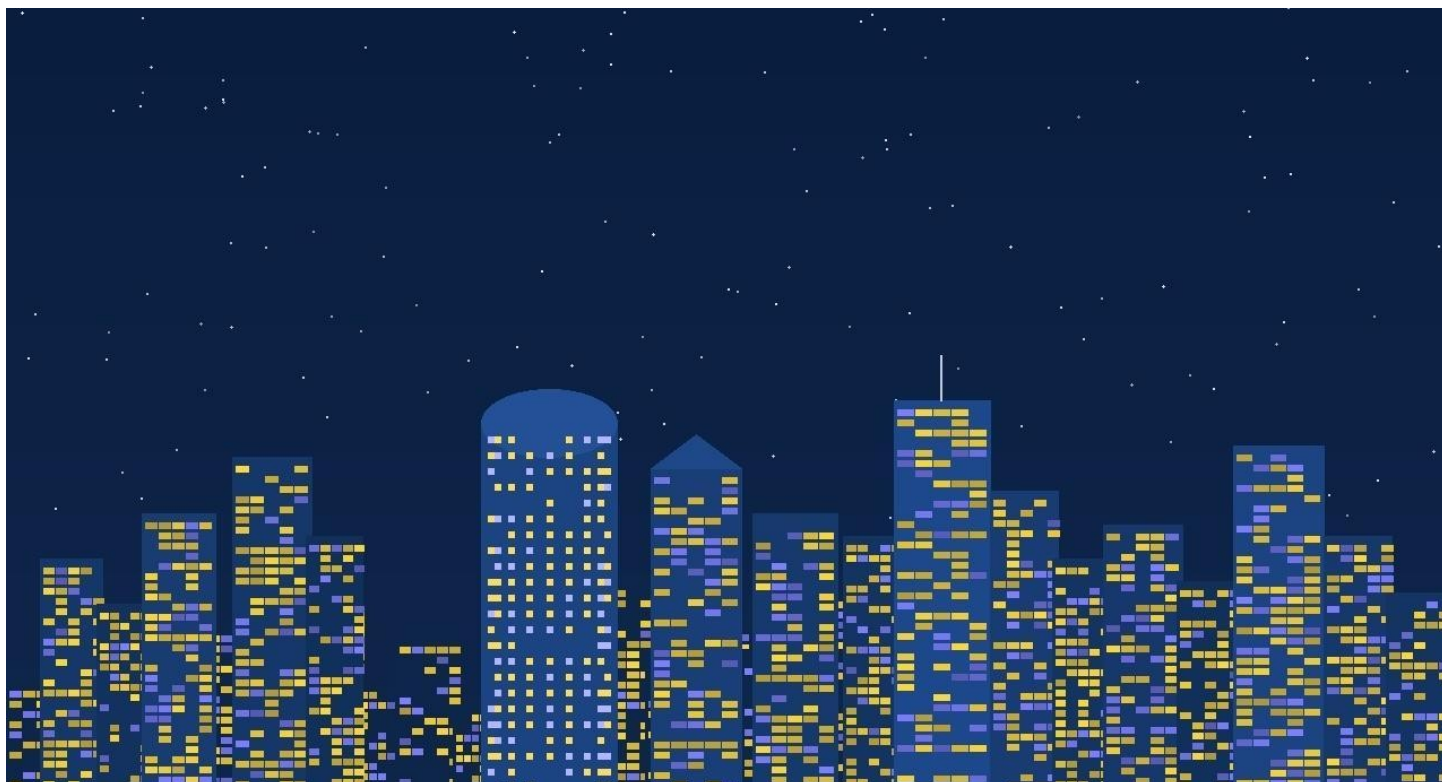


Financial Innovations Lab Policy Brief

(Re)Inventing Israel's Capital Markets:

A Decade of Impact and an Unfinished Agenda

The Case for a New Financial Innovations Lab



Executive Summary

The March 2014 Milken Institute Financial Innovations Lab diagnosed a liquidity crisis on the Tel Aviv Stock Exchange and proposed 15 prioritized financial and regulatory reforms organized into three solution sets: **Think Globally, Increase Volume and Value**, and **Create a New Technology Platform (TASE 2.0)**.

Over the following decade (2014–2026), a remarkable number of these recommendations were adopted—in whole or adapted form—by the Israel Securities Authority (ISA), the Capital Market Insurance and Savings Authority (CMISA) (now the Israel Capital Markets Authority), the Bank of Israel, the Israel Innovation Authority (IIA), and the Ministry of Economy, often through multi-agency collaboration.

Of the 15 distinct recommendations, at least 10 have been substantially enacted, two are in advanced legislative stages, and the remainder have been partially addressed through adjacent reforms. However, the most structurally ambitious proposals—Business Development Corporations, traded late-stage venture funds, and CLO markets—proved harder to transplant than anticipated, and the vehicles that were attempted (government-backed high-tech mutual funds and R&D limited partnerships) yielded mixed-to-poor results. This paper maps the full arc from recommendation to implementation, identifies the remaining gaps, and proposes a summary agenda for a new Financial Innovations Lab.

Israel's capital markets (public and private) generated over \$111 billion in capital deals in 2025—nearly four times the previous year and surpassing the 2021 record—yet its contribution to GDP has been flat for two consecutive years. This paradox defines the central challenge: can Israel convert its extraordinary innovation capacity into broad-based economic growth, or will its tech economy narrow further around a handful of mega-companies, eroding the broader ecosystem on which sustained and inclusive growth depends?

Part I: The Lab's Diagnosis (2013-2014)

By 2013, Israel's capital markets faced a convergence of structural problems. Average daily trading volume on TASE had fallen over 50% from 2008 to 2012 (from NIS 2 billion to ~NIS 800 million), TASE liquidity ranked 31st globally, and the IPO market had collapsed—95% of startups were sold via M&A to foreign entities. Late-stage financing was virtually absent (only 20% of VC capital versus 52% in the U.S.), forcing premature exits and expatriating intellectual property.

The Lab convened global leaders in finance and technology—including Prof. Shmuel Hauser and Ornit Kravitz of the ISA, Prof. Eugene Kandel and Morris Dorfman of the National Economic Council, and leading figures from State Street, Canyon Partners, Liquidnet, and BlueStar Global Investors—and produced 15 prioritized recommendations across three solution sets. The concurrent ISA Committee to Promote Investment in Public Companies Engaged in R&D (the "Hauser Committee"), which shared several participants, published complementary recommendations in June 2013.

Part II: Solution Set 1 – Think Globally

English-Language Reporting

Lab Recommendation: Require firms to issue annual reports in English to increase transparency and accessibility to foreign investors.

Outcome: In October 2020, the Knesset Finance Committee approved Securities Regulations (Reporting in English) 5781-2020, allowing TASE-listed companies to submit reports exclusively in English. ISA Chairperson Anat Guetta called it "a simple revision that generates a significant change... an important step in opening up the stock market to international investors." The ISA further urged companies to publish CSR/ESG reports in English to meet demands from international investors and global rating agencies.

IFRS Compliance

Lab Recommendation: Comply with FASB and IFRS accounting standards.

Outcome: Israel had already mandated IFRS for all listed companies starting January 1, 2008, with dual-listed companies permitted to use US GAAP. This pre-existing foundation aligned with the Lab's intent, and ongoing refinements toward IXBRL tagging have continued to enhance comparability for international investors. The key remaining work, if the policy goal is easier two-way listings (including with regional MENA markets), lies in regulatory recognition and market-access arrangements like the US dual-listing regime, not in further IFRS compliance.

U.S.-Listed ETFs and Global Benchmarks

Lab Recommendation: Create exchange-traded funds based on the BlueStar Israel Global Index (BIGI) to correct the dramatic under-representation of Israeli technology companies in existing benchmarks. There's been growing evidence that ETFs can facilitate access and trading in otherwise hard-to-reach and illiquid markets. ETF and related product innovation can open up access to niche sectors and regional segments that have limited fund coverage, but they don't resolve primary-capital market deepening.

Outcome: The VanEck Israel ETF (ISRA), launched on the NYSE in June 2013 using the BIGI benchmark, has grown to approximately \$140 million in net assets. The Amplify BlueStar Israel Technology ETF (ITEQ), tracking the BlueStar Israel Global Technology Index (BIGTech), provides dedicated global exposure to Israel's tech sector irrespective of listing venue. These products directly fulfilled the Lab's vision of pooled investment vehicles that correct for free float, concentrated ownership, and complex cross-holdings. It also included Israeli firms market capitalization that had been delisted from the TASE or never appeared there. There are still steps that could be taken to signal stability and long-term support for capital market development as political and governance risk perceptions remain a non-trivial deterrent to both relistings and foreign portfolio inflows.

Pre-IPO Institutional Pools (Recommendation 8)

Lab Recommendation: Build a "technology bridge" to institutional investors for pre-IPO companies through a non-exchange-traded, private-

shares market—providing a longer runway before IPO, an institutional stamp of approval, and access to largely passive investors.

Outcome — TASE UP: In March 2021, TASE launched TASE UP, a platform for private companies to access capital from institutional and qualified investors without publishing a prospectus or becoming subject to public company reporting requirements. The first company to list was Veev, a property technology firm that raised approximately \$100 million from leading Israeli institutions.

Key design features mirror the Lab's specifications: no prospectus or ongoing disclosure obligations; ISIN numbers and TASE clearing infrastructure; participation limited to institutional and qualified investors; and the ability to issue equity, corporate bonds, and convertible instruments. Foreign investors are exempt from withholding taxes on interest payments.

Assessment: TASE UP is a meaningful but partial realization of the Lab's concept. Lab participants envisioned something closer to a U.S.-style private liquidity pools and Alternative Trading systems—a non-exchange platform for discreet, large-block trading of pre-IPO shares with active price discovery among sophisticated investors. TASE UP is more accurately described as a private placement listing platform that provides infrastructure (clearing, ISIN, trading) rather than active price discovery. Its scale remains modest relative to the Lab's ambitions, but it has established the regulatory and technological bridge between private and public markets that the Lab initiated. Since the Lab, secondary markets for VC and PE have become a core liquidity and portfolio-management tool, with rapid innovation around GP-led structures, structured equity and IP/R&D-back financing especially in tech. These need to be further explored to retain value creation.

Part III: Solution Set 2 — Increase Volume and Value

Traded Late-Stage Venture Funds and BDCs (Recommendations 9-10)

Lab Recommendation: Create three interrelated vehicles: (a) Traded Late-Stage Venture Funds (TLVFs)—closed-end mutual funds investing the majority of capital in listed tech securities and a "significant minority" (20-30%) in substantial equity stakes in late-stage unlisted tech companies (\$30M-\$200M market cap); (b) Business Development Corporations (BDCs)

and Venture Capital Trusts (VCT)—regulated, closed-end investment funds modeled on the U.S. framework (1940 Investment Company Act, Sections 54–65) that invest exclusively in startups and small businesses; and (c) Collateralized Loan Obligations (CLOs)—sector-specific structured vehicles pooling loans to technology companies. ISA Chairman Hauser credited the Lab and the associated work by Milken Fellows, Natan Hemmindinger, Asaf Hovav, Anat Arbel-Shamir, Maya Haran-Rozen, and related fellows applied research on specific measure of that transformation.

The Hauser Committee and 2016 Regulations

The ISA Committee (the "Hauser Committee") recommended in June 2013 that TASE-traded venture capital funds be enabled under a closed-end mutual fund model, with up to 30% of capital in privately held Israeli high-tech companies and 70% in listed tech. This recommendation was enacted in August 2016, when the Knesset Finance Committee approved regulations for high-tech closed-end mutual funds.

The Government-Backed High-Tech Fund Tender (2017-2018)

In July 2017, the Ministry of Finance Accountant General and the ISA published a tender for four fund managers, each required to raise a minimum of NIS 400 million (NIS 1.6 billion total). The state offered downside protection through guarantees against investor losses and credit guarantees.

Result: Largely a failure. Of five competing groups—IBI Investment House, Ayalon Mutual Funds/Halman Aldubi, Alumot Investment House, Kesem Excellence, and Eucalyptus (Tamir Fishman)—only IBI met the minimum, raising NIS 403 million. IBI had to slash its management fee from 2% to 1.3% and restructure its success fee just to attract investors.

After listing, TASE initially reversed its decision to include the IBI 5D Tech Fund in the TA-Tech Elite Index because the fund was invested mostly in treasury bills, government bonds, and cash—not technology companies. This situation persisted for at least six months.

Why the model failed:

1. Insufficient investor appetite: The hybrid VC/mutual fund concept was unfamiliar to Israeli institutional investors. Unlike U.S. BDCs, which have decades of regulatory and market infrastructure, these were novel products with no track record.

2. Management fee compression: Fund managers could not sustain traditional 2% management fees, undermining their ability to attract talent and conduct due diligence.

3. Cold-start deployment problem: The circular problem—fund needs tech investments to qualify for tech indexes but needs index inclusion to attract capital.

4. Absence of BDC regulatory framework: Israel has no equivalent to the U.S. Investment Company Act's BDC provisions, which provide a tailored regulatory structure for publicly traded private equity funds with reduced asset coverage requirements and special compensation rules.

5. No securitization market: The CLO component was impossible without a functioning securitization framework, which Israel still largely lacks.

Status: The IBI 5D Tech Fund (IBITEC.F) continues to trade on TASE with a market cap of approximately NIS 439 million. It has made some successful private investments—notably in algorithmic trading firm Solidus—but remains the sole product of its kind. The government's goal of deploying NIS 1.6 billion through this channel was only one-quarter achieved, even though the demand for capital allocation to the Tech sectors remains unmet while its role in accelerating sustained growth is widely documented.

There is still considerable work to do to fully enable publicly traded private equity—publicly accessible private-capital vehicles that can democratize access and build stronger price discovery for late-stage tech opportunities.

R&D Limited Partnerships (Recommendation 6)

Lab Recommendation: Enable tax-advantaged R&D limited partnerships that allow Israeli companies and foreign partners to co-invest in R&D without triggering immediate tax consequences, modeled on similar structures in Canada, France, and the U.K.

Outcome: The R&D Limited Partnership framework was enacted in 2016 and has grown into a significant tool. By the end of 2024, approximately 40 partnerships had been formed, with total capitalization of approximately NIS 5 billion, attracting foreign and domestic institutional investors. The structure allows Israeli tech firms to raise capital for R&D initiatives while giving foreign investors defined exposure and tax-efficient participation.

Selected R&D Limited Partnerships

Partnership	Sector	IPO Size	Date
TechFlow Partners I	Cybersecurity	\$180M	2016
BioVentures Israel	Biotech/Medtech	\$240M	2017
AI Collective Fund	Artificial Intelligence	\$160M	2018
GreenTech Israel	Cleantech	\$125M	2019
Digital Innovation Pool	SaaS/Software	\$200M	2020

**Securitization and Collateralized Loan Obligations
(Recommendation 11)**

Lab Recommendation: Establish a regulatory and market infrastructure for securitization, including CLOs focused on technology company loans and receivables.

Securitization in Israel has faced regulatory headwinds. The ISA has maintained strict rules on asset-backed securities, originally designed to prevent mortgage-backed security contagion following 2008, but the regulations have had the unintended consequence of preventing Israeli banks and non-bank lenders from bundling technology company loans into tradeable securities. This has constrained the working capital and growth-stage lending market.

Securitization Milestones in Israel

Milestone	Date	Status
ISA Securitization Guidelines v1	2016	Issued
First Tech Loan Pooling Initiative	2018	Attempted, Limited Uptake
Highrise Israel Bond Fund (mini-CLO)	2022	Launched, \$35M AUM
ISA Securitization Reform Proposal	2024	In Legislative Review

Proposed Harmonization with EU Framework	2025-2026	Under Discussion
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Status: Securitization of tech loans remains minimal. One small CLO was issued in 2022 (Highrise Israel Bond Fund), but it was a one-off product targeting fixed-income retail investors rather than a genuine market infrastructure. A functioning CLO market would require regulatory harmonization with EU and U.S. standards, ISA willingness to establish a regime of standardized underwriting for tech company loans, and development of rating agencies or third-party valuation infrastructure capable of pricing Israel-specific tech credit risk. This remains the largest unfinished business from the 2014 Lab.

Yozma 2.0 and VC Tax Reform (Recommendation 7)

Lab Recommendation: Modernize the tax treatment of VC investments to encourage institutional and foreign participation, drawing on lessons from the original Yozma program (1993-2005) but with updated structures for global LPs.

The original Yozma program, launched in 1993, seeded 10 Israeli venture funds with government co-investment and tax incentives, and is widely credited with catalyzing Israel's venture ecosystem. The Lab proposed updating this model with modernized incentives for institutional participation.

Reform has been incremental. The Israel Innovation Authority has expanded government co-investment programs, and the ISA has clarified tax treatment of carried interest and fund structures. However, there is no comprehensive Yozma 2.0 legislation. Instead, improvements have come through targeted programs: the Authority's direct investment in later-stage funds, TASE's support for venture fund listings, and informal tax guidance from the Israel Tax Authority.

Part IV: Solution Set 3 – TASE 2.0

TASE Demutualization (Enacted 2019)

Lab Recommendation: Demutualize TASE (convert from member-owned cooperative to for-profit exchange) to align incentives, enable external capital, and modernize governance.

Outcome: TASE completed demutualization and self-listed in August 2019, raising \$200 million from anchor investors including the Sonnerberg Foundation. This transformed TASE's governance model and unlocked capital for platform modernization. The exchange can now retain earnings for product development and technology upgrades, rather than distributing to member firms.

Before Demutualization

Dimension	Pre-demutualization	Post-demutualization
Ownership Structure	Member-owned cooperative	Public for-profit corporation
Governance	Member assembly, limited capital access	Board of directors, external investors
Technology Reinvestment	Minimal; earnings distributed to members	Aggressive; upgrades to trading systems, indices, tools
Strategic Decisions	Consensus-driven, slow	Market-driven, faster iterations
Conflicts of Interest	Members benefit from trading, not market depth	Shareholders benefit from trading volume growth

Technology Indexes and the TA-Tech Index

Lab Recommendation: Create technology-sector indexes to improve price discovery and direct capital to fast-growing firms.

Outcome: TASE launched the TA-Tech Elite Index in 2017 and, in February 2026, expanded the TA-Technology 35 Index to include the 35 largest

technology shares, providing focused benchmarking for global tech investors and domestic portfolio managers.

Anti-Concentration Measures (Pyramid Dismantling)

Lab Recommendation: Break up pyramid ownership structures that concentrate economic power, reduce transparency, create conflicts of interest, and impede price discovery.

Israel's Anti-Concentration (Competition) Law, enacted December 2013, mandated the dismantling of pyramid structures. The OECD's 2025 Economic Survey notes that Israel's comparative price level is among the highest in the OECD despite GDP per capita below the OECD average, which is consistent with relatively weak competition in many sheltered sectors.

These measures have been quite effective in separating concentrated business financial groups from the real economy, but only partly effective in loosening broader market and sectoral concentration, where significant power still sits with a few players. Subsequent overviews note that while ownership pyramids have been dismantled and conflicts of interest reduced, many key sectors (food retail, energy, telecom, banking) remain concentrated, so competition gains for consumers have been uneven and often require complementary, sector-specific regulation. On broader goals—cheaper prices, more dynamic entry, and fully dispersed economic power—they are a strong but incomplete step that still needs reinforcement through competition policy, capital-market depth, and continued vigilance against new concentration patterns forming via different structures through informal alliances that reduce competition.

Market-Making Reform

Lab Recommendation: Increase liquidity through new trading infrastructure.

Outcome: TASE launched a comprehensive market-making reform in 2024–2025, investing NIS 6 million per year. For the first time, all TA-90 shares have dedicated market makers, with minimum quote sizes increased by over 300% and spreads reduced by over 80%. A Trading At Last (TAL) phase was introduced in July 2025 to further improve price discovery. Market making can only do so much if the underlying investor base remains narrow and dominated by a few domestic institutions; complementary reforms to

encourage retail participation, foreign intermediaries, and more diverse liquidity providers would amplify the effect.

Global Trading Day Alignment

Lab Recommendation: Align TASE with international markets.

Outcome: Effective January 5, 2026, TASE shifted from Sunday–Thursday to Monday–Friday trading, coordinated by the ISA, TASE, and Bank of Israel. The 2014 Liquidity Committee, formed by the ISA and Ministry of Finance in direct response to the Lab's concerns, originally recommended examining this alignment. Trading runs Monday–Thursday until 5:35 PM; Friday sessions end at 2:00 PM to accommodate the Sabbath.

NYSE-TASE Partnership and Beyond

Lab Recommendation: Pursue global exchange partnerships and cross-listing.

Outcome: In April 2024, NYSE and TASE signed a Memorandum of Understanding for collaboration on dual listing, ETFs, indexes, data, and ESG. More expansively, SEC Chair Paul Atkins and the Israel Securities Authority have been exploring since January 2026 the process of advancing a mutual recognition mechanism for securities registration, modeled on systems like the Multi-Jurisdictional Disclosure System (MJDS). The idea under consideration is to allow Israeli companies listed in Tel Aviv to register in the U.S. with reduced duplication to accelerated dual listings and cross-border offering. Until a specific US-Israel instrument is adopted, Israeli issuers must still use the existing SEC foreign-issuer routes (e.g., Form F-1/F-3, 20-F reporting), with only limited unilateral relief based on ISA recognition of foreign regimes and the TASE dual-listing framework.

It would be important as Abraham Accords accelerate after the current war in conjunction with additional connectivity between previously siloed markets, to consider a MJDS-lite model to create an institutional platform to host capital market initiatives to encourage regional cross-listing, mutual trading access, trade and investment integration. Interactive capital market hubs could increase portfolio flows into the region around risk-adjusted projects avoiding the higher transactions of bespoke structures for each market. This process should be explored and developed amongst all regional partners.

ISA-IIA Fintech Data Sandbox

In 2020, the ISA and IIA jointly launched the Data Sandbox program, providing fintech startups with access to ISA and TASE databases to develop market-making, anomaly detection, KYC, and investor accessibility solutions. Multiple rounds of calls for proposals have been issued.

Repo Market Development

In February 2025, the MoF Accountant General, Bank of Israel, ISA, and TASE jointly published a call for proposals to develop a Repo (Repurchase Transactions) market in Israel—a tool common in developed markets but "limited and underdeveloped" in Israel. The Bank of Israel has noted that the absence of a repo market is "one of the reasons for the current underdeveloped situation of Israel's capital market and the relatively low liquidity of the government bond market."

Part V: The Current Landscape (2025-2026)

The 2025 market data demonstrate the cumulative impact of the reforms enacted since 2014:

- The TA-125 surged 51% in 2025, outperforming the S&P 500 (+16.9%), Dow Jones (+13.3%), and Nasdaq (+21%).
- Foreign investors poured over NIS 8 billion (\$2.3 billion) into TASE equities in 2025, with institutional holdings reaching \$19.2 billion—up from \$11.2 billion at end-2024.
- Foreign direct investment reached \$10.2 billion in H1 2025, up 35% from H1 2024.
- Nine IPOs in H1 2025—nearly double all of 2024—raising NIS 1.4 billion.
- The shekel appreciated 7% against the dollar, amplifying returns for foreign investors (a 72% dollar-denominated return on the TA-35).

Yet significant structural gaps persist. Israeli pension funds (NIS 2.5+ trillion in AUM) have been reducing high-tech and VC exposure, with the share of institutional private investment directed to Israeli funds falling from 40% a

decade ago to under 20% today. The end of Program 43's loss-protection structure and the new Yozma 2.0's focus on return enhancement rather than downside protection have slowed institutional re-entry into VC. Israel's capital markets will thrive in parallel to its ability to accelerate a more inclusive technology drive economy can overcome gaps in sustained growth.

Israel's technology sector enters 2026 in a paradoxical position: record capital flows and exits coexist with stagnating employment, declining startup formation, and an accelerating brain drain. The sector generated over \$111 billion in capital deals in 2025—nearly four times the previous year and surpassing the 2021 record—yet its contribution to GDP has been flat for two consecutive years. This paradox defines the central challenge: can Israel convert its extraordinary innovation capacity into broad-based economic growth, or will its tech economy narrow further around a handful of mega-companies, eroding the broader ecosystem on which sustained and inclusive growth depends?

Publicly traded Israeli tech firms now employ only 60,000 of 260,000 total employees in Israel. Half of employees at privately held Israeli tech companies are based abroad, including in R&D—historically Israel's domestic stronghold. Bloomberg has reported growing fears of a "permanent exodus" of skilled elites.

High-tech's contribution to GDP stood at approximately NIS 317 billion in 2024—17.3% of national GDP—virtually unchanged from 2023. Growth has slowed to less than 2% annually, down from more than 5% on average over the past decade. With tech employment representing only 10-12% of the labor force, the majority of the working population remains locked out of the high-value economy—a structural gap that deepens income inequality and strains the social cohesion on which Israel's security ultimately depends. This stagnation amid record capital flows suggests that value creation is increasingly captured outside Israel, through foreign-based employees, M&A exits to foreign acquirers, and capital repatriation.

The tech sector's future is inseparable from Israel's capital markets infrastructure and the imperative to accelerate growth in the post-war period—a challenge that will figure prominently in the coming political debate. The TASE has undergone dramatic reform since 2014, including demutualization and self-listing (2019), the shift to Monday-Friday trading (January 2026), market-making reform, the launch of TASE UP for private companies, and the new TA-Technology 35 index (February 2026).

Yet structural gaps remain that directly affect the tech sector's domestic anchoring. Israeli pension funds (NIS 2.5+ trillion in AUM) have been reducing high-tech and VC exposure, with the share of institutional private investment directed to Israeli funds falling from 40% a decade ago to under 20% today. The absence of Business Development Corporation frameworks, a functioning securitization market (pending legislation), and adequate institutional private liquidity pools and alternative trading systems and alternatively liquidity venues continues to push late-stage financing offshore.

The Yozma 2.0 program (\$1 billion in government-matched institutional investment in VC funds) and the November 2025 comprehensive VC tax reform represent policy responses to this challenge. Whether these mechanisms succeed in reversing the offshore drift of Israeli tech value creation will be a defining question for the sector. These trends point to the urgency of reconvening business and policy innovators to address this agenda through our proposed Financial Innovations Lab.

The Country-Risk Discount: Quantifying the Cost of Shallow Capital Markets

The structural gaps described above carry a measurable price. The Israeli market currently trades at a price-to-earnings ratio of roughly 20x, versus about 24x for the MSCI World index—a valuation discount of approximately 17%. This country-risk discount means that Israeli companies raising capital on TASE are systematically valued at less than comparable firms elsewhere, simply because they are domiciled in Israel.

The market-capitalization implications are striking. With TASE's total market capitalization at approximately \$450 billion, a 20% country-risk discount implies roughly \$110–112 billion in "missing" value—the difference between what Israeli companies are worth on TASE and what they would be worth listed on a comparable exchange without the Israeli risk premium. **This is the peacetime baseline.** Even before October 7, even in the absence of active conflict, Israel's capital markets were leaving approximately \$111 billion on the table—a figure that, not coincidentally, matches the record capital flow through the tech sector in 2025. The paradox is precise: the same amount of value that flows through the system each year is roughly equal to the value destroyed by the structural discount.

During the post-October 7 period, the discount widened significantly. Israel's sovereign CDS spread roughly doubled—from approximately 50 basis points to 120 basis points—implying a valuation discount of 35–40% and potentially

\$150–200 billion in foregone market capitalization. The chart below traces this trajectory.

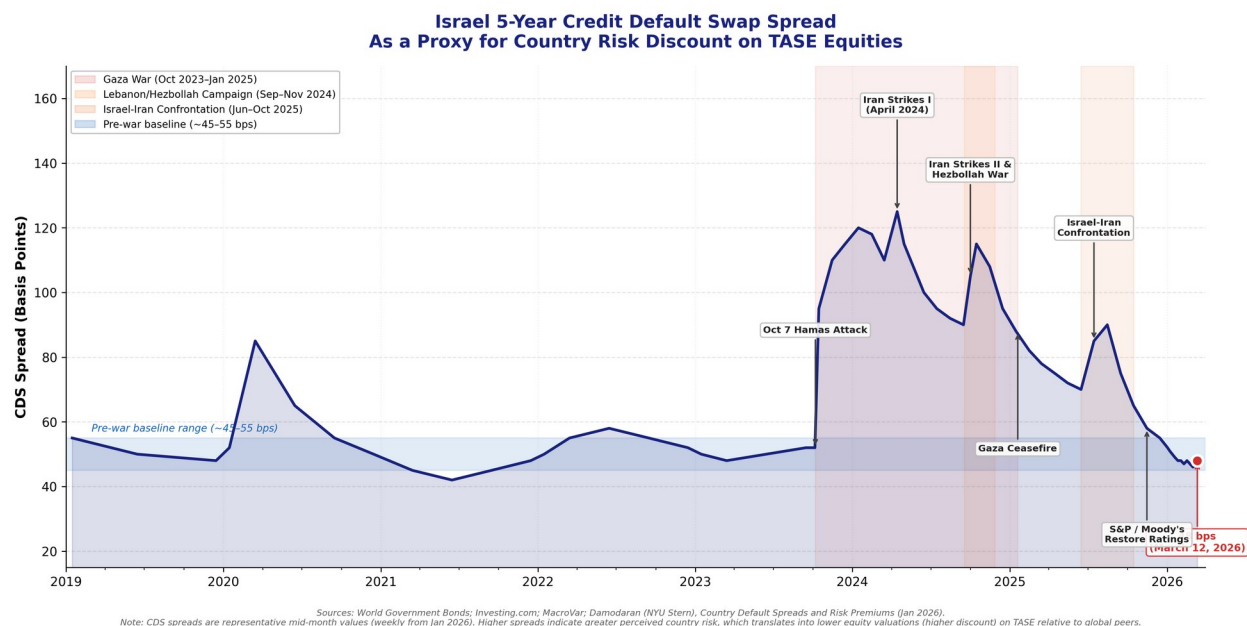


Figure 1. Israel 5-Year CDS Spread as a proxy for country risk discount on TASE equities, 2019–March 2026. Sources: World Government Bonds; Investing.com; MacroVar; Damodaran (NYU Stern).¹

The policy implication is direct: the country-risk discount is not entirely driven by geopolitics. A significant component reflects structural factors that are within reach of reform—thin liquidity, absence of late-stage financing instruments, limited institutional depth, and a narrow investor base. If deepening the TASE through the reforms outlined in this brief were to compress even a quarter of the discount (from roughly 20% to 15%), the result would be approximately \$25–30 billion in additional market

¹ The country-risk discount on Israeli equities can be measured several ways beyond simple P/E comparison. First, dual-listed companies—Israeli firms trading on both TASE and Nasdaq or NYSE—offer a natural experiment: when the same company trades at a lower valuation in Tel Aviv than in New York, the spread isolates country risk pricing (though some portion reflects liquidity differences between listings). Second, sovereign credit default swap (CDS) spreads—the cost of insuring against Israeli government default—provide a market-priced proxy; Israel’s 5-year CDS spread spiked from roughly 50 basis points to approximately 120 basis points after October 2023 and has since contracted back toward pre-war levels following the resolution of the Iran confrontation and credit rating restorations by S&P and Moody’s. Third, bond yield spreads—the excess yield on Israeli government dollar-denominated bonds over U.S. Treasuries of similar maturity—capture the sovereign premium directly, and can be extended to corporate Eurobonds to measure how country risk layers onto the private sector. Finally, Aswath Damodaran’s annual country equity risk premium estimates (NYU Stern) provide a systematic framework based on sovereign ratings and default spreads scaled for equity market volatility. Each method captures a different dimension; ideally, the Financial Innovations Lab would examine all four to establish a comprehensive picture of the cost the discount imposes on Israeli capital formation.

capitalization—new capital attracted into Israeli equities, higher valuations for domestic companies, and reduced pressure on founders to accept premature exits.

Moreover, the relationship is self-reinforcing. Higher valuations attract more listings, which deepens liquidity, which narrows bid-ask spreads and the discount, which attracts still more capital—a virtuous cycle. The reverse is equally true: the discount pushes companies offshore, which thins the domestic market, which widens the discount further. Breaking this cycle is precisely what the proposed Financial Innovations Lab is designed to address.

Closing the Productivity Gap and the Inequality Gap Simultaneously

The capital-markets reform agenda is not merely an efficiency argument. It is an inclusion argument. Today, roughly 11% of Israel's labor force works in the high-value technology sector, generating approximately \$160,000 per worker in output. The remaining 89% work in traditional sectors averaging \$83,000 per worker—a nearly 2:1 productivity gap that drives much of Israel's income inequality, housing unaffordability, and social strain. The communities most excluded from the high-value economy—Arab citizens (21% of the population, approximately 3% of tech employment), ultra-Orthodox/Haredi communities (13% of the population and growing rapidly, barely 1% of tech), and peripheral populations in the Negev and Galilee—are precisely the demographics whose integration is essential for sustained economic growth.

If the capital-markets reforms proposed in this brief succeed in keeping more technology companies scaling domestically—rather than exiting prematurely to foreign acquirers or redomiciling abroad—the employment effects would be substantial. Companies that remain and grow in Israel create the mid-career, high-productivity jobs that can absorb workers from underrepresented communities, provided complementary investments in training, education, and regional infrastructure are in place.

Our illustrative modeling quantifies the potential. Expanding the tech workforce from 11% to 20% of the labor force—approximately 380,000 additional workers—would generate roughly \$14 billion in additional GDP, a 3.6% boost. Reaching 25%—588,000 additional workers, deliberately drawn

from Arab, Haredi, and peripheral communities alongside mainstream expansion—would add approximately \$22 billion in output, a 5.7% gain. These estimates assume conservatively that new entrants reach 75% of existing tech-worker productivity (\$120,000 per worker) and exclude dynamic multiplier effects from higher domestic spending, retained tax revenues, and reduced social transfer costs.

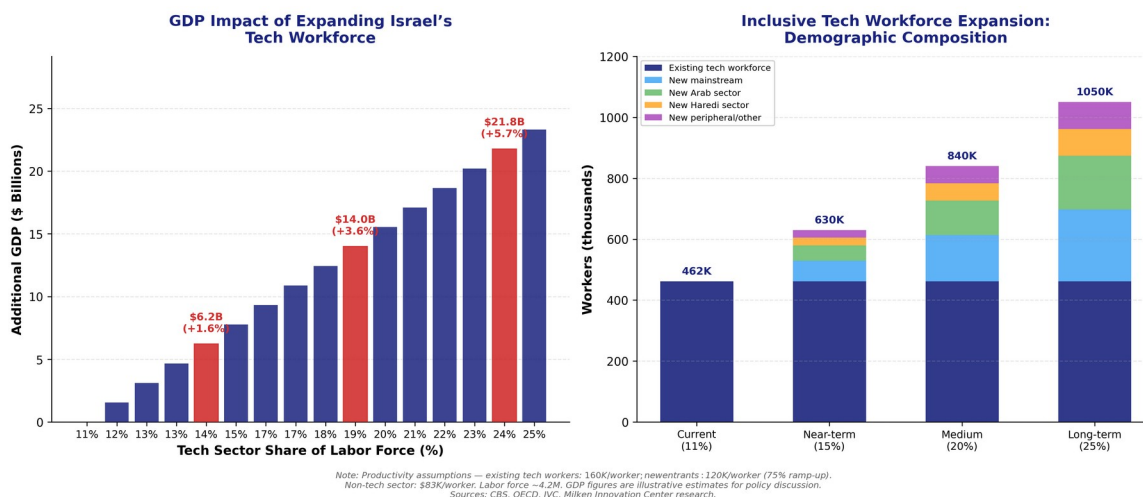


Figure 2. GDP impact of inclusive tech workforce expansion (left) and demographic composition of new entrants by scenario (right). Sources: CBS, OECD, IVC, Milken Innovation Center research.

For the 25% scenario, the demographic composition of approximately 588,000 new tech workers would include roughly 176,000 from the Arab sector (30%), 88,000 from Haredi communities (15%), 88,000 from peripheral and immigrant populations (15%), and 235,000 from mainstream expansion (40%). These proportions reflect both the demographic weight of these communities and realistic absorption capacity given current training infrastructure and pipeline development.

The critical insight is that *closing the productivity gap and closing the inequality gap are not competing policy priorities—they are the same priority, viewed from different ends of the same capital-markets gap.* The same reforms that would narrow the TASE discount, retain companies domestically, and deepen capital markets would also create the scaled employers that can absorb workers from communities currently locked out of the high-value economy. An Israeli tech sector that includes Arab engineers from Nazareth, Haredi data scientists from Bnei Brak, and biotech researchers from Beer Sheva is not just a more productive economy. It is a

more cohesive society—and one better positioned to sustain the resilience that Israel's security environment demands.

This dual framing—productivity and inclusion as a unified agenda—should be central to the proposed Financial Innovations Lab. The instruments and institutions still missing from Israel's capital markets are not abstractions for financial engineers. They are the infrastructure of a more inclusive economy.

Part VI: Implementation Scorecard

Lab Recommendation	Status	Lead Agency(ies)
English-language reporting	[ENACTED] Enacted (2020)	ISA, Knesset
IFRS/FASB compliance	[ENACTED] Pre-existing (2008)	ISA
Integrate foreign investors in regulation	[ENACTED] Multiple reforms	ISA, TASE
International financial metrics adoption	[ENACTED] IFRS + IXBRL adoption	ISA
Shelf offerings for foreign institutional investors	[ENACTED] Active use by listed companies	ISA
Complete and transparent research distribution	[PARTIAL] Partially (market-making reform)	TASE
U.S.-listed Israel ETFs	[ENACTED] ISRA, ITEQ launched	Market-driven
Pre-IPO institutional pools	[ENACTED] TASE UP (2021)	TASE, ISA
Traded late-stage venture funds / BDCs / CLOs	[FAILED] IBI sole survivor; R&D partnerships failed	ISA, MoF, IIA
Authorize BDCs for later-stage VC	[FAILED] No BDC framework enacted	—
Early stock offerings / tech platform	[ENACTED] TA-Tech indexes, reduced barriers	TASE, ISA

TASE as interim step to world markets	[ENACTED] TASE UP + NYSE MOU	TASE
Lower registration costs	[ENACTED] Ongoing reforms	ISA, TASE
Fewer regulatory requirements	[ENACTED] ISA disclosure reforms	ISA
Subsidize analyst coverage	[PARTIAL] Partially via market-making	TASE
TASE demutualization	[ENACTED] IPO August 2019	ISA, Knesset
Pyramid/concentration reform	[ENACTED] Anti-Concentration Law (2013-2019)	NEC, Knesset, ISA
Securitization / CLO market	[PARTIAL] Pending (expected 2026-2027)	BoI, ISA, MoF
Global trading day alignment	[ENACTED] Mon-Fri effective Jan 2026	ISA, TASE, BoI
Tax incentives for fund investors	[PARTIAL] Partial (Program 43, Angels Law, VC reform)	MoF, IIA

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Milken Innovation Center

Van Leer Jerusalem Institute
43 Jabotinsky St, Jerusalem 9214116, Israel
Phone: +972.2.5605288
www.milkeninnovationcenter.org