

The Goshen Committee:

The proposal is parallel to Section 302 of the U.S. Sarbanes Oxley Act.

March 2007

The Goshen Committee was appointed by the chairman of the Israel Securities Authority to address the proper structure and format of a corporate governance code for publicly-traded companies, as part of the strategy to strengthen the control mechanisms in the Israeli public securities market.

This was as a continuation of the global trends in the development of the “corporate governance” concept that resulted from the crises the capital markets experienced in the aftermath of the bursting of the hi-tech bubble and the management and accounting scandals that were discovered at multinational conglomerates. Israel too had its share of serious problems that led to the fall of a number of companies and the defrauding of the investing public.

In December 2006, the Goshen Committee submitted its recommendations to the chairman of the Israel Securities Authority. **These recommendations, should they be adopted, may make a dramatic change in the rules of the game being played on the publicly-traded company court in Israel.** The recommendations of the committee take into consideration the unique characteristics of the Israeli economy and its capital market, while relating to the corporate governance codes that were adopted in other countries around the world.

In Israel, most companies are controlled by sole shareholders or by a number of shareholders operating under a mutual agreement. The risk involved is that the controlling interest will misuse its power in order to empty the public coffer at the expense of the minority shareholders.

The committee placed personal responsibility on the members of management with regard to the reliability of corporate reports. The committee recommended that **all public companies adopt the use of management declarations** on the personal responsibility of the CEO and the CFO **regarding the correctness of the financial statements and the information contained therein.** This declaration is to be attached to annual and quarterly financial statements. **The proposal is parallel to Section 302 of the U.S. Sarbanes Oxley Act.** Israel has already required government companies, banks, provident funds, insurance companies, and pension funds to attach management declarations to their financial statements.



Similar to the proper management guidelines that the SEC required at the beginning of the decade, **the committee recommended that the independence of the board of directors be strengthened by the election of independent directors. This is in addition to the minimum of two public directors that must be appointed at present to the boards of all publicly traded companies in Israel.** Most of the members of the audit committee as well as the chairman of the audit committee must be independent directors and they must possess accounting, financial and business expertise that will allow them to gain an in-depth understanding of the company's financial statements.

Crucial and direct information is very often obtained by the audit committee and board of directors from employees and executives that have complaints. The Goshen Committee recommended that **the audit committee of public companies assess and adopt arrangements whereby company employees can safely complain without fear of revenge.**



The Goshen Committee determined that the audit committee has an important role in preserving the independence of the board of directors. **The committee must receive reports from management regarding the effectiveness of the company's control systems, and it must also receive audit reports prepared by the internal auditor and the independent auditor of the company.**

The Israeli Companies Law is apparently **the only law in the world that requires public companies to appoint internal auditors.** In view of the importance that the committee attributed to the internal auditor, it recommended that the Companies Law be amended so that in addition to the sanctions contained therein, companies will be fined for not implementing the provisions of the Companies Law that pertain to the appointment of an internal auditor.