

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

Press release

July 22, 2024

**The Bank of Israel welcomes approval of the memorandum on the Securitization Law by the Ministerial Committee on Legislation**

The Bank of Israel welcomes yesterday’s approval of the memorandum on the Securitization Law by the Ministerial Committee on Legislation. This is a significant step in advancing and enhancing the Israeli financial system, which has been promoted by the Bank of Israel and the country’s financial regulators for more than two decades. Securitization is a financial process in which illiquid assets such as loans or debts are converted into tradable securities. This process enables financial firms to release capital and to raise financing more efficiently.

Bank of Israel Governor Prof. Amir Yaron stated that, “Approval of the Securitization Law Memorandum is a significant step in the development and streamlining of the Israeli financial system. Securitization, which is a common tool in many advanced economies, is expected to contribute to increased competition, expanded sources of funding in the economy, and lower credit costs. Moreover, it will enable the more efficient diversification of risks in the economy, and will help develop the nonbank credit market.

“It is important to note that the law was formulated with the lessons from global financial crises in mind, and that it emphasizes the importance of proper risk management and appropriate regulation. The Bank of Israel will continue working to promote and develop the financial system, while protecting its stability and the public interest. The Bank of Israel will continue guiding the legislative process, and will work to ensure the optimal implementation of the law to benefit the Israeli economy and public.”

The Bank of Israel was a main participant in advancing the law, in close cooperation with the Ministry of Justice, the Ministry of Finance, the Israel Tax Authority, the Israel Securities Authority, and the Capital Market, Insurance and Savings Authority. The Bank contributed its knowledge and professional experience in the financial sphere, with an emphasis on maintaining financial stability and the adoption of stringent international standards.

During the formulation of the legislative memorandum, the professional team held hundreds of hours of meetings with professionals in Israel and abroad, with the aim of learning from the experience of other countries, understanding the existing challenges and solutions in the global securitization market, and adapting the law to the unique needs of the Israeli economy.

The new law is expected to bring a number of significant advantages to the Israeli financial system:

* **Increased competition:** Securitization will enable additional financial firms to enter the credit market, which will increase competition and lead to lower credit costs for consumers and businesses. Nonbank entities will be able to use securitization in order to raise additional funding sources and expand their operations, which will provide additional alternatives to credit consumers and create competitive pressure on the banks to lower credit costs.
* **Streamlining financial intermediation:** Securitization will enable the more efficient management of risks and liquidity in the financial system. Through securitization, financial institutions will be able to transfer some of their risk to investors who are interested in taking it on, thereby improving their risk management. In addition, securitization makes it possible to turn illiquid assets (such as long-term loans) into more liquid assets, which will improve liquidity management in the system.
* **Development of the capital market:** The law will contribute to deepening the Israeli capital market, and will provide institutional investors with new investment channels. Asset backed bonds provide investors with additional diversification options in their portfolios, with various risk-reward profiles. This can help increase the supply of financial instruments in the Israeli security market, and increase its depth and liquidity.
* **Support for SMEs:** Securitization will make it possible to clear capital in the banking system, which can then be allocated to financing for small and medium businesses. In addition, it will be possible to securitize loan portfolios from such businesses, which could lead to lower credit costs for them. Nonbank entities will be able to specialize in providing credit to small and medium businesses and to lower the cost of their funding sources through securitization, as is common in many other countries.
* **Adaptation to international standards:** The law will put Israel in line with many other developed economies, where securitization is a common financial tool. This adaptation to international standards will enable Israeli financial institutions to operate more easily in the global arena, using advanced financial tools that are common around the world. This could contribute to improved efficiency and competitiveness in the Israeli financial system by international comparison.
* **Improved efficiency in the allocation of capital:** Securitization makes it possible to separate the creation of credit from its financing. Thus, entities that have a relative advantage in creating credit (such as banks) will be able to focus on that, while entities that have a relative advantage in raising long-term capital (such as institutional investors) will be able to finance that credit. This leads to a more efficient allocation of capital in the economy.