

## UNOFFICIAL TRANSLATION

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The Government of Israel hereby publishes the following Bill:

### **BANK OF ISRAEL BILL, 5770-2010**

#### **Chapter One: Interpretation**

##### **1. Definitions**

In this Law—

“The Bank”—the Bank of Israel

“Financial Entity”—each of the following:

- (1) A Banking Corporation and an Auxiliary Corporation
- (2) A Provident Fund or a Managing Company as defined in the Control of Financial Services (Provident Funds) Law, 5765-2005<sup>1</sup>;
- (3) An Insurer as defined in the Control of Financial Services (Insurance) Law, 5741-1981<sup>2</sup>;
- (4) A Joint Investment Trust Fund as defined in the Joint Investment Trust Law, 5754-1994<sup>3</sup>;
- (5) A Portfolio Manager as defined in the Regulation of Investment Advice, Portfolio Management and Investment Marketing Law, 5755-1995<sup>4</sup>;
- (6) A Member of a Stock Exchange under the Stock Exchange Code, within its meaning in Section 46 of the Securities Law;
- (7) A Clearing House as defined in Section 50A of the Securities Law;
- (8) The Postal Company;

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<sup>1</sup> Sefer Hahukim 5765, p. 767.

<sup>2</sup> Sefer Hahukim 5741, p. 208.

<sup>3</sup> Sefer Hahukim 5754, p. 308.

<sup>4</sup> Sefer Hahukim 5755, p. 416.

## UNOFFICIAL TRANSLATION

(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 in the sense of this term in Section A of Chapter Four;

“The Candidate Search Committee”—the Candidate Search Committee established under Section 33;

“The Appointment Review Committee”—the committee established under Section 18b of the Government Companies Law, amended as set forth in Section 60a(b) of the Government Companies Law;

“The Audit Committee”—the audit committee appointed under Section 23;

“The Postal Company”—the company, as defined in the Postal Law, 5746-1986<sup>5</sup> (hereinafter: the Postal Law), when it provides the financial services as defined in the Postal Law, on behalf of the subsidiary in the sense of this term in Section 88k of the Postal Law;

“The Internal Audit Law”—the Internal Audit Law, 5752-1992<sup>6</sup>;

“The Banking (Licensing) Law”—the Banking (Licensing) Law, 5741-1981<sup>7</sup>;

“The Companies Law”—The Companies Law, 5759-1999<sup>8</sup>;

“The Government Companies Law”—the Government Companies Law, 5735-1975<sup>9</sup>

“The State Comptroller Law”—the State Comptroller Law (Consolidated Version), 5718-1958<sup>10</sup>;

“The Securities Law”—the Securities Law, 5728-1968<sup>11</sup>

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<sup>5</sup> Sefer Hahukim 5746, p. 79.

<sup>6</sup> Sefer Hahukim, 5752, p. 198.

<sup>7</sup> Sefer Hahukim, 5741, p. 232.

<sup>8</sup> Sefer Hahukim, 5759, p. 189.

<sup>9</sup> Sefer Hahukim, 5735, p. 132.

<sup>10</sup> Sefer Hahukim, 5718, p. 92.

<sup>11</sup> Sefer Hahukim, 5728, p. 234.

## UNOFFICIAL TRANSLATION

“The Banking Laws”—the Banking Law (Licensing), the Banking Ordinance, 1941,<sup>12</sup> and the Banking Law (Customer Service), 5741-1981<sup>13</sup>;

“The Index”—the Consumer Price Index, published by the Central Bureau of Statistics;

“The Council”—the Administrative Council in the sense of this term in Section B of Chapter Four

“Currency”—as set forth in Section 1 of the New Sheqel Currency Law, 5745-1985<sup>14</sup>;

“Foreign currency”—banknotes or coins which are legal tender in a foreign country and are not legal tender in Israel;

“The Deputy Governor”—the Deputy Governor appointed under Section 8;

“The Governor”—the Governor of the Bank appointed under Section 6;

“The Securities Authority”—in the sense of this term in Section 2 of the Securities Authority Law;

“Supervisory Authority”—each of the following, vis-à-vis the financial entities supervised thereby:

- (1) The Commissioner of the Capital Market, Insurance, and Savings at the Ministry of Finance;
- (2) The Securities Authority;
- (3) The Minister of Communication, in respect of the Postal Company;

“Banking Corporation” and “Auxiliary Corporation”—as defined in the Banking (Licensing) Law.

## **Chapter Two: The Bank of Israel, Its Goals, Functions, and Autonomy**

### **2. The Bank of Israel, its Organs, and its Seat**

- (a) The Bank of Israel is a corporation.
- (b) The Bank shall have a Monetary Committee, an Administrative

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<sup>12</sup> I.R. 1941, Supp. 1, p. 69(p), 85(a).

<sup>13</sup> Sefer Hahukim, 5741, p. 258.

<sup>14</sup> Sefer Hahukim, 5745, p. 216.

## UNOFFICIAL TRANSLATION

Council, and a Governor.

- (c) The Bank shall be seated in Jerusalem and may open branches and representative offices in any other location.

### **3. Goals of the Bank**

- (a) The goals of the Bank are:
  - (1) to maintain price stability as its central goal;
  - (2) to support other goals of the Government's economic policy, especially growth, employment, and narrowing social gaps, provided that, in the Committee's opinion, this support shall not prejudice the attainment of price stability over the course of time; for this purpose, "Price Stability over the Course of Time" means a situation in which the Committee, on the basis of the monetary policy that it has established, expects the inflation rate to be within the price-stability range determined per Subsection (b) within no more than two years.
  - (3) to support the stability and orderly activity of the financial system.
- (b) The Government, in consultation with the Governor, shall determine the price-stability range for the purposes of Subsection (a)(1).
- (c)

### **4. Functions of the Bank**

- (a) The Bank's functions are:
  - (1) Managing monetary policy;
  - (2) Holding and managing the foreign currency reserves of the State;
  - (3) Supporting the orderly activity of the foreign currency market in Israel;
  - (4) Acting as banker of the Government;

## UNOFFICIAL TRANSLATION

- (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, 5768-2008<sup>15</sup>;
- (6) Issuing Currency and regulating and guiding the cash system of the economy.
- (7) Supervising and regulating the banking system in accordance with its powers under the banking laws and under any other law.

### **5. Autonomy of the Bank**

To attain its goals and discharge its duties, the Bank shall be autonomous in choosing its actions and exercising its powers.

## **Chapter Three: The Governor and the Deputy Governor**

### **6. The Governor**

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

### **7. Functions of the Governor**

- (a) The Governor shall manage the Bank and shall also serve as chair of the Committee and member of the Council.
- (b) The Governor shall serve as advisor to the Government on economic matters, including the narrowing of social gaps and reducing inequality in income distribution.

### **8. The Deputy Governor and His Functions**

- (a) The Government shall, per recommendation of the Governor, appoint a Deputy Governor.
- (b) The Governor shall determine the Deputy Governor's functions.

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<sup>15</sup> Sefer Hahukim 5768, p. 184.

## UNOFFICIAL TRANSLATION

- (c) The Deputy Governor shall be a member of the Committee and the Council.

### **9. 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 the place of the Governor and shall be authorized to exercise the Governor's powers until the state of incapacity ends or a new Governor is appointed, as the case may be.

### **10. Term in Office**

- (a) The Governor shall be appointed to a five-year term and may be reappointed to one term only.
- (b) The Deputy Governor shall be appointed to a five-year term and may be reappointed to one term only. This notwithstanding, the Deputy Governor's term in office shall be terminated at the end of one year after the beginning of a new Governor's term in office, unless his term in office ends at an earlier date; however, the Government may decide, per recommendation of the Governor, that the Deputy Governor shall continue his term in office to its conclusion.

### **11. Prohibition of Other Occupation**

- (a) During any and all of their terms in office the Governor and the Deputy Governor shall not be members of the Knesset, members of a municipal authority council, or candidates for either of the foregoing;
- (b) During any and all of their terms in office the Governor and the Deputy Governor may not
  - (1) be members in the management body of a group of individuals managing a business for profit ;
  - (2) be members of the board of directors of a nonprofit corporation if this creates a conflict of interests with the discharge of their duties under this Law;

## UNOFFICIAL TRANSLATION

- (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 or in another corporation that is subject to supervision or regulation by the Banking Corporation under the banking laws;
  - (5) hold securities of a corporation registered in Israel and hold in Israel cash and securities in contravention of rules set forth by the Government to prevent conflict of interests on the part of ministers and deputy ministers,<sup>16</sup> *mutatis mutandis*; the Audit Committee may approve exceptions to this provision for reasons which shall be recorded.
- (c) The provisions of Subsection (b) notwithstanding, the Governor or the Deputy Governor may hold any of the posts hereunder, provided that no prejudice is caused thereby to their ability to discharge their duties under this Law or to the Bank's autonomy, goals, and functions:
- (1) member of a commission appointed by the Government or the Knesset and, regarding the Deputy Governor—the Bank's representative to the Securities Authority;
  - (2) an academic teaching post;
  - (3) with the consent of the Government, a member of an international commission and an international institution;
- and provided the function, except under Paragraph (2), is without any remuneration or other reward; in respect of a paid academic teaching post, the rules applicable to State employees who are employed under senior-official contracts in respect to private employment, shall apply *mutatis mutandis*.

### **12. Salary and Terms of Service**

- (a) The Government shall determine the Governor's salary and terms of

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<sup>16</sup> Government Bills 485, Shvat 19, 5757, Feb. 3, 2010.

## UNOFFICIAL TRANSLATION

service.

- (b) The Deputy Governor's salary shall equal 90% of that of the Governor and his terms of service shall be determined by the Government.

### **13. Termination of the Governor's Term in Office**

- (a) The President of the State may, per motion of the Government, terminate the term in office of the Governor if he deems the Governor unfit to continue his term in office for one of the following reasons:
  - (1) committing an act unbecoming his status as Governor;
  - (2) violating the provisions of Section 11;
  - (3) permanent incapacity.
- (b) A motion of the Government to the President as per Subsection (a) shall be notified to the Knesset Finance Committee when it is submitted to the President.:

### **14. Termination of the Deputy Governor's Term in Office**

The Government may, either per motion of the Governor or after consultation with him, terminate the term in office of the Deputy Governor if it deems him unfit to continue his term in office for one of the following reasons:

- (1) the Governor is of the opinion that he is not discharging his duties appropriately;
- (2) commission of an act unbecoming his status as Deputy Governor;
- (3) violation of the provisions of Section 11;
- (4) permanent incapacity.

## UNOFFICIAL TRANSLATION

### **Chapter Four: Monetary Committee and Administrative Council**

#### **Subchapter A: Monetary Committee**

##### **15. The Monetary Committee and Its Functions**

- (1) determining policies for the attainment of the Bank's goals, including monetary policy;
- (2) monitoring the implementation of the policies determined, occasionally reviewing monetary and economic developments and progress toward the attainment of the policy targets, and discussing other matters related thereto;
- (3) deciding actions under this Law that the Bank should take for the attainment of its goals; the Committee's decision on the interest rate that is set for the purposes of monetary policy (hereinafter: the Interest Rate) shall be for a specified period of time, at the end of which the Committee shall decide whether to change the Interest Rate or leave it in effect for an additional specified period of time. This provision shall not derogate from the Committee's power to also change the Interest Rate within the period of time specified in a previous decision;
- (4) Any other function assigned to it by this Law, including functions relating to the following: acceptance of deposits and issue of credit as set forth in Section 36(3)–(5); issuing directives concerning the holding of liquid assets as set forth in Section 38; managing foreign currency reserves as set forth in Section 40; and intervening in trading in the foreign currency market as set forth in Section 53.

##### **16. Composition of the Committee**

- (a) The Committee shall be composed of six members, amongst them the Governor, who shall serve as chair, the Deputy Governor, a Bank employee appointed by the Governor, and three additional members from amongst the public; if no Deputy Governor is serving at a given time, the Governor shall appoint an additional

## UNOFFICIAL TRANSLATION

Bank employee as a member of the Committee until a Deputy Governor begins to serve.

- (b) A member from amongst the public shall be qualified for appointment if he is a resident of Israel, is twenty-five years old or older, and fulfills one of the following:
  - (1) holds a Doctoral Degree in Economics or Business Administration and has at least five years of experience in the monetary, financial, or macroeconomic field;
  - (2) holds a Master's degree in Economics or Business Administration and has at least ten years of experience in the monetary, financial, or macroeconomic field;
  - (3) is knowledgeable and expert with at least ten years of proven professional experience in the monetary, financial, or macroeconomic field, provided that not more than one member is appointed under the provision of this Subsection.
- (c) Members from amongst the public shall be appointed by the Government, per recommendation of the Candidate Search Committee as set forth in Section 34 and after consultation with the Appointment Review Committee as per Section 35.

### **17. Management of Investments**

The rules applicable to the Governor and Deputy Governor under Section 11(a)(6) shall apply to Committee members.

### **18. The Committee's Work Procedure**

- (a) The chair of the Committee 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 twelve annually.
- (b) The lawful quorum at Committee meetings and for resolutions shall be a majority of its members, including the Governor, or, in the Governor's absence from the meeting and with his consent, the Deputy Governor.

## UNOFFICIAL TRANSLATION

- (c) The Committee's resolutions shall be passed by a majority of its members who cast votes; in the event of a tied vote, the chair shall have an additional vote.
- (d) The Committee may, in special cases, hold meetings by use of any means of communication, provided a reasonable attempt is made to locate Committee members in order to obtain their consent to such meeting, and provided all participating members of the Committee can hear each other simultaneously.
- (e) The Committee shall determine its working procedures insofar as they are not prescribed by this Law.

### **19. Publication and Reporting to the Government**

- (a) The Committee shall publish and report to the Government (in this Section—Publish) a summary of its deliberations and resolutions, the reasoning behind the resolutions, and the numerical results of voting on the resolutions; said Publishing shall take place at the web site of the Bank or in some other manner the Committee deems fit .
- (b) Publishing shall take place within two weeks of the date of deliberations; this notwithstanding, publishing of the Committee's resolution regarding the Interest Rate or the use of other monetary instruments, as well as a condensed presentation of its reasoning, shall take place on the day of the resolution.
- (c) The Committee may decide to postpone, for a period of up to six months, the publication of a summary of a given deliberation, in whole or in part, or the publication of a condensed presentation of the reasoning behind a resolution concerning the Interest Rate or the publication of a resolution on the use of other monetary tools, if it deems that said publication, at that time, may prejudice the results of the monetary policy; the Committee may prolong the non-publication period for additional periods of up to six months each.

## UNOFFICIAL TRANSLATION

- (d) Upon the postponed publication of the summary of a deliberation, a condensed presentation of reasoning, or a resolution, the Committee shall also publish the reasons for the postponement.
- (e) The Committee is entitled not to publish as per Subsection (a) if it believes that this may prejudice the status of the Bank or of the State abroad or their relations with Financial Entities abroad; in this Section, a “Financial Entity abroad” is an entity that resembles the entities listed in the definition of “Financial Entity” in Section 1 and is incorporated abroad.
- (f) Where the Committee postpones publishing or does not carry it out at all as per Subsections (c) or (e), the Governor shall report to the Minister of Finance in writing, soon after the postponement or non-publication, the details of the deliberation or the resolution to which the decision pertains and shall explain its reasons.

### **Subchapter B: Administrative Council**

#### **20. The Administrative Council and Its Duties**

- (a) The Bank shall have an Administrative Council whose duties are:
  - (1) supervising the orderly and efficient management of the Bank;
  - (2) discussing the Bank’s annual work plan;
  - (3) approving the annual budget for the Bank’s administrative activity (in this Section, the "annual budget");
  - (4) approving the annual financial statements of the Bank as set forth in Section 75;
  - (5) approving the salary terms of Bank employees and changes thereto, including fringe benefits, and the Bank’s salary structure;
  - (6) appointing an internal auditor for the Bank, per proposal of the Audit Committee; the Council is authorized to terminate

## UNOFFICIAL TRANSLATION

the term in office of the internal auditor under Section 12(a)(3) of the Internal Audit Law;

- (7) discussing and deciding on recommendations of the Audit Committee in the matters listed in Section 24(2) and (3);
  - (8) appointing a rectification team in the sense of Section 21a(b) of the State Comptroller Law; notwithstanding the provisions of said Section, the rectification team shall be headed by the Governor.
  - (9) appointing an accountant-auditor for the Bank and terminating his services;
  - (10) discharging any other function imposed upon it by law.
- (b) The Council shall publish the main provisions of the Bank's annual work plan and its main decisions, and the minutes of its meetings, but it may decide not to publish the minutes of a particular meeting or part thereof, giving the reasons for its decision in writing within the scope and format that it determines and deems fit; the Council shall publish the annual budget for the Bank's administrative activity, divided into fields of activity and programs.
- (c) The Council, within fourteen days of approving the annual budget, shall submit it to the Knesset Finance Committee, divided into fields of activity and programs; the Knesset Finance Committee shall hold a discussion on the annual budget; soon after the discussion in the Knesset Finance Committee, the Council shall publish the annual budget, divided into fields of activity and programs, in *Reshumot*.
- (d) In respect of Subsection (a)(7)—
- (1) The provisions of Section 6a of the Internal Audit Law concerning the management of a public entity and its members shall apply to the Council after the recommendations of the Audit Committee are received, and to the members of the Council, and the provisions of Subsection (b) in said Law in respect of the Person in Charge of the Internal Auditor shall apply to the chair of the

## UNOFFICIAL TRANSLATION

Council;

- (2) The provisions of Section 7(a) of the Internal Audit Law in respect of the Person in Charge of the Internal Auditor shall apply to the Council after the recommendations of the Audit Committee are received;
- (3) Section 7(b) of the Internal Audit Law shall be read as if “The Minister in Charge of the Government Ministry, the chair of the board of directors, or the chair of an entity that discharges a duty parallel to that of a board of directors, and also Person in Charge of the Internal Auditor,” is replaced by “the Governor, the chair of the Council, and the chair of the Audit Committee”.
- (4) Without derogating from the contents of Section 6 of the Internal Audit Law, the internal auditor shall also present a report about his findings to the chair of the Council and the chair of the Audit Committee.

### **21. Composition of the Council**

- (a) The Council shall consist of seven members: the Governor, the Deputy Governor, and five members from amongst the public. If no Deputy Governor is serving at a given time, the Governor shall appoint an additional Bank employee as a member of the Committee until a Deputy Governor begins to serve.
- (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 Paragraph (1) of said Section and also one of the conditions of Paragraph (2) of said Section and is a person of stature in the fields relating to the Council’s work and has experience in senior positions in those fields.
- (c) The members from amongst the public shall be appointed by the Government per recommendation of the Candidate Search Committee as set forth in Section 34 and after consultation with the

## UNOFFICIAL TRANSLATION

Appointment Review Committee as set forth in Section 35.

- (d) The Government shall determine, in consultation with the Governor, the member of the Council from amongst the public who shall serve as chair.

### **22. Working Procedure of the Council**

- (a) The chair of the Council or, in his absence, his substitute, 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 chair—or, in his absence, his substitute—and the Governor or the Deputy Governor.
- (c) Resolutions of the Council shall be passed by majority vote of members participating in the voting; in the event of a tied vote, the chair shall have an additional vote.
- (d) The members of the Council from amongst the public shall determine which of them shall be the substitute chair of the Council for the purposes of Subsections (a) and (b).
- (e) The Council may, under special circumstances, hold meetings via the use of any means of communication, provided a reasonable effort was made to locate all council members so as to obtain their consent for such meeting, and all participating members can hear each other simultaneously.
- (f) The Council shall determine its working procedures so far as they are not prescribed in this Law.

## **Subchapter C: Audit Committee**

### **23. The Audit Committee**

- (a) The Council shall appoint from its members from amongst the public an Audit Committee; the number of members in said

## UNOFFICIAL TRANSLATION

committee shall not be fewer than three; the chair of the Council shall not be a member of the Audit Committee.

- (b) The Audit Committee shall appoint one of its members as chair.
- (c) The decisions of the Audit Committee shall not be prejudiced by the vacancy of a member of the committee or by a defect in his appointment or in his continued tenure.

### **24. Duties of the Audit Committee**

The Audit Committee shall—

- (1) recommend to the Council, after consulting with the Governor, a candidate for the position of Internal Auditor of the Bank;
- (2) discuss the annual work plan of the Internal Auditor and recommend to the Council the appropriate budget and personnel standard for its implementation;
- (3) identify defects in the administration of the Bank and suggest to the Council ways to rectify them; to exercise said duty, the Committee shall discuss, among other topics, the audit reports of the State Comptroller and of the Internal Auditor of the Bank and the reports of the Accountant-Auditor; it shall also monitor the implementation of the Internal Auditor's work plan and shall discuss such matters as are brought before it by the Council or by the Governor; said discussion shall take place in consultation with, *inter alia*, the Internal Auditor or the Accountant-Auditor, as the case may be.

### **25. Working Procedures of the Audit Committee**

- (a) The lawful quorum at the meetings and for the resolutions of the Audit Committee shall be a majority of its members, including the chair.
- (b) The resolutions of the Audit Committee shall be passed by majority vote of those participating in the voting; in the event of a tied vote, the chair shall have an additional vote.
- (c) The Audit Committee may, in special cases, hold meetings via any

## UNOFFICIAL TRANSLATION

means of communication, provided that a reasonable attempt was made to locate all members of the Committee in order to obtain their consent to the holding of such meeting , and provided that all participating members of the Committee can hear each other simultaneously.

- (d) The Internal Auditor shall receive notices of the Audit Committee's meetings and may attend them; the Internal Auditor shall attend Committee discussions of reports that he prepared.
- (e) The Internal Auditor may ask the chair of the Audit Committee to convene the Committee for discussion of an issue specified in his request, and the chair of the Audit Committee shall convene it within a reasonable time of the date of the request.
- (f) Notice about an Audit Committee meeting, at which an issue related to an audit of the Financial Reports will be raised, shall be presented to the Accountant-Auditor of the Bank, who may then participate in the meeting.

### **Subchapter D: Joint Provisions for the Monetary Committee and the Administrative Council**

#### **26. Restrictions of Service**

- (a) a Member of the Knesset, a member of a municipal authority council, or a candidate for either of the foregoing shall neither be appointed nor serve as a member from amongst the public of the Committee or the Council.
- (b) The following shall neither be appointed nor serve as a member from amongst the public of the Committee or the Council (hereinafter: the Position)—
  - (1) an employee of the Bank, a person employed in the service of the Bank, an employee of the State, an employee of a statutory corporation, and an employee or

## UNOFFICIAL TRANSLATION

director of a government company or government subsidiary in the sense of these terms in the Government Companies Law;

- (2) an employee or an officer of a financial entity or a principal in a financial entity; for this purpose, the expressions “officer” and “principal” shall be as defined in the Companies Law;
- (3) a person whose business or occupation may create a conflict of interest with the Position;
- (4) a person who has a personal, business, or political relationship with any minister in the Government;
- (5) a person who has been convicted of a crime that, due to its material or circumstantial gravity, renders him unfit to serve in the Position;
- (6) a person who is disqualified from serving as a director of a corporation under the Companies Law or any other law;
- (7) a person who cannot devote the necessary time to the performance of the Position's duties.

### **27. Preserving the Effect of Resolutions**

The effect of resolutions of the Committee and the Council shall not be prejudiced by the vacating of a member's position or by a defect in the member's appointment or continued term in office.

### **28. Term in Office and Termination of Term in Office**

- (a) Each member of the Committee and the Council from amongst the public shall be appointed for a term in office of four years and may be reappointed to only one term.
- (b) The Government may terminate the term in office of a member of the Committee and the Council from amongst the public if it deems the member unfit to continue serving for

## UNOFFICIAL TRANSLATION

one of the following reasons:

(1) commission of an act unbefitting his status as the holder of the position;

(2) violation of the provisions of Section 29 or breach of a restriction set forth in Section 26;

(3) permanent incapacity.

The Government may decide on the termination of term in office under this Subsection only after consultation—with the Governor in respect of a member of the Committee and the chair of the Council, and in respect of a member of the Council – with its chair.

- (c) The term in office 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 be terminated unless the chair of the Committee or the chair of the Council, as the case may be, finds the absence justified.

### **29. Conflict of Interest**

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 so advise either body, as the case may be, and shall not participate in the discussion and in the voting concerning that topic.

### **30. Receipt of Information**

A member of the Committee and a member of the Council are entitled to receive information available at the Bank that he needs for the discharge of his function; a request for the receipt of said information shall be presented to an employee of the Bank whom the Governor has authorized for said purpose.

### **31. Remuneration and Expenses**

## UNOFFICIAL TRANSLATION

The Government, per motion of the Minister of Finance and in consultation with the Governor, shall determine the remuneration and expenses that members from amongst the public on the committee and counsel shall be paid; said remuneration and expenses shall be included in the Bank's budget.

### **32. Applicability of Laws**

Members from amongst the public of the Committee and the Council shall be subject to law as if they were employees of the Bank in respect of the following statutes:

- (1) The Public Service (Gifts) Law, 5740-1979<sup>17</sup>
- (2) The Penal Law, 5737-1977<sup>18</sup>—in respect of the provisions pertaining to public employees;
- (3) The Civil Service (Restriction of Political-Party Activity and Fund-Raising) Law, 5719-1959<sup>19</sup>;
- (4) The Evidence (Determining Public Employees) Order, 5743-1982<sup>20</sup>;
- (5) Elections to the Knesset (Consolidated Version) Law, 5729-1969.<sup>21</sup>

### **Subchapter E: Candidate Search Committee**

### **33.**

- (a) A committee for the selection of candidates for membership in the Committee and the Council shall be established, comprised of the following:
  - (1) the chair of the Committee, appointed by the Attorney

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<sup>17</sup> Sefer Hahukim 5740, p. 2.

<sup>18</sup> Sefer Hahukim 5737, p. 226.

<sup>19</sup> Sefer Hahukim, 5719, p. 190.

<sup>20</sup> Qovets Taqanot, 5743, p. 228.

<sup>21</sup> Sefer Hahukim, 5729, p. 103.

## UNOFFICIAL TRANSLATION

General and qualified to serve as a district court judge; said member shall be fit to serve as a judge in the District Court and may be a person who has 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 per motion of the Minister of Finance, in consultation with the chair of the Candidate Search Committee, who are either experts on the economy or hold or have held senior academic posts.
- (b) In addition to the conditions of eligibility set forth in Subsection (a), a person is qualified to be a member of the Candidate Search Committee if he satisfies the conditions in Section 24(c) of the Government Companies Law, *mutatis mutandis*, and if he has not breached a restriction as set forth in Section 26, *mutatis mutandis*.
- (c) A member of the Candidate Search Committee shall be appointed to a five-year term in office and may be appointed to additional terms; when the term in office of a member of the Candidate Search Committee ends, said member shall continue to serve until another member is appointed in his place.
- (d) The Government may terminate the service of a member of the Candidate Search Committee if it finds that said member is unfit to continue serving as set forth in Paragraphs (1)–(3) of Section 28(b); the Government may make such a decision in respect of the chair of the Committee only after consulting with the Attorney General.
- (e) The provisions of Section 27 shall apply to decisions of the Candidate Search Committee and the provisions of Section 29 shall apply to its members, *mutatis mutandis*.

### **34. Duties of the Candidate Selection Committee**

- (a) The Candidate Selection Committee shall recommend to the Government, after consulting with the Governor, candidates for service as members from amongst the public on the Committee or the Council, as set forth in Section 16(c) or Section 21(c), as the case may be, after reviewing their eligibility in accordance with the

## UNOFFICIAL TRANSLATION

provisions of Section 16(b) or Section 21(b), as the case may be, and in accordance with the restrictions in Section 26, and their suitability for the position, with attention devoted, among other matters, to the special needs of the Committee or the Council, as the case may be.

- (b) The Candidate Search Committee shall determine its working procedures, including methods of candidate-search and submission of candidacy for service in the position.
- (c) The legal quorum for meetings of the Candidate Search Committee shall be the chair and one additional member.
- (d) Decisions of the Candidate Search Committee shall be made by majority vote of committee members participating in the voting; in the event of a tied vote, the chair shall have an additional vote.
- (e) The Government, per motion of the Minister of Finance, shall establish provisions relating to remuneration and expenses for members of the Candidate Search Committee, to be paid from the State Treasury.

### **35. Consultation with the Appointment Review Committee**

- (a) A member from amongst the public of the Committee or the Council shall be appointed after consultation with the Appointment Review Committee concerning the satisfaction of the terms of eligibility under Sections 16(b) or 21(b), as the case may be, and the restrictions in Section 26; the Appointment Review Committee shall consult with the Governor.
- (b) A member of the Candidate Search Committee shall be appointed after consultation with the Appointment Review Committee.
- (c) If the Appointment Review Committee decides not to recommend a candidate for service in any of the positions cited in Subsections (a) and (b) because a restriction set forth in Section 26 applies to him, said candidate shall not be appointed to the position.

## UNOFFICIAL TRANSLATION

### **Chapter Five: Actions for the Discharge of the Bank's Duties**

#### **36. Actions for the Discharge of Duties**

To attain its goals and discharge its duties, the Bank may:

- (1) issue securities of the Bank, provided that the issue of securities of a new type valid up to thirteen months shall entail consultation with the Minister of Finance, and issuing securities of any type valid over thirteen months shall entail his consent;
- (2) Perform, on the stock exchange or in another regulated market or off-market, an action or transaction of any kind that is customary in the capital, money, and foreign-currency markets, including in the derivatives' markets, all of which apply to securities, currency, gold, or any other asset or instrument as are customary in said markets; provided the purchase or sale of Government of Israel debentures issued for terms exceeding thirteen months from the purchase or sale date, as the case may be, with the exception of repurchase transactions in such debentures, shall be executed after consultation with the Minister of Finance and in such manner that it does not materially prejudice the ability to raise local debt to finance the Government's activity;
- (3) receive deposits from Banking Corporations under conditions the Committee determines;
- (4) issue credit to Banking Corporations, under conditions set forth by the Committee in this matter, including conditions regarding the type and extent of collateral required against said issue of credit and including conditions imposed upon Banking Corporations regarding their activities related to the said issue of credit, including interest rates and other payments they may charge their customers. The aforementioned notwithstanding, under exceptional circumstances, when the Committee is of the opinion that there exists a genuine threat to the stability or orderly activity of the financial system, the Committee may establish conditions that differ from those it established regarding regular circumstances;

## UNOFFICIAL TRANSLATION

such conditions will apply so long as the credit has not been repaid in full, and may be established even prior to the granting of the credit;

- (5) under exceptional circumstances, when the Committee is of the opinion that there exists a genuine threat to the stability or orderly activity of the financial system, the Bank may also issue credit to Financial Entities that are not Banking Corporations, under conditions the Committee determines with regard to the said issue of credit, including those stated in Paragraph (4), *mutatis mutandis*, which shall apply so long as the credit has not been repaid in full, and may be established even prior to the granting of the credit and subject to receipt of all information the Bank requires at such dates and in such manner as it establishes; where said Financial Entity is supervised by a Supervisory Authority, said activity shall be executed by the Bank after consulting with the head of the Supervisory Authority;
- (6) take any other action the Bank deems necessary, provided it obtains the approval of the Committee for the type of action at issue; if the Governor believes there are grounds for said action under circumstances of special urgency, he may issue instructions to take the action and shall apprise the Committee thereof immediately after the action is performed.

### **37. Pledging of Securities as Collateral for Credit**

- (a) Where securities are pledged as collateral for the issue of 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, 5727-1967<sup>22</sup> (in this Section—the Pledges Law) notwithstanding, the Bank shall

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<sup>22</sup> Sefer Hahukim 5727, p. 48.

## UNOFFICIAL TRANSLATION

not realize a securities pledge, that was created as collateral against the granting of credit under this Chapter, as per Section 17(3) of the Pledges Law, unless it serves notice of its intention to do so, two business days in advance, to the pledgor and to any person whose right may be prejudiced by said realization. However, the Bank may realize such pledge without serving prior notice if, in the opinion of the Governor or whomever among the Bank's employees he authorizes for this purpose, a delay in the realization of the pledge may significantly prejudice the ability to repay the obligation secured by means of said realization, provided the Bank serves notice about the realization immediately after the performance thereof, to the pledgor and to any person whose right may be prejudiced by it.

- (c) For the purpose of the requirement of serving notice under this Section, the transfer of securities pledged to the Bank to an account exclusively owned thereby shall not be viewed as realization of the pledge.
- (d) The provisions of this Section shall also apply to a right in a security, and, in respect of a securities account, to such securities as are therein from time to time.
- (e) The provisions of this Section shall apply notwithstanding the provisions of any other law, including the Companies (New Version) Ordinance, 5743-1983,<sup>23</sup> the Pledges Law, and the Companies Law, 5759-1999<sup>24</sup>; however, this Section shall not derogate from the Bank's right to act regarding a securities pledge and the realization thereof under the provisions of any other law.

### **38. Liquid Assets of Banking Corporations**

- (a) In this Section—  
“Liquidity Directives”—directives issued under Subsection (b);

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<sup>23</sup> Dinnei Medinat Israel, New Version 37, p. 761.

<sup>24</sup> Sefer Hahukim 5759, p. 189.

## UNOFFICIAL TRANSLATION

“Liquid Assets”—assets that the Governor, with the approval of the Committee, has determined in the Liquidity Directives.

- (b) The Governor, with the approval of the Committee, may instruct all or any kind of Banking Corporations to hold Liquid Assets at a rate and in a composition that he determines, and he may determine such a rate either as a percentage of all deposit liabilities of the Banking Corporation or of all its assets, or both, or in any other manner, and he may also set different rates for kinds of deposits or assets defined for this purpose.
- (c) The Liquidity Directives shall be published in *Reshumot* and on the Bank's web site, and they shall include the effective date, provided that the said effective date is at least three days from the date of the publication on the web site; the version published in *Reshumot* shall be the binding version; a notification regarding the issue of the directives shall be sent to the banking corporations to which they apply on the day they appear on the web site.
- (d) The Governor may instruct that a certain liability of a Banking Corporation be considered a deposit for the purpose of the Liquidity Directives.
- (e) Banking Corporations shall not be paid interest on the Liquid Assets, in whole or in part, held at the Bank unless the Liquidity Directives determine otherwise, and at a rate so determined.
- (f) A Banking Corporation shall, at the demand of the Governor and on dates that he determines, present the Bank with a report on its liabilities and assets as is necessary for calculating the amount of Liquid Assets that it must hold and particulars of the Liquid Assets that said Banking Corporation actually holds.
- (g) If a Banking Corporation fails to hold Liquid Assets in accordance with the Liquidity Directives, it shall pay interest to the Bank at a rate the Governor sets, on the difference between the total amount in Liquid Assets that it has been required to hold and the total amount in Liquid Assets that it held in respect of any period during which such difference existed.

## UNOFFICIAL TRANSLATION

- (h) The Governor may, per approval of the Committee, instruct a Banking Corporation as set forth in Subsection (f), that during a period specified in a Directive and in the manner specified therein, such Banking Corporation discontinue or limit the issue of credit, the performance of investments, or the distribution of profits to its shareholders, or that such actions be executed under restrictions.

### **39. Information and Reports to the Bank**

- (a) The Governor, or a Bank employee that the Governor authorizes for this purpose, may issue an order that demands from a regulatory authority with oversight over a Financial Entity any information regarding such classes of transactions or persons as the Governor determines, per approval of the Committee, needed to attain the Bank's objectives and discharge its duties; if the regulatory authority does not provide the Governor or the Bank employee with the information within a reasonable time, or if the Financial Entity is not supervised by a regulatory authority, the Governor or a Bank employee authorized by him for this purpose may demand the said information from the Financial Entity, at such time as he may determine.
- (b) To attain the Bank's objectives and discharge its duties, the Governor, per approval of the Committee, may issue an order requiring any class of persons, as he determines, to provide the Bank with information, as detailed in the order, necessary for following developments in the foreign currency market in Israel, and relating to the following:
  - (1) transactions carried out by a resident of Israel in foreign currency, in a foreign security, and in real estate abroad;
  - (2) transactions between residents of Israel and nonresidents in Israel or abroad, and transactions by Israeli residents abroad;
  - (3) Transactions carried out in Israel by nonresidents, excluding transactions that are ordinarily made by tourists, or in regard to an asset in Israel, including transactions in Israeli

## UNOFFICIAL TRANSLATION

- currency;
- (4) the possession by a resident of Israel of foreign currency and also of a foreign security and of real estate abroad;
  - (5) the removal of any asset from Israel and the bringing to Israel of Israeli currency or a right to Israeli currency.
- (c) An order as per Subsection (b) shall establish the following, *inter alia*:
- (1) definitions of the terms “foreign security,” “transaction,” “nonresident,” and “Israeli resident” for the purposes of the order;
  - (2) how and when the information is to be provided.
- (d) To attain the Bank’s objectives and discharge its duties, the Governor, or a Bank employee whom he authorizes for this purpose, may demand from a regulatory authority information mentioned in Subsection (a), and he may instruct any person to provide any additional information regarding transactions set forth in Subsection (b); if the regulatory authority does not provide the Governor or the Bank employee with the information as per Subsection (a) within a reasonable time, or if the Financial Entity is not supervised by a regulatory authority, the Governor or a Bank employee authorized by him for this purpose may demand the said information from the Financial Entity, at such time as he may determine..

### **Chapter Six: Management of Foreign Currency Reserves**

#### **40. Management of the Foreign Currency Reserves of the State**

- (a) The Committee, per approval of the Minister of Finance, may revise the principles by which the Governor shall determine the desired level of foreign currency reserves over the long term.
- (b) The Committee, in consultation with the Minister of Finance, shall

## UNOFFICIAL TRANSLATION

establish policy guidelines for the investment of the foreign currency reserves.

- (c) The Committee shall report to the Minister of Finance, within three months following the end of each half-year, details about the management of the foreign currency reserves during the half-year ended, in a format that they shall determined by consent.
- (d) The Committee shall publish, within three months following the end of each year, a report about the principal kinds of currency and securities of which the foreign currency reserves were composed at the end of said year, in a manner that shall not prejudice the orderly management of the foreign currency reserves; said report shall be posted at the website of the Bank or in such manner as the Committee deems fit.

### **Chapter Seven: Banknotes and Coins**

#### **41. 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.

#### **42. Power to Determine Particulars of Banknotes and Coins**

- (a) The Governor, per approval of the Council and the Government, shall determine the face value, form, content, and other particulars of banknotes to be issued; said notes shall bear the facsimile signature of the Governor.
- (b) The Governor, per approval of the Council and the Government, shall determine the face value, composition, weight, design, and other particulars of coins to be issued.

#### **43. Commemorative Coins and Special Coins and Numismatic Items**

- (a) A coin issued by the Bank that has been declared by the Governor,

## UNOFFICIAL TRANSLATION

per 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 that are legal tender in Israel, shall be delivered by the Bank, for their sale, only to a company appointed therefor by the Minister of Finance with the Governor's consent.

- (b) The provisions in Section 42(b) shall apply to coins and numismatic items as set forth in Subsection (a).
- (c) The provisions in Subsection (a) shall not preclude the Bank from keeping commemorative coins, numismatic items, or special coins or from presenting them as gifts to whomever it deems fit.

#### **44. Prohibition against Issuing Currency**

- (a) No person other than the Bank shall issue or circulate banknotes, coins, a document, or any other object, that the Governor has determined may be used as a substitute for currency.
- (b) If a person issues a substitute for currency in contravention of Subsection (a), the Governor may confiscate it.

#### **45. Canceling and Replacing Banknotes and Coins**

- (a) The Governor may direct by order, with the approval of the Knesset Finance Committee, that banknotes and coins specified in the order shall cease to be legal tender in Israel (in this Section—Cancellation Order).
- (b) A person who, during the period set forth in the Cancellation Order, delivers to the Bank, or to whomever the Governor designates in said Order, banknotes or coins that have ceased to be legal tender according to the Order, is entitled to receive legal tender of equal value in exchange therefor; the Governor may establish in the Cancellation Order a fee that shall be charged in this regard.
- (c) A Cancellation Order shall not derogate from any statute that determines the unit of currency or any division thereof.
- (d) Once a Cancellation Order has been issued, wherever any amount is payable in cash and said payment can be made only by using a

## UNOFFICIAL TRANSLATION

cancelled banknote or coin, such amount shall be rounded to the nearest amount that can be paid in legal tender, and where it can be rounded either upwards or downwards, it shall be rounded upwards.

- (e) A Cancellation Order may determine that the provisions of Subsection (d) shall apply also to a non-cash payment and an entry into a book of accounts, either compulsorily or at the option of the person making said payment or entry.
- (f) The Governor may determine, in rules, provisions for the withdrawal from circulation of currency damaged through use or destroyed and for its replacement under conditions determined in the rules; rules regarding a fee for such replacement that the Bank shall charge therefor shall be determined with the approval of the Knesset Finance Committee.

### **46. Currency Services**

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

### **47. Rules for Regular Operation of the Currency System**

The Governor, per approval of the Council, may establish rules necessary for the orderly operation of the Currency system, including rules—

- (1) allowing the continual, orderly supply of currency of adequate quality;
- (2) requiring Banking Corporations and the Postal Company to take actions as shall be determined in the rules for the replacement of banknotes or coins in circulation so as to prevent or cease the use of counterfeit currency in circulation, to replace the aforesaid with new legal tender issued, or for other purpose related to the currency system, including assurance of the adequate quality of banknotes or coins.

**Chapter Eight: Banking Activities of the Bank of Israel**

**48. The Bank as the Government's Banker**

- (a) The Bank shall be the sole banker of the Government in its Banking Activity 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, per agreement between it and the Bank, obtain certain services from Banking Corporations or Financial Entities, provided this be done only in order to manage the Government's debt and fiscal activity.
- (c) Payments made by the Government to the Bank for services rendered to it under Subsection (a), the interest rate that the Bank shall pay the Government for its deposits at the Bank, and the interest rate that the Government shall pay the Bank for overdraft balances—shall be agreed upon by the Bank and the Government.
- (d) The Government's policy regarding receiving loans and issuing securities shall be determined in consultation with the Governor or with a person whom he authorizes for said purpose; said consultation shall be conducted at least once every quarter.
- (e) The administration of State Loans issued in Israel by the law enacted prior to the publication of this law shall be carried out by the Bank, if no other provision exists in a law regarding a specific loan.

**49. Loans to the Government**

- (a) The Bank shall not provide the Government with a loan to finance its expenditures, including via direct purchase of Government

## UNOFFICIAL TRANSLATION

bonds at point of issue.

- (b) The provision of Subsection (a) notwithstanding, the Bank may provide the Government, at its request, with a temporary advance to bridge a gap in the Government's cash flow in executing its budget, provided the total temporary advance shall not exceed, at any time, NIS 10 billion, and shall be for no longer than 150 days per year; this sum shall be updated on January 1 of each year starting January 1, 2013, based on the rate of change between the Consumer Price Index published in December of the year before the date of the adjustment and the Consumer Price Index published in December of the preceding year;—

### **50. Management of Accounts**

- (a) The Bank may manage accounts for Banking Corporations and other Financial Entities and, per decision of the Governor with approval of the Committee, for foreign central banks, monetary authorities, and banks, all of which under conditions that the Governor determines, including the charging of management fees or other fees.
- (b) An account with the Bank may be managed in either Israeli or foreign currency, as the Governor determines.

## **Chapter Nine: The Economy's Foreign Currency Activity**

### **51. Prohibition of Transactions**

- (a) The Government, per proposal of the Minister of Finance and in consultation with the Governor, may determine by order that transactions under Section 39(b)(1)–(5), in whole or in part, shall be prohibited.

## UNOFFICIAL TRANSLATION

- (b) The provision in Subsection (a) notwithstanding, the Minister of Finance, per consent of the Prime Minister 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 related to a class of matters, a specific matter, or a class of persons, and various definitions therein may differ from those determined under Section 39(c)(1).
- (d) An order under Subsection (a) and an order under Subsection (b) that has been ratified by the Government as aforesaid shall expire at the end of six months after it takes effect unless a shorter period is stipulated in the order; the Government, per proposal of the Minister of Finance and in consultation with the Governor, and with the approval of the Knesset Finance Committee, may extend the effect of the order for additional periods of six months each.

### **52. Supervisory Powers**

- (a) The Governor may authorize an employee of the Bank to supervise the fulfillment of the provisions of an order of the type described in Section 51 (in this Section—Supervisor), provided that all the following terms are met:
  - (1) The Israel Police states, no later than three months from the date on which it receives the employee's particulars, that they do not object to the authorization of said employee on grounds of public security, including grounds of criminal record;
  - (2) said employee received appropriate training as instructed by the Governor with the consent of the Minister of Internal Security;
  - (3) he meets additional terms of eligibility insofar as such are established by the Governor, per consent of the Minister of

## UNOFFICIAL TRANSLATION

### Internal Security.

- (b) To supervise the performance of the Order as per Section 51, the Supervisor may—
- (1) Demand that any person concerned identify himself by name and address and present him with an ID card or other official document that establishes his identity;
  - (2) Demand that any person concerned furnish him with any information or document that may assure or facilitate the performance of the provisions of an order under Section 51; in this Paragraph, the term “document” includes output as defined in the Computers Law, 5755-1995<sup>25</sup>;
  - (3) Enter any place that needs to be entered for the enforcement of an order under Section 51, provided that a place used as residence is entered only by court order.
- (c) A Supervisor shall not invoke the powers vested in him under this Section except for the discharge of his duties and unless he satisfies the following two conditions:
- (1) wearing, in a visible place on his person, a tag identifying him and his function;
  - (2) carrying a supervisor’s certificate that attests to his function and powers, which he shall produce upon request.

## **Chapter Ten: The Exchange Rate**

### **53. The Exchange Rate**

- (a) The rate of exchange of the currency into foreign currency shall be determined by the foreign currency market, unless the Government, in consultation with the Governor, determines another method.
- (b) If the Committee believes it necessary for the attainment of the Bank’s goals and the discharge of its duties, it may decide that the

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<sup>25</sup> Sefer Hahukim, 5755, p. 366.

## UNOFFICIAL TRANSLATION

Bank shall intervene in trading 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 40; immediately following this intervention, the Committee shall report it to the Minister of Finance.

- (c) If the Governor believes there is reason for intervention of the sort set forth in Subsection (b) and, due to the urgency of the matter, the Committee's approval cannot be obtained before the intervention, the Governor may intervene in trading and report his actions and the reasons for the urgency of the matter to the Committee and the Minister of Finance immediately after the intervention.
- (d) The provision of Subsection (b) notwithstanding, where the Committee believes the Bank should intervene in trading in the foreign currency market neither for administering the monetary policy nor to support the stability of the financial system, it may, per approval of the Minister of Finance, decide upon such intervention; however, if the approval of the Minister of Finance cannot be obtained before said intervention due to the urgency of the required action, the Committee may intervene in said trading and it shall report its actions and the reasons for the urgency of the matter to the Minister of Finance immediately afterwards.

### **Chapter Eleven: Reports to the Public**

#### **54. Annual Report about the State of the Economy**

Within three months of the end of each year, the Governor, in his capacity as advisor to the Government on economic matters as per Section 7(b), shall present the Government and the Knesset Finance Committee with a report that contains a survey and analysis of the state of the economy and the economic policy in the previous year.

#### **55. Periodic Report on Monetary Policy**

## UNOFFICIAL TRANSLATION

- (a) No less than twice annually, the Committee shall present the Government and the Knesset Finance Committee with a report containing a survey of developments in the field of price stability and economic developments in the time period covered by the report, and the policy that the Committee believes necessary for the maintenance of price stability within the range determined by the Government as per Section 3(b), and for the attainment of the other goals in Section 3.
- (b) If the inflation rate deviates, during six consecutive months, from the range determined by the Government as per Section 3(b), said periodic report shall include details about the reasons for the deviation, the policy that the Committee has adopted to readjust the inflation rate to the determined range, and the Committee's estimate of the period of time required for the attainment of this result; for this purpose, "deviation of the inflation rate" denotes the change between the Consumer Price Index most recently published before the date of the calculation and the index published for the year-earlier month.
- (c) The Knesset Finance Committee shall discuss the report presented under this Section, with the participation of the Governor, immediately after the report is presented; if a report as per Subsection (b) is submitted, the discussion shall take place with the participation of the Minister of Finance as well.

### **56. Annual Report about the Foreign Currency Reserves**

Within three months after the end of each year, the chair of the Committee shall present the Government and the Knesset Finance Committee with a report that shall include the principles by which the desired level of foreign currency reserves is determined over the long term and the guidelines by which the Bank's foreign currency reserve investment policy is determined.

### **57. Other Reports**

The Government and the Knesset Finance Committee may, at any time,

## UNOFFICIAL TRANSLATION

demand that the Bank present them with a report on any matter relating to the activities of the Bank in discharging its duties.

### **Chapter Twelve: Financial Sanctions**

#### **58. Financial Sanction**

- (a) If a person breaches any of the provisions of this Law as specified below, the Governor may impose a financial sanction under this Chapter in the sum of NIS 5 million:
  - (1) violation of a condition to grant credit or accept deposits under Section 36(4) or Section 36(5);
  - (2) failure to submit a report at the request of the Governor under Section 38(e) or presentation of an inaccurate or incomplete report;
  - (3) failure to terminate or limit the issue of credit, investments or distribution of profits in accordance with the Governor's directives under Section 38(g);
- (b) If a Banking Corporation is asked to hold liquid assets at a rate or in a composition that the Governor determines in liquidity directives under Section 38(b) and fails to do so, the Governor may impose upon said Corporation a financial sanction under the provisions of this Chapter, in the sum of two million NIS.
- (c) If a Financial Entity is asked to provide information under Section 39(a) and fails to do so, or if it provides information that is inaccurate or incomplete, the Governor may impose upon said Entity a financial sanction under the provisions of this Chapter, in the sum of 500,000 NIS.
- (d) If a person performs a transaction that is defined as prohibited under Section 51, the Governor may impose upon said person a financial sanction under the provisions of this Chapter, in the sum of 100,000 NIS; if said person is a corporation—in the sum of

## UNOFFICIAL TRANSLATION

750,000 NIS, and if said person is a Banking Corporation—in the sum of 1,500,000 NIS.

- (e) If a person is asked to provide information under Section 39(b) or (d) and fails to do so, or if he presents information that is inaccurate or incomplete, the Governor may impose upon said person a financial sanction under the provisions of this Chapter, in the sum of 50,000 NIS; if he is a corporation—in the sum of 100,000 NIS.

### **59. Notice of Intent to Impose Sanction**

- (a) If the Governor has reasonable grounds to assume that a person has violated any of the provisions of this Law as set forth in Section 58 (in this Chapter—the Violator) and intends to impose upon the Violator a financial sanction in the sum set forth in said Section, he shall serve the Violator with a notice of intent to impose a financial sanction upon him (in this Chapter—Notice of Intent to Impose Sanction).
- (b) In the Notice of Intent to Impose Sanction, the Governor shall note the following, *inter alia*,
  - (1) the action or inaction (in this chapter—the Action) that constitutes the violation;
  - (2) the sum of the financial sanction and the deadline for payment thereof;
  - (3) the Violator's right to present his arguments under the provisions of Section 60;
  - (4) the rate of the supplement to the financial sanction for a continuous or recurrent violation under the provisions of Section 62.

### **60. Rights to Present Arguments**

Once a violator is served with a Notice of Intent to Impose Sanction, he is entitled to present his arguments before the Governor, orally or in writing, as the Governor may decide, in respect of the intent to impose a financial

## UNOFFICIAL TRANSLATION

sanction upon him and in respect to its sum, within 30 days of the date on which said notice is served.

### **61. The Governor's Decision and the Demand for Payment**

- (a) The Governor shall decide, after weighing the arguments presented under the provisions of Section 60, whether to impose a financial sanction upon the Violator and may reduce the sum of the financial sanction under the provisions of Section 63.
- (b) If the Governor decides, under the provisions of Subsection (a), to impose a financial sanction upon the Violator, the Governor shall serve the Violator with a demand for payment of the financial sanction (hereinafter—Demand for Payment); in the Demand for Payment, the Governor shall note, *inter alia*, the adjusted sum of the financial sanction and the deadline for the payment thereof; if the Governor decides not to impose a financial sanction upon the Violator, he shall serve the Violator with notice to this effect.
- (c) If the Violator fails to present his arguments as per Section 60 within thirty days of being served with a Notice of Intent to Impose a Sanction, such notice, at the end of the said thirty days, shall constitute a Demand for Payment served on the Violator at the said time.

### **62. Continuous Violation and Recurrent Violation**

- (a) 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.

## UNOFFICIAL TRANSLATION

- (b) 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 Section 58, within two years of a previous violation of the provision due to which a financial sanction was imposed upon the Violator.

### **63. Reduced Sums**

- (a) The Governor may not impose a financial sanction in a sum smaller than that set forth in this Chapter except under the provisions of Subsection (b).
- (b) The Governor, in consultation with the Minister of Justice, may determine, in an Order, cases, circumstances, and considerations allowing the reduction of the financial sanctions established in this Chapter, and maximum rates of reduction.

### **64. Adjusted Sum of Financial Sanction**

- (a) The financial sanction shall accord with the adjusted sum on the date of serving of demand for payment and, in regard to a Violator who has not presented the Governor with his arguments as set forth in Section 61(c)—on the date of serving of Notice of Intent to Impose Financial Sanction; if a court appeal is submitted under Section 68 and the court allows a stay of payment of said financial sanction—the financial sanction shall be set at the adjusted sum on the day the appeal decision is rendered.
- (b) The Governor, per approval of the Knesset Finance Committee, may adjust the sums set forth in Sections 58 and 70; notice about the adjusted financial sanction sums shall be gazetted in *Reshumot*.

## UNOFFICIAL TRANSLATION

**65. Deadline for Payment of Financial Sanction**

A financial sanction shall be paid within thirty days of the day on which the demand for payment specified in Section 61 is served.

**66. Indexation Differentials and Interest**

If a financial sanction is not paid on time, it shall be increased on account of the period of arrears by indexation differentials and interest under the Interest and Indexation Ruling Law, 5721-1961 (in this Chapter—indexation differentials and interest) until it is paid.

**67. Collection**

A financial sanction shall be paid to the State Treasury and the Tax (Collection) Ordinance<sup>26</sup> shall apply thereto.

**68. Appeal**

- (a) A demand for the payment of a financial sanction may be appealed in Jerusalem Magistrate's Court within thirty days of the serving of the demand;
- (b) The filing of an appeal shall not delay the payment of a financial sanction unless the Governor assents thereto or if the court so orders;
- (c) 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 of the refund.

**69. Advertising**

If a financial sanction is imposed under the provisions of this Chapter, the Governor may advertise in a newspaper or in any other way the fact of the imposition of the financial sanction and its sum, the name of the Violator, the essence of the violation for which the financial sanction was imposed, and the circumstances of the violation, and the Governor may order the

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<sup>26</sup> Government Bills—485, Shvat 19, 5770, February 3, 2010.

## UNOFFICIAL TRANSLATION

Violator to make such advertisement.

### **70. Responsibilities of Chief Executive Officer to Prevent Violations**

- (a) The Chief Executive Officer of a Corporation is responsible for supervision and taking all reasonable measures for the prevention of violations under Section 56 by the Corporation or by any of its employees.
- (b) If the Corporation commits a violation of the sort described in Section 58, the Chief Executive Officer of the Corporation shall be presumed to be in breach of his duty under Subsection (a), unless he proves that he took all reasonable measures to discharge his obligation.
- (c) If the Chief Executive Officer is in breach of his supervisory duty under Subsection (a), the Governor may—
  - (1) impose upon him; a financial sanction in the sum of NIS 100,000 in accordance with the provisions of this Chapter;
  - (2) order the termination of service of the Chief Executive Officer of the Corporation that violated the provisions of Subsections 58(a) and (b); if the Financial Entity is supervised by a Supervisory Authority, the Governor may issue said order only after consulting with the head of the Supervisory Authority; the provisions of this Chapter shall apply in respect to the termination of service, *mutatis mutandis*.

### **71. Delegation of Powers**

The Governor may delegate his powers under this Chapter, with the exception of those under Section 70, to the Deputy Governor.

## **Chapter Thirteen: Criminal Penalties**

### **72. Criminal Penalties**

## UNOFFICIAL TRANSLATION

- (a) Any person who issues or circulates banknotes, coins, a document, or any other object that the Governor has determined that any of them may be used as a currency substitute in contravention of the provisions of Section 44, is liable to imprisonment for a term of five years.
- (b) Any person who commits any of the following is liable to imprisonment for a term of one year:
  - (1) performs a transaction which is defined as prohibited by an order under Section 51;
  - (2) Breaches the confidentiality duty in contravention of Section 80(a) or (c).

### **73. Responsibility of an Officer in a Corporation to Prevent Offenses**

- (a) An officer in a Corporation must supervise and do all that is possible to prevent offenses under Section 72(b)(1) by the Corporation or by any of its employees; any person violating this provision is liable to a fine in the sum of NIS 50,000.
- (b) Where an offense under Section 72(b)(1) is committed by a Corporation or by any of its employees, a presumption exists that the officer in the Corporation has breached his duty under Subsection (a), unless he proves he has done everything possible to fulfill his duty.
- (c) In this Section, the expression “officer in a Corporation” includes a director, an active executive in the Corporation, a partner, except for a limited partner, or another officer responsible on behalf of the Corporation for the area of activity in which the offense was committed.

## **Chapter Fourteen: Salaries of Bank Employees**

### **74. Salaries of Bank Employees**

## UNOFFICIAL TRANSLATION

- (a) Without derogating from the provisions of Sections 29, 29a, and 29b of the Foundations of the Budget Law, 5745-1985<sup>27</sup> (hereinafter—Foundations of the Budget Law), concerning changes in salaries and terms of service, examination of deviant agreements, and terms for the nullification thereof as set forth in said Sections, the following provisions shall also apply in respect of the Bank:
- (1) If the Minister of Finance has not made a decision concerning changes in salary, terms of retirement, pensions, or other work-related financial benefits as set forth in Section 29(a) of the Foundations of the Budget Law within sixty days of the day on which the Bank approaches him with a request for the approval of an agreement or an arrangement on such a topic, the request shall be presented to the Prime Minister for his decision; the Prime Minister shall present the Minister of Finance and the Governor with his decision about the request within forty-five days of the day on which the request is presented to him.
  - (2) If the Bank disputes decisions of the Minister of Finance under Sections 29, 29a, and 29b of the Foundations of the Budget Law, they shall be presented to the Prime Minister for resolution; the Prime Minister, after giving the parties to the agreement or the arrangement an opportunity to express their stance, shall present the Minister of Finance and the Governor with his decision on the matter within forty-five days of the day on which the dispute is presented to him/her.

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<sup>27</sup> Sefer Hahukim, 5745, p. 60.

## UNOFFICIAL TRANSLATION

- (3) If the dispute referenced in Paragraph (2) concerns a decision by the Minister of Finance to issue an instruction about the level of payment allowed under Section 29a(b)(2) of the Foundations of the Budget Law and the Prime Minister sustains the Minister of Finance's decision, the Prime Minister shall specify in his decision the period of time in which the Bank shall not make payments beyond the permissible payment.
- (4) If the Bank disputes decisions of the Minister of Finance under Section 29b of the Foundations of the Budget Law, it shall not begin to implement said decisions until the day on which the Prime Minister is required to resolve the dispute referenced in Paragraph (2) or by the day on which the Prime Minister has handed down his decision, whichever comes first.
- (5) In decisions of the Minister of Finance under Sections 29, 29a, and 29b of the Foundations of the Budget Law, and in decisions of the Prime Minister under the provisions of this Section, the Minister of Finance and the Prime Minister shall bear in mind, *inter alia*, the special needs of the Bank and labor relations at the Bank

### **Chapter Fifteen: Miscellaneous Provisions**

#### **75. 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 as at the last business day of the year, the outcomes of its operations in said year, and changes in its capital; said report shall be prepared in accordance with Generally Accepted Accounting Principles as adjusted to the

## UNOFFICIAL TRANSLATION

special activity of a central bank and shall be audited by the Accountant-Auditor.

- (b) Reports as set forth in this Section shall be approved by the Council, shall be submitted to the Government and to the Knesset Finance Committee, and shall be published in such manner as the Council determines.

### **76. Transfer of Profits**

- (a) In this Section—
  - “Annual Financial Report”—the annual financial report of the Bank, prepared in accordance with the provisions of Section 75(a);
  - “Capital”—the capital of the Bank at the end of the previous year, including surplus balances, as shown in the Annual Financial Report, less net profits;
  - “Total Assets”—the total of the Bank’s assets as at the end of the previous year, as shown in the Annual Financial Report;
  - “Surplus Balance”—the balance of accumulated profits and losses from previous years, as shown in the Annual Financial Report;
  - “Net Profits”—the net profits of the Bank as at the end of the previous year, as shown in the Annual Financial Report; Net Profits shall not include profits not yet realized as set forth in the Annual Financial Report;
- (b) At the end of three months from the end of each year, the Bank shall transfer, in fact, profits to the Government in accordance with the following instructions:
  - (1) If Capital is 2.5 percent or more of Total Assets, a sum equal to Net Profits, less the Surplus Balance if it is negative, shall be transferred to the Government.
  - (2) If Capital exceeds 1 percent of total assets but is less than 2.5 percent of total assets, a sum equal to 50 percent of net profits, less the Surplus Balance if it is negative, shall be transferred to the Government.

## UNOFFICIAL TRANSLATION

If Capital is 1 percent or less of Total Assets—profits shall not be transferred.

- (c) The Bank may record capital funds originating in accounting rules, provided the balance of net profits not transferred to the Government as set forth in Subsection (b) is added in the Annual Financial Report to the “Surplus Balance” line and is not recognized as some other capital item, unless the Governor and the Minister of Finance agree otherwise.

### **77. Audit by the State Comptroller**

- (a) The Bank is an Audited Body as this term is defined in Section 9(6) of 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(a), 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.

### **78. Payment of Fees to the Bank**

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

### **79. Exemption from Taxes**

Regarding payment of taxes, municipal property taxes, fees, and other

## UNOFFICIAL TRANSLATION

compulsory payments, the Bank is of the same status as the State.

### **80. Secrecy**

- (a) No person shall disclose information supplied or present a document submitted to him under this Law; however, he may do so if the Governor deems this necessary for the purpose of a criminal proceeding, including a criminal investigation.
- (b) The provisions of Subsection (a) notwithstanding, the Governor may disclose information or present a document to a Supervisory Authority, provided he is apprised that the information or document is requested for the discharge of the Supervisory Authority's duties.
- (c) No person shall disclose information supplied or present a document submitted to him under the provisions of Subsection (b).

### **81. Restrictions after Retirement**

The provisions of the Public Service (Restrictions after Retirement) Law, 5729-1969<sup>28</sup> (herein—the Public Service Law), shall apply to persons who retire from the Bank, including members of the Committee and the Council, *mutatis mutandis*; Section 3 of the said Law shall apply to the Governor, to the Deputy Governor, to an employee whom the Governor has appointed as a member of the Bank's management, and to an employee who, immediately prior to his retirement, was ranked at one of the top five grades of the Bank's employees.

### **82. Representing the State vis-à-vis International Financial Institutions**

- (a) The Bank shall represent the State in any matter relating to the membership of the State in the International Monetary Fund, the

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<sup>28</sup> Sefer Hahukim 5729, p. \_\_\_\_\_

## UNOFFICIAL TRANSLATION

Bank for International Settlements, the International Bank for Reconstruction and Development, and any other international financial institution per decision of the Government.

- (b) The Bank may perform any act required for the purpose of said representation, including investing in shares of an international financial institution.

### **83. Bills of Exchange Ordinance**

For the purpose of the Bills of Exchange Ordinance,<sup>29</sup> the Bank shall be deemed to be a banker as said term is defined in said Ordinance.

### **84. 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 said fact so long as the contrary is not proved.

### **85. Implementation**

The Government is charged with the implementation of this Law.

### **86. Amendment to the Banking Ordinance**

In the Banking Ordinance, 1941<sup>30</sup>—

- (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 37 of the Bank of Israel Law, 5770-2010.”
- (2) In the initial portion of Section 8D(a), the words “per approval of the Government” shall be replaced by “per approval of the Committee as defined in the Bank of Israel Law, 5770-2010”;
- (3) In Section 14I(b), the words "at rates that he shall determine" shall be replaced by "and at maximum rates of reduction";

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<sup>30</sup> I.R. 1941, Supp. 1, p. 69(p), 85(a); Sefer Hahukim 5765, p\_\_

## UNOFFICIAL TRANSLATION

(4) In Section 15(A2)(a), “to show a document,” shall be followed by the expression “to an employee of the Bank of Israel for the discharge of his duties”.

**87. Amendment to the Securities Law**

In Section 1 of the Securities Law, in the definition of “securities,” the expression “in the possession of the Government,” shall be followed by the expression “or in the possession of the Bank of Israel”.

**88. Amendment to the Government Companies Law**

In the Government Companies Law, 5735-1975,<sup>31</sup> in the Second Appendix, instead of Item 18, the following shall appear:

“18. The Monetary Committee and the Administrative Council—under the Bank of Israel Law, 5770-2010.”

**89. Amendment to the Banking (Licensing) Law, 5741–1981**

In the Banking (Licensing) Law, 5741–1981,<sup>32</sup> in Section 50B(c), the words "at rates that he shall determine" shall be replaced by "and at maximum rates of reduction".

**90. Amendment to the Banking (Service to Customer) Law, 5741–1981**

In the Banking (Service to Customer) Law, 5741–1981, in Section 11A(e) the words "at rates that he shall determine" shall be replaced by "and at maximum rates of reduction".

**91. Amendment to the Control of Financial Services (Insurance) Law**

In Section 50b(a) of the Control of Financial Services (Insurance) Law, 5741-1981,<sup>33</sup> the expression “within its meaning in Section 2 of the Securities Law, 5728-1968,” shall be followed by the expression “to the

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<sup>31</sup> Sefer Hahukim 5735, p. 132; 5769, p. 169.

<sup>32</sup>

<sup>33</sup> Sefer Hahukim 5741, p. 208, Sefer Hahukim 5768, p. 165

## UNOFFICIAL TRANSLATION

Bank of Israel.”

**92. Amendment to the Short Term Loan Law**

In Section 6 of the Short Term Loan Law, 5744-1984,<sup>34</sup> the ending that begins with the expression “for the increase or decrease of the means of payment” shall be replaced by the expression “in order to attain the goals of the Bank of Israel and to discharge its duties as set forth in Sections 3 and 4 of the Bank of Israel Law, 5770-2010.”

**93. Amendment to the Internal Audit Law**

In Section 12(a) of the Internal Audit Law, 5752-1992<sup>35</sup>:

(1) In Section 1, at the end of the definition of a “public entity”, the following shall appear:

“(6) the Bank of Israel”;

(2) In Section 12(a), Paragraph (2) shall be deleted.

**94. Amendment to the Payment Systems Law**

In Section 16(c) of the Payment Systems Law, 5768-2008,<sup>36</sup> the word “realization” shall be deleted, and the expression “Section 44A of the Bank of Israel Law, 5714-1954” shall be replaced by the expression “Section 37 of the Bank of Israel Law, 5770-2010.”

**95. Repeal of Statutes**

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<sup>34</sup> Sefer Hahukim 5744, p. 69.

<sup>35</sup> Sefer Hahukim 5752, p. 198; 5758, p. 73.

<sup>36</sup> Sefer Hahukim, 5768, p. 184.

## UNOFFICIAL TRANSLATION

- (a) The Bank of Israel Law, 5714-1954,<sup>37</sup> is repealed.
- (b) The Currency Control Law, 5738-1978,<sup>38</sup> is repealed.

### **96. Commencement**

This Law shall commence on Sivan 19, 5770 (June 1, 2010) (hereinafter—the Commencement Date).

### **97. Transitional Provisions**

- (a) The Governor who was serving before the Commencement Date shall continue to serve in this post until the end of his term of service.
- (b) The Deputy Governor who was serving before the Commencement Date shall continue to serve in this post until the end of five years from the day on which he began to serve, subject to the provisions at the end of Section 10(b).
- (c) The salary and pension terms determined for the Governor and the Deputy Governor before the commencement of this Law shall remain in effect after the commencement regarding the Governor and the Deputy Governor who were appointed before the commencement of the Law.
- (d) The members of the Committee appointed from amongst the public for the first time shall be appointed to the following terms: one shall be appointed for two years, one for three years, and one for four years. The member who is appointed for two years shall not count this term as a term of service for the purposes of Section 28(a).
- (e) The members of the Council appointed from amongst the public for the first time shall be appointed to the following terms: one shall be appointed for one year, two shall be appointed for two

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<sup>37</sup> Sefer Hahukim 5714, p. 192.

<sup>38</sup> Sefer Hahukim 5738, p. 108.

## UNOFFICIAL TRANSLATION

years, one shall be appointed for three years, and one shall be appointed for four years. Members who are appointed for one year or two years shall not count this term as a term of service for the purposes of Section 28(a).

- (f) Where no Committee or Council is appointed, the powers vested in this Law in the Committee or the Council, as the case may be, shall be vested in the Governor until the appointment of either as aforesaid.
- (g) The arrangements between the Bank and the Government, which were customary before the commencement of this Law, shall continue to apply in respect of the payments and interest rates set forth in Section 48(c), until agreed otherwise.