only in special cases, not as a matter of routine, and provided that all participating members of the Administrative Council can hear each other at the same time.

The Administrative Council shall determine its working procedures insofar as they are not established in this Law.

Sections 27–32 in the Bill

In Sections 27–32, it is proposed to establish common provisions for the Monetary Committee and the Administrative Council.

It is proposed to determine, in Section 27, that the Government, per proposal of the Minister of Finance and in consultation with the Governor, shall set the level of remuneration and expenses to which Committee and Council members from amongst the public shall be entitled, and that said remuneration and expenses shall be included in the Bank's budget.

It is proposed to determine, in Section 28, that no member of the Monetary Committee or the Administrative Council take part in any discussion and vote on any matter in which he may have a conflict of interest.

It is proposed to determine, in Section 29, that a person who holds one of the positions listed in Subsections(a)(1) and (2), and a person whose business or businesses may create a conflict of interest with his duties as member of the Monetary Committee or the Administrative Council from amongst the public (Subsection(a)(3)), or a person who has, or whose Relative has, a Personal, Business, or Political Relation with any Minister in the Government or with a Relative thereof (Subsection (a)(4)) shall not serve as a member of the Monetary Committee or the Administrative Council from amongst the public. The fulfillment

of the provisions of this Section by a candidate for service as a member from amongst the public shall be determined by the Attorney General or by a person whom he shall appoint for this purpose.

In Section 30 it is proposed to establish grounds for the termination of tenure of a member of the Monetary Committee or the Administrative Council from amongst the public, including the commission of an act that is inappropriate to his status as a member, his participation in a discussion and in a vote in contravention of the provisions of Section 28, and satisfying the terms for disqualification for tenure as set forth in Section 29. It is also proposed to determine that the termination of tenure of a member from amongst the public of the Monetary Committee, and the termination of tenure of the Chairperson of the Administrative Council, shall be performed by the Government in consultation with the Governor, whereas the termination of tenure of a member from amongst the public of the Administrative Council shall be performed by the Government in consultation with the Chairperson of the Administrative Council. In addition, Subsection (b) contains a provision for termination of tenure in the event of a specified number of absences from meetings unless the Chairperson of the Monetary Committee or the Administrative Council, as the case may be, decides otherwise.

To assure the upholding of sound procedure in appointing members of the Monetary Committee or the Administrative Council from amongst the public, based on topical considerations related to the Bank and the suitability of candidates for service in these posts, it is proposed in Sections 31 and 32 that a Public Committee free of the influence of political trends and personal commitments be established to vet candidates for said posts, and that said Committee recommend candidates to the Government after consulting with the Governor. The Government shall appoint members from amongst the public of the Monetary Committee and the Administrative Council, all of which under the conditions set forth in Sections 19 and 24. It is proposed that the Public Committee be chaired by a person who is fit to serve as a District Court judge and that said appointment be made by the Attorney General. Said person may be one who has served as a judge or who has resigned a post in the civil service or the public service, similar to the terms of fitness of the Chairperson of the committee that

vets appointments in Government Companies (Section 18b(a)(1) of the Government Companies Law), *mutatis mutandis*. Additionally, two members chosen from a list proposed by the Minister of Finance, who are either experts on the economy or hold senior academic posts or have held an academic post, shall serve on the Public Committee. It is proposed that the remuneration of members of the Public Committee be determined by the Government, per proposal from the Minister of Finance, and that said remuneration be paid by the State.

Sections 33–37 in the Bill

The current law defines the tools that the Bank may use, per approval of the Government in some cases (e.g., issuing securities under Section 47 of the current law, making a determination as to liquid assets under Section 49 of the current law, and issuing credit ceilings under Section 53 of the current law). As part of the principle of central bank independence, the Bank shall be given flexibility in choosing the policy tools to use in the fulfillment of its functions and the attainment of its assigned objectives, and it shall be allowed a maximum of discretion in the use of these tools, independently of the political system.

Sections 33–37 of the Bill constitute Chapter 6 of the law and regulate the actions that the Bank of Israel may take in the fulfillment of its functions. The beginning of Section 33 proposes that it be determined, as a general provision, that the Bank may take all actions that it deems necessary for the attainment of its objectives and for the fulfillment of its functions, including those set forth in the continuation of said Section. In the current law, the list of such actions that the Bank may carry out is relatively short, but given the inability to foresee the possible need to use new tools and take essential actions to attain the Bank's objectives and to fulfill its functions under the Law, it is proposed to adopt a general provision as above. The global financial crisis that erupted in 2007 clearly demonstrates the need for a general section of this kind.

In addition to the general provision, it is proposed to list the existing tools that the Bank may use to fulfill its functions and to attain its objectives, including the issue of securities; various operations in the capital, financial, and foreign-currency

markets; lending to Banking Corporations; and accepting deposits from Banking Corporations. Here, too, it is proposed that the Bank not be limited in terms of the tools and actions that it is allowed to invoke, so that it may retain the flexibility that it needs for the management of monetary policy.

To regulate the powers that the Bank of Israel may exercise in its operations in the capital, financial, and foreign-currency markets or in setting the interest rate in accordance with the monetary policy that it establishes, vis-à-vis the powers of the Government, through the Ministry of Finance, to operate in these markets for the management of the Government debt and the Government's fiscal activity, it is proposed to establish that the issue of new kinds of securities by the Bank, for a term that shall not exceed thirteen months, take place after consultation with the Minister of Finance, and that the issue of securities of any kind for a term exceeding thirteen months shall require the consent of the Minister of Finance (Subsection (1)). Thus, it is also proposed to determine that the sale or purchase in the secondary market of Government bonds that mature at a time exceeding thirteen months from the date of the sale or the purchase, shall take place after consultation with the Minister of Finance, and that said action shall not materially derogate from the ability to raise debt domestically in order to finance Government activity (Subsection (2)).

It is proposed to establish that the Monetary Committee shall determine the conditions for granting credit to Banking Corporations and accepting deposits from them, including the type and scope of the collateral that the Banking Corporations must put up against the credit given and the terms to be imposed on the Banking Corporations' operations, including the interest rate and other payments that they may charge their customers. It is proposed to state explicitly that the Monetary Committee may lay down special and exceptional conditions, including conditions relating to collateral, under circumstances where the Monetary Committee believes there is a genuine threat to the stability or the orderly activity of the financial system.

Another novelty in the Bill is an explicit statement empowering the Bank to serve as a lender of last resort. In Subsection (4), it is proposed to determine that, under

exceptional circumstances where the Monetary Committee believes there is a genuine threat to the stability or orderly activity of the financial system, the Bank shall be empowered to carry out financial operations with other Financial Entities and not only with Banking Corporations, after consulting with the head of the lawful Supervisory Authority that supervises the relevant Financial Entities. To exercise this authority, it shall be assured that the Bank will receive all relevant information that it needs, at its discretion, both from any competent authority that supervises any Financial Entity, including the Securities Authority and the Commissioner of the Capital Market, Insurance, and Savings at the Ministry of Finance, and from the Financial Entities themselves, insofar as that information cannot be obtained from the competent authority. It should be emphasized that the conferring of this authority upon the Bank of Israel will not require the Bank to exercise it and that the tasks of estimating the expected impact on the stability or the orderly activity of the financial system, and deciding whether to take or not take such action, the type of action, and related conditions (including, in the case of granting credit, conditions in respect of collateral, repayment terms, interest rate, and measures that said Financial Entities must take) will be discharged at the sole discretion of the Bank.

In accordance with the provisions of the proposed Sections 33(3) and (4), the Bank of Israel may grant credit to Banking Corporations and, under special circumstances, to other Financial Entities as well. In most cases, the collateral offered for credit that the Bank of Israel makes available takes the form of securities. In Section 34, it is proposed to give a pledge of securities that is offered against credit issued by the Bank of Israel, and that serves to secure the borrower's liability to the Bank, validity vis-à-vis the borrower's other creditors and priority over pledges in favor of third parties, even if the pledge in the Bank's favor is not recorded or was not deposited in accordance with the provisions of the Companies Ordinance [Revised Version], 5743-1983, or the Pledges Law, 5727-1967 (hereinafter: the Pledges Law), provided that the pledged securities are registered to the benefit of the Bank of Israel with a financial intermediary such as a member of the Tel Aviv Stock Exchange, Ltd., or the Tel Aviv Stock Exchange Clearinghouse, Ltd.—much like the existing provisions in Section 50a of the Securities Law relating to securities that are offered to the Stock Exchange

clearinghouses as collateral. Such registration in favor of the Bank of Israel vests the Bank of Israel with control of the securities, including the ability to sell them. Inasmuch as the securities are controlled by the Bank of Israel, they may be regarded as securities deposited with it. Since the pledge deposited has validity vis-à-vis other creditors according to the Pledges Law, it is proposed to extend said validity to this case as well. Notably, according to the Pledges Law, the Bank is authorized to exercise the pledge of the securities unilaterally, i.e., by selling the securities in a manner that is accepted in the market where assets of the same type are sold.

According to Section 19(b) of the Pledges Law, when the Bank of Israel wishes to realize a pledge of securities unilaterally, it must give the debtor, as well as any other person whose rights may be compromised by said realization, reasonable advance notice about the measures that it is about to take in realizing the pledge. It is proposed that, in Subsection (b) of the aforementioned Section 34, the Bank of Israel be empowered to realize a pledge that it receives as set forth in Subsection (a) of said Section in the manner set forth in the Pledges Law, after having served the debtor and any other person whose rights may be compromised by said realization, with two business days' advance notice about its intent to take this action. However, if conditions that entail the immediate realization of the pledge exist, e.g., if a delay in realizing the pledge may significantly compromise the ability to pay back the liability that is secured by the realization of the pledge, it is proposed to allow the Bank to realize the pledge immediately and without prior notice as aforesaid. Notice about the realization of the pledge shall be served to the debtor and to any person whose rights may be compromised by said realization immediately after the fact.

Sections 35 and 36 repeat in essence the provisions of Chapter 7 (Sections 49–52) of the current law. However, due to the proposed changes in the Law relating to abolishing the Advisory Committee and establishing the Monetary Committee as part of the effort to bolster the Bank of Israel's independence, it is proposed to omit the requirement of Government approval for the determination of instructions relating to the liquid assets that Banking Corporations must hold, and to establish that the Governor may issue such instructions and set the interest rate that a

Banking Corporation that fails to hold said liquid assets must pay—all of which per approval of the Monetary Committee, as opposed to consultation with the Advisory Committee, as the current law requires. It is also proposed that contrary to the contents of Section 52 of the current law, the rule shall be that Banking Corporations shall not be paid interest on balances that they keep with the Bank of Israel and that the Governor, per approval of the Monetary Committee, may determine otherwise.

It is proposed to add a new provision in Section 37(a), allowing the Bank to demand that competent authorities that supervise certain Financial Entities, including the Securities Authority and the Commissioner of the Capital Market, Insurance, and Savings at the Ministry of Finance, provide it with reports and information about the entire class of Financial Entities that said Supervisory Authority supervises, or about one type thereof, as the Bank requires for the attainment of its objectives and for fulfilling its functions. It is also proposed to determine that, unless the Bank receives said information and reports from the Supervisory Authority within a reasonable period of time, the Bank may demand said information and reports from the Financial Entities directly. As for Financial Entities that are not supervised by any Supervisory Authority, the Bank may demand said information and reports from the Financial Entities themselves. The array of reporting from Financial Entities is an important instrument in the planning and implementation of the Bank's policies and a major auxiliary tool in the attainment of the objectives and the fulfillment of the functions that are assigned to the Bank by Law.

Within the framework of the proposed repeal of the Currency Control Law, 5738-1978 (at Section 74(b) of the proposal), it is proposed in Subsections 37(b)–(d), for the attainment of the Bank's objectives, the fulfillment of its functions, and the surveillance of developments in Israel's foreign-currency market, that the Governor, per approval of the Monetary Committee, be authorized to issue an order requiring the provision of information pertaining, principally, to transactions in Israel's foreign currency market. In specific matters, it is proposed to authorize the Governor, or a person he empowers for this purpose, to instruct a person to

hand over additional information pertaining to the transactions listed in said Section.

Section 38 in the Bill

The proposed Section 38 deals with the management of Israel's foreign exchange reserves. Today, an internal investments committee of the Bank lays down the principles that serve to determine the desired level of the foreign-currency reserves. Subsection (a) proposes that the Monetary Committee make changes in the principles that underlie the determination of the desired level of the foreign-currency reserves over the long term. Such changes, i.e., revising the components of the equation that is used to determine the desired level of the foreign-currency reserves over the long term, as opposed to changing the sum or quantity of the reserves, shall be made per approval of the Minister of Finance.

Subsection (b) proposes that the Monetary Committee, in consultation with the Minister of Finance, shall set general policy guidelines for the investment of the foreign-currency reserves. The requirement of consultation with the Minister of Finance shall not pertain to the ongoing management of the reserves.

In managing the reserves, the Bank may carry out all foreign-currency transactions that it deems correct. As explained in regard to Section 33, in contradistinction to the current law, Subsection (c) proposes that the Bank not be limited in the types of foreign-currency transactions that it may perform and in the entities with which it may perform them, in order to allow the Bank the flexibility that it needs. This empowerment shall not derogate from the principle which guides central banks in their activity, that the reserves must be managed conservatively and at a relatively low level of risk.

As part of the public review of the Bank's activity and within the ambit of the principle of transparency, it is proposed to establish that the Monetary Committee shall report to the Minister of Finance twice annually, within three months of the end of each half-year, details about the management of the foreign-currency reserves (Subsection (d)) and that once annually, within three months of the end of

each year, the Monetary Committee shall release details about the main types of currencies and of securities in which the reserves have been invested, in such a way as not to compromise the sound management of the reserves (Subsection (e)).

Sections 39–45 in the Bill

The provisions proposed in Sections 39–45 constitute Chapter 8 and regulate the issue of banknotes and coins by the Bank. The chapter resembles in essence Chapter 6 (Section 27–35) of the current law, although several changes are proposed. One type of change is the elimination of the need for Government approval of various actions involving the issue of currency and approval from the Government and the Knesset Finance Committee for the cancellation of currency. In these Sections, too, against the background of the abolition of the Advisory Council and the establishment of an Administrative Council that has decision-making powers, the requirement that the Governor consult with the Advisory Council is replaced by the requirement of approval from the Administrative Council. Another type of change is the elimination of the requirement in Section 33 of the current law concerning the provision of coin-changing services and the replacement of these services with the empowerment of the Governor, per approval of the Administrative Council, to determine by rules the services that the Bank will provide and the conditions therefor, including the fees to be charged (Section 44). It is also proposed to empower the Governor, per approval of the Administrative Council, to establish rules relating to the orderly operation of the currency system, rules relating to the economy as set forth in the proposed Section 45(1), and rules relating to the banking system as set forth in the proposed Section 45(2).

Today, pursuant to Section 2 of Amendment 21 of the Bank of Israel Law (*Sefer Hahukim* 2081, from February 6, 2007), since the privatization of the Israel Government Medals and Coins Corporation, Ltd., the marketing of coins has been performed exclusively by the Israel Coins and Medals Corporation, Ltd., for a six-year term that began when the privatization was completed (May 25, 2008). The proposed Section states that a coin shall be considered a commemorative coin or a special coin if the Governor, per approval of the Administrative Council and the Government, recognizes it as such, and also regulates the marketing of coins and

other actions in the issuing procedure, per consent of the Bank of Israel, by a company that shall be appointed for this purpose by the Minister of Finance per consent of the Governor.

It is proposed to repeal the provision in Section 35 of the current law that requires the submission of a report on an increase in the money supply. This report became superfluous with the changeover, beginning in the early 1990s, to an anti-inflation-target regime that led to price stability. The various reports that the Bank must present are itemized in Chapter 14 of the Bill.

Section 46 in the Bill

According to Section 57 of the current law, the Bank of Israel is the sole banker and fiscal agent of the Government of Israel. It is proposed to abolish the Bank of Israel's function as the Government's sole fiscal agent in Israel, since the role of a fiscal agent is to issue securities for another party, whereas it has been several years since the Bank of Israel issued securities for the Government. Furthermore, since the importance of the Bank of Israel's role as sole banker lies in domestic-currency activity and not necessarily activity in Israel, it is proposed, on the one hand, to limit the Bank of Israel's role as the Government's sole banker to domestic-currency activity only and, on the other hand, to abolish the geographic constraint. It is also proposed to clarify that "Banking Activity" is any business activity that a Banking Corporation is allowed to perform under the Banking (Licensing) Law, i.e., both "traditional" banking activity, e.g., managing deposits and converting foreign currency, and financial activity, e.g., repo and derivatives transactions.

Since the Government has certain needs related to the management of debt and the budget, for which it would be more efficient to obtain certain services from Banking Corporations or other Financial Entities, it is proposed to allow the Government to obtain these services by means other than the Bank of Israel, per agreement between the Governor and the Minister of Finance.

It is proposed to establish that any change in the payments that the Government shall remit to the Bank of Israel for services rendered, as well as any change in the method of determining the interest rate that the Bank shall pay the Government for its deposits with the Bank, or in the method of determining the interest rate that the Government shall pay for negative balances with the Bank, shall be determined by way of consent between the Governor and the Minister of Finance.

In Section 57(d) of the current law, it is stated that the Government shall not take loans and shall not issue securities except in prior consultation with the Governor. It is proposed to formalize the practice that has been adopted in regard to this provision and state that the Government shall consult with the Governor, at least once per quarter, in determining its policy on taking loans and issuing securities.

Section 47 in the Bill

This Section repeats the basic principle set forth in Section 45 of the current law, which enjoins the Bank of Israel from lending money to the Government in order to finance Government expenditure. Subsection (a) proposes to clarify, in addition to this principle, that the purchase by the Bank of bonds that the Government issues, at the time of the issue, shall also be considered a loan by the Bank to the Government.

As for the exceptions to the principle that the current law allows, several changes are proposed. Section 45(b)(1) of the current law allows the Government to receive a provisional advance from the Bank in order to temporarily bridge cash flow gaps in the performance of its budget. It is proposed to set the maximum level of the advance that the Bank is allowed to provide at NIS 10 billion, and not as a proportion of the annual budget as the current law states, and also to limit the term of such credit to 150 days per year at the most.

In regard to the exception in Section 45(b)(2) of the current law to the prohibition of lending to the Government, allowing the provision of a loan by buying bonds that the Government issues in order to finance a surplus of Government expenditure over Government revenue in foreign currency, the repeal of this

exception is proposed because the exception is unjustified. Accordingly, it is proposed to repeal Sections 45(c)–(d) of the current law.

In regard to the exception in Section 45(b)(3) of the current law, relating to a loan that is meant to refinance past Government debt to the Bank of Israel, it is proposed to clarify that the terms and repayment dates of such loans shall be based on market conditions. This should be done in order to prevent artificial subsidization of the Government's internal debt, on the one hand, and overpayment from the state budget, on the other.

Section 48 in the Bill

The current law makes no general reference to the fact that Banking Corporations shall keep accounts with the Bank of Israel. Section 48 of the current law discusses only the acceptance of deposits from Banking Corporations, and the current law makes no explicit reference to the keeping of accounts in either domestic or foreign currency.

It is proposed to determine in general terms that the Bank of Israel may manage accounts, and not only deposits, for Banking Corporations. It is also proposed to determine that the Bank of Israel may also manage such accounts for nonbanking Financial Entities. Such accounts shall be managed in accordance with rules that the Governor shall establish, including rules relating to the charging of fees; said accounts may be in domestic or foreign currency.

Sections 49 and 74(b) in the Bill

In 1978, by force of Section 40 of the current law, the Government transferred its powers in respect of foreign currency control to the Bank of Israel, which has acted in this matter since then by force of the Currency Control Law, 5738-1978. The Currency Control Law imposed restrictions on operations and transactions in foreign currency. However, all the restrictions were lifted in December 2002 and the shekel has been a convertible currency since January 2003. The change in the foreign currency control regime was accompanied by legislative changes. The

main changes were made in secondary legislation; in the statute itself, minor amendments were made that, while facilitating the change of regime, maintained the old framework in which certain transactions were prohibited except where permitted. In the Currency Control Permit, 5758-1998, in contrast, all transactions are allowed subject to reporting requirements.

Now that more than ten years have passed since the Prime Minister announced the decontrol of foreign currency and more than six years since foreign-currency controls were totally repealed and the Shekel was transformed into a convertible currency, it is proposed to complete the liberalization by bringing legislation into line with the new situation.

Accordingly, it is proposed to repeal the Currency Control Law, 5738-1978 (Section 74(b) of the Bill) and to specify in the Bill the powers that are needed in this regard—the power to demand information about the transactions listed in Section 35(b)(1)–(5) of the proposal and the power to impose restrictions on such transactions under exceptional circumstances, rapidly and with no need for main legislation. The imposition of said restrictions shall be carried out by the Government, per proposal of the Minister of Finance and in consultation with the Governor, and said restrictions shall apply for a limited time only (Section 49 of the Bill). Since Israel has made international commitments not to impose restrictions on capital flows and payments and transfers relating to cross-country transactions, be it as part of its joining the International Monetary Fund or as part of the Israel-Euro-Mediterranean Association Agreement establishing an association between the European Communities and their Member States, of the one part, and the State of Israel, of the other, the intention is that the power to prohibit transactions of the kinds set forth in Section 37(b)(1)–(5) shall be exercised in accordance with the constraints of Israel's commitments, i.e., under exceptional circumstances and for a limited period of time.

Due to concern that there may be extreme and rare circumstances that warrant the urgent application of restrictions, such that the exercise of the power to issue the order by the Government may delay the implementation of the order and place the attainment of its objectives at risk, it is proposed that the Minister of Finance, per

consent of the Prime Minister and in consultation with the Governor, be authorized to exercise this power; such an order, however, shall expire unless it is approved by the Government within fourteen days.

Section 50 in the Bill

According to Section 41 of the current law, the Government must consult with the Governor before making any decision relating to the exchange rate of the currency. This Section became meaningless with the elimination of the official exchange rate in 1977. Today, the exchange rate varies within broad bounds and is set by market forces.

According to the proposed Subsection (a), the exchange rate shall be set by the foreign-currency market with no Government intervention. This provision reflects the elimination of the official exchange rate and the crawling band that existed previously. Notwithstanding this, the Government, in consultation with the Governor, may determine an alternative way of setting the exchange rate.

The proposed Subsection (b) allows the Monetary Committee to make decisions about intervention by the Bank in foreign-currency trading in certain cases: for example, a temporary malfunctioning of the foreign-currency market that may be reflected, *inter alia*, in extreme exchange-rate volatility or an unreasonable widening of trading spreads for transitory reasons. The purpose of intervention in such cases is to support the sound functioning of the foreign-currency market. In any event, intervention in free foreign-currency trading shall not take place unless it is meant to attain the objectives of the Bank and the performance of its functions as set forth in Sections 3 and 4 of the Bill. Wherever intervention in trading in the foreign-currency market is not meant for the management of monetary policy or the support of financial-system stability, the Monetary Committee, according to the Bill, must obtain the approval of the Minister of Finance for said intervention, unless the circumstances are so urgent as to rule this out. Under such circumstances, the Monetary Committee shall report to the Minister of Finance, immediately after the intervention, about the actions that it took. It is also proposed to determine that when circumstances exist that, in the Governor's

opinion, require intervention in the foreign-currency market and advance approval from the Monetary Committee cannot be obtained, the Governor shall decide to carry out the intervention; in such a case, the Governor shall advise the Monetary Committee of the actions taken immediately after the intervention.

Sections 51–54 in the Bill

The proposed Sections 51–53 regulate the reports that the Bank must issue. These reports, which are additional to the reports on discussions of the Monetary Committee and its decisions required under Sections 18 and 38(e), the reports of the Administrative Council as set forth in Section 22(b), and the annual financial report as set forth in Section 58, are especially important due to the transparency requirement the Bank must satisfy. This transparency is important to balance the principle of the central bank's independence and plays an exceedingly important role in the mechanism of public review of the Bank's policies and work.

It is proposed in Section 51 that the Governor shall present the Government and the Knesset Finance Committee with a report, including a survey of the state of the economy and the economic policy in the year past.

The current law does not require the issuance of a report on developments in the field of price stability. However, since reporting on this topic resides at the very core of the transparency requirement that central banks must satisfy, it is proposed to determine, in Section 52(a), that the Bank shall present the Government and the Knesset Finance Committee, at least twice annually, with a report containing information, assessments, and analyses in the area of the Bank's main objective, i.e., maintaining price stability; and the policy required for the attainment of price stability within the price stability range set forth by the Government and for support of the Bank's other objectives. It is also proposed to determine in Section 52(b) that, in the event of a protracted deviation of the inflation rate from the price-stability range the Government establishes under Section 3(b), the report shall include details about the reasons for the deviation, the policy that the Monetary Committee has adopted, and the estimated time frame within which the Monetary Committee expects the inflation rate to return the range established.

In Section 52(d), it is proposed that Governor shall present the above report to the Knesset Finance Committee immediately after it is submitted to the Government.

Furthermore, as part of the transparency principle, it is proposed to require the Bank to present the Government and the Knesset Finance Committee with an annual report on the principles that were used to determine the desired level of the foreign-currency reserves over the long term and on the policy guidelines relating to the investment of the reserves.

Additionally, as in the provisions of Section 61 of the current law, the Bank shall present the Government and the Knesset Finance Committee, at their request, with reports on any matter relating to the Bank's activities in the performance of its functions under the Bill (Section 54).

Section 55 in the Bill

The proposed Section is meant to help the Bank enforce, by means of a financial sanction, certain provisions whose breach does not warrant the instigation of criminal proceedings; this effective and rapid enforcement measure that can serve as a deterrent and reduce the frequency of the violations that trigger its use. It is proposed to determine that a violation of a condition to grant credit or to accept a deposit under the proposed Sections 33(3) or (4), a violation of the provision under which a Banking Corporation must report its liabilities and assets under the proposed Section 35(d), the violation of an instruction to cease or limit the granting of credit, investment, or distribution of earnings under the proposed Section 36(b), and failure by a Financial Entity to provide information that it must provide under Section 37—none of these shall constitute a criminal offense, and in the event of such a violation, the Governor may impose a fixed-sum financial sanction. To encourage violators to desist rapidly and to assure effective and rapid enforcement, it is proposed that for each day of continued violation, a supplemental financial sanction shall be imposed, at the rate of one-fiftieth of the sum of the financial sanction imposed for the original violation. It is also proposed to determine that for recurrent violations, within two years of the original violation

of the instruction for which a financial sanction was imposed, the financial sanction shall be augmented by a sum equal to half of the financial sanction that was imposed for the previous violation.

To complement the direct responsibilities of a corporation and of a person acting on its behalf, it is proposed to determine the responsibility of a director, an active executive in the corporation, a partner with the exception of a limited partner, and any other officer who is responsible on behalf of the corporation for the domain in which the violation occurred, to apply supervision and do everything possible to prevent violations by the corporation or by any employee thereof, where a violation by the corporation or by an employee thereof creates the presumption that the Office Holders in the Corporation are in breach of their supervisory duties. It is also proposed to determine that in the case of a breach of said supervisory duty, the Governor may impose on the Office Holder a financial sanction at a sum equal to half of the sum of the financial sanction that the corporation itself may face on account of the violation.

Additional provisions, pursuant to accepted practice in other statutes that regulate the possibility of imposing financial sanctions, are proposed in this matter.

Section 56 in the Bill

As in Section 73(a) of the current law, it is proposed to define as an offence carrying a two-year prison sentence, the issue or circulation of banknotes, coins, or anything that the Governor determines as capable of being used as a substitute for currency under Section 42 of the Bill; and, as in Section 73(b) of the current law, it is proposed to define as an offence carrying a one-year prison sentence, the failure by a Banking Corporation to hold liquid assets at the rate or in the composition determined by the Governor under Section 35 of the Bill.

In addition, it is proposed to define as an offence, carrying a one-year prison sentence, the performance of a transaction that is prohibited under the proposed Section 49. Today, such a transaction, when performed without a permit from the Controller of Foreign Currency, is an offence under Section 17 of the Currency

Control Law, 5738-1978. As part of the proposal to repeal this law (Section 74(b) of the Bill), it is proposed to regulate the matter within the ambit of Section 49 of the proposed new Bank of Israel Law.

It is also proposed to define as an offence, carrying a one-year prison sentence, the violation of the secrecy duty set forth in the provisions of Section 62(a) of the Bill. Today, the current law affirms the secrecy duty, but prescribes no particular sanction for its violation.

Since most directives that the Governor is entitled to issue under the law require prior approval from the Monetary Committee or the Administrative Council, and to make sure that the Governor retains his decision-making independence and is not subjected to extraneous pressure, it is proposed to establish that Section 2(b) of the Penal Law shall not apply to offences and penalties established by the Governor or employees of the Bank.

Section 57 in the Bill

To complement the direct responsibilities of a corporation and of a person acting on its behalf, it is proposed to replace Section 74 of the current law and to establish the responsibility of a director, an active executive in the corporation, a partner with the exception of a limited partner, and any other officer who is responsible on behalf of the corporation for the domain in which the violation occurs, to apply supervision and do everything possible to prevent violations by the corporation or by any employee thereof, where a violation by the corporation or by an employee thereof creates the presumption that the Office Holders in the Corporation are in breach of their supervisory duties. However, an Office Holder who is accused of breaching said supervisory duty may prove that he did everything within his power to prevent the offence. The violation of said supervisory duty is an offence liable to half of the fine established for an offence committed by the corporation.

Section 58 in the Bill

This Section replaces Sections 59–62 of the current law. The requirement established in Section 58 of the current law, to publish a weekly report on total currency in circulation and a monthly report on the Bank's assets and liabilities, is repealed. Such reporting is irrelevant under the monetary policies of the modern era, and in any event this information is included in other reports that the Bank must publish.

It is proposed to clarify in Section 58(a) that the Financial Report shall be drawn up in accordance with generally accepted accounting principles at leading central banks.

The provision in Section 60 of the current law, stating that “The business year of the Bank shall be the period of the year ending on December 31,” is deleted for reason of superfluity.

Section 59 in the Bill

This Section is essentially the same as Section 62 of the current law, and is meant to render the provisions of the State Comptroller Law appropriate for the Bank of Israel.

Section 60 in the Bill

The law as currently worded does not authorize the Bank of Israel to charge fees for various services that it offers. To avoid vagueness in this matter, it is proposed to establish a general provision that allows the Bank to charge fees per approval of the Administrative Council and with the consent of the Minister of Finance.

Section 61 in the Bill

This Section is essentially the same as Section 63 of the current law, which equates the Bank with the State in respect of the payment of taxes, municipal property tax, fees, and other compulsory payments.

Section 62 in the Bill

The proposed Section 62(a) is identical to Section 65 of the current law and enjoins a person from revealing information given to him or disclosing a document submitted to him under this Law, except for the purposes of a criminal claim according to decisions of the Governor.

In Subsection (b), it is proposed to authorize the Governor to disclose information or present a document, as aforesaid, to the Securities Authority and the Commissioner of the Capital Market, Insurance, and Savings at the Ministry of Finance, if the Governor is convinced that those authorities need the information or document for the discharge of their duties. This Section complements the contents of the proposed Section 69 and creates reciprocity in the sharing of information among the various authorities.

Section 63 in the Bill

Section 66 of the current law sets restrictions on persons who resign from their service with the Bank. In view of the status and the nature of the functions of members of the Monetary Committee and the Administrative Council, it is proposed to extend to them the restriction preventing a retiree from the Bank from representing a person vis-à-vis an employee who was subordinate to him on the eve of his resignation, or from making a request from such an employee to grant a person who has resigned an entitlement, where the granting of entitlement is subject to the discretion of that employee. It is also proposed to repeal the restrictions set forth in Subsection (2) of the current law, because they have not been invoked since the current law was enacted. Furthermore, no such provision exists in legislation relating to any other supervisory entity, and given the secrecy

obligations that devolve on employees of the Bank of Israel, whether by force of the Bank of Israel Law or the Banking Ordinance, the provision is unnecessary.

Section 64 in the Bill

Under Section 71 of the current law, the Bank represents the State in all matters related to the State's membership in the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). In view of the experience that the Bank has amassed in representing the State vis-à-vis international organizations, it is proposed to determine that in addition to representing the State vis-à-vis the IMF and the IBRD, it will do so also vis-à-vis the Bank for International Settlements. In respect of other international financial institutions, the Bank will represent the State as the Government decides. It is proposed to allow the Bank to take any action that is needed for such representation, e.g., investing in such institutions' shares.

Section 65 in the Bill

The proposed Section 65 is identical to Section 72 of the current law.

Section 66 in the Bill

The proposed Section 66 is identical to Section 67 of the current law.

Section 67 in the Bill

The proposed Section 67 is identical to Section 80 of the current law.

Sections 68 and 72 in the Bill

Section 8(B1) of the Banking Ordinance, 1941, and Section 16(c) of the Payment Systems Law, 5768-2008, apply the provisions of Section 44A of the current law concerning the exercise of an encumbrance of securities as collateral for credit to the exercise of an encumbrance of like kind that was executed as a guarantee for

the issue of credit under the Banking Ordinance or the Payment Systems Law, as the case may be. Section 34 of the Bill replaces Section 44A of the current law, expands it, and discusses not only the exercise of the encumbrance but also the status of the encumbrance itself. Thus, the aforementioned sections of the Banking Ordinance and the Payment Systems Law should be amended accordingly.

It is also proposed to amend Section 8D of the Banking Ordinance and to replace the requirement of Government approval for the invoking of sanctions, in the cases determined in said Section, with approval by the Monetary Committee.

It is also proposed to amend Section 15(A2)(b) of the Banking Ordinance. This Section allows the Supervisor, notwithstanding the secrecy duty set forth in Section 15a of the Ordinance, to share information with the Securities Authority and the Commissioner of the Capital Market, Insurance, and Savings at the Ministry of Finance. To allow the Supervisor to share information and documents that come into his possession with other Bank of Israel employees as well, it is proposed to state explicitly that the Supervisor may share information and documents with an employee of the Bank of Israel for the performance of his duties, just as he is allowed to share said information with the other authorities.

Section 69 in the Bill

Within the framework of the Enhancement of Competition and Reduction of Concentration and Conflicts of Interest in the Israel Capital Market (Legislative Changes) Law, 5765-2005, the Control of Financial Services (Insurance) Law, 5741-1981, was amended and Section 50B(a) was added in order to allow information to be forwarded by the Commissioner of the Capital Market, Insurance, and Savings at the Ministry of Finance to the Supervisor of Banks and the Securities Authority. Since the attainment of the objectives and the performance of the functions of the Bank of Israel sometimes require information that the Commissioner of the Capital Market, Insurance, and Savings has obtained but cannot share without legal authorization, it is proposed to amend the Section and allow information to be shared with the Bank of Israel as well.

Section 70 in the Bill

Section 21 of the Basic Budget Law, 5745-1985, includes the Bank of Israel in the definition of a “Budgeted Entity” and applies to it the provisions of Sections 29, 29A, and 29B of that law, which deal with changes in wages, review of deviating agreements, and outcomes of a deviating agreement. Since Section 23 of the Bill establishes special provisions for the Bank of Israel in regard to the introduction of changes in the wages of Bank employees and in control thereof, in lieu of Sections 29, 29A, and 29B of the Basic Budget Law, it is proposed to exclude the Bank of Israel from the definition of a “Budgeted Entity” for the purpose of said Sections. Notably, the provisions of Section 29B(b) of the Basic Budget Law were applied to an agreement deviating from the provisions set forth under Section 23 of the Bill.

Nevertheless, it is proposed to add the Bank of Israel to the definition of a “Budgeted Entity” in Section 23 of the Basic Budget Law, in order to continue applying to the Bank the provisions of that Law in regard to reporting requirements and to clarify that failure to honor the provisions of Section 23 of the Bill by the Bank shall be a disciplinary offence under the Basic Budget Law.

It is also proposed to clarify, in Section 33(a) of the Basic Budget Law, that the sharing of information by the Bank with the Director General of the Ministry of Finance under the provisions of that Section, will take place per consent of the Prime Minister because the Bank, unlike other Budgeted Entities, has no Minister responsible, who can authorize the sharing of information as aforesaid.

Section 71 in the Bill

Section 12 of the Internal Audit Law, 5752-1992, discusses the termination of an internal auditor’s tenure and lists, in Subsection (a), the officers of various organs that must approve the termination of tenure or the suspension of an internal auditor. In accordance with Paragraph (2) of said Subsection, at the Bank of Israel a decision by the Governor shall suffice to suspend or terminate the tenure of an internal auditor, without his consent, before the end of his term of appointment; Paragraph (3) relates to “other public entity”; it is proposed that a decision by the

Governor shall not suffice to terminate the tenure of an internal auditor under these circumstances, and that Paragraph (2) should be nullified, thereby applying to the Bank of Israel the provisions of Paragraph (3), according to which the non-consensual suspension or termination of tenure of an internal auditor before the end of his term of appointment, shall entail a decision by the Administrative Council after all members of the Administrative Council are served with lawful notice that the suspension or termination of tenure shall be discussed at the relevant meeting, and per approval by the Administrative Council via a majority of two-thirds of its members, after the internal auditor is given an opportunity to address the Administrative Council about the matter.

Section 73 in the Bill

The Short-Term Loan Law, 5744-1984, references the meaning of the term “Means of Payment” in Section 35 of the existing Bank of Israel Law and the functions of the Bank of Israel as enumerated in Section 3 of the current law. In view of the passage of the new Bank of Israel Law, which does not include said term, it is proposed to reference the objectives and functions of the Bank of Israel as stated in Sections 3 and 4 of the Bill.

Section 74 in the Bill

With the passage of the new Bank of Israel Law, it is proposed to repeal the current Bank of Israel Law, 5714-1954; it is also proposed to repeal the Currency Control Law, 5738-1978, as explained in the explanatory notes to Sections 37 of the Bill.

Section 76 in the Bill

Subsection (a)—the Bill determines that only one Deputy Governor shall be appointed. Today, under the current law, two deputies may be appointed and two deputies were indeed appointed at certain times. If two deputies are serving at the time this Law is about to go into effect, it is proposed to leave the situation as it is until the tenure of their appointment expires.

Subsection (b)—according to the Bill, a Monetary Committee and an Administrative Council are to be established and, among their members, people from amongst the public shall be appointed to a four-year term. To avoid a situation in which all members from amongst the public of the Monetary Committee and all such members of the Administrative Council are replaced concurrently, it is proposed to determine that upon the first appointment of members from amongst the public, they shall be appointed to different terms.

Subsection (c)—To avoid a situation in which the new Law goes into effect, but the powers that the Law vests in the Monetary Committee or the Administrative Council cannot be exercised, because one or both of these organs has not yet been formed, it is proposed, in such a case, to vest their powers in the Governor, until they are formed.

Subsection (d)—the Bill states that the Government shall set the terms of remuneration, service, and pension of the Governor and that the terms of remuneration, service, and pension of the Deputy Governor shall be 90 percent of those of the Governor. It is proposed, that this Section be applied only to governors and deputy governors who receive their appointments after the Law goes into effect.