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## Recent developments in Israeli cryptocurrency arena

### Yigal Arnon - Tadmor Levy | Banking & Financial Services - Israel

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#### Tel Aviv Stock Exchange singles out cryptocurrency activities

At the end of October 2022, the Tel Aviv Stock Exchange (TASE) published its strategic plan for the years 2023-2027. The plan includes four strategic targets, one of which is to provide access to cryptocurrency activities and to establish a blockchain-based platform for digital assets.

The TASE intends to follow other leading stock exchanges in the world and to commence the implementation of novel technologies, including distributed ledger technology (DLT), as well as the tokenisation of assets and utilisation of smart contracts. The strategic plan specifies several possible courses of actions regarding the operation of the blockchain-based platform, including the issuance, trading and clearance on the platform of digital debentures issued by the State of Israel, as well as other digital assets, such as non-fungible tokens (NFTs) and utility tokens.

While the strategic plan leaves open the questions of what will be the structure of the platform and the mode of its distribution, the plan specifies the TASE's intention to maintain a separation between the blockchain based platform and the TASE's core systems. The TASE indicates that it will consider offering separate or combined high value services to market players, including traders and custodians, in reliance on the TASE's reputation and its highly secured infrastructures, as well as based on the current regulatory framework. The TASE identifies the major challenges that it will face on the route to accomplishing this strategic target, including high costs of establishment and adjustment of the new system, regulatory uncertainties and potential competition expected from local and global industry players.

To accomplish this target and other targets included in the strategic plan, the TASE intends to promote a change in its corporate structure and consider corporate structure models adopted by leading stock exchanges in the world.

#### Bank Leumi announces imminent cryptocurrency activities

Almost during the same week of the TASE announcement, Bank Leumi, one of the two largest Israeli banks, announced that it has obtained the approval of the Bank of Israel to offer services to the bank's clients buying and selling virtual currencies, although at this stage only in the form of Bitcoin and Ethereum. The transactions in these virtual currencies will be made through a designated app that the bank intends to launch soon.

However, this initiative by Bank Leumi is facing legal challenges. Several days after the bank's announcement, a petition against it and the Bank of Israel was filed with the High Court of Justice by the Israeli Bitcoin Association together with Bits of Gold, a leading Israeli provider of cryptocurrency trading services. The main argument in the petition is that cryptocurrency trading services is a field of business that is not included in the closed list of fields of business in which Israeli banks are permitted to engage under the applicable law.

#### New Bank of Israel draft directive for Israeli banks wanting to offer cryptocurrency services

On 7 November 2022, the Bank of Israel published a new draft directive for public comments. Under the draft directive, Israeli banks wishing to commence providing cryptocurrency services to their clients are required to undertake full risk assessment procedures to analyse the risks associated with the proposed services and adjust the features of the services accordingly, including in connection with consumer protection aspects. The bank will be required to demonstrate to the Bank of Israel its ability to undertake the activities in a secure and sound manner in accordance with the Bank of Israel's directives and the applicable law.

#### New Bank of Israel directive regarding cryptocurrency risks

On 9 November 2022, the Bank of Israel directive that was adopted in May 2022 came into force. This new directive regulates how Israeli banks should deal with money laundering and terrorism risks that may be associated with their clients' cryptocurrency activities. It was adopted following the increase in the scope of cryptocurrency activities in Israel, and the difficulties experienced by clients to manage these activities with their Israeli banks, namely, to transfer funds into or from the bank when such funds derive from cryptocurrency activities.

Under the new directive, Israeli banks will not be able to refuse to accept funds deriving from cryptocurrency activities simply due to the fact that cryptocurrency is involved. Banks will have to properly manage the various risks and take into account, among other things, whether the transaction was conducted through properly licensed service providers.

For context, it should be noted that the regulator granted the first two licences to the first two Israeli cryptocurrency service providers only in September 2022.

#### Comment

These recent developments are part of the continuing trend observed in the Israeli market during the past several years of a gradual adoption of blockchain-associated technologies and applications by various Israeli market players, including institutional players and the regulators.



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