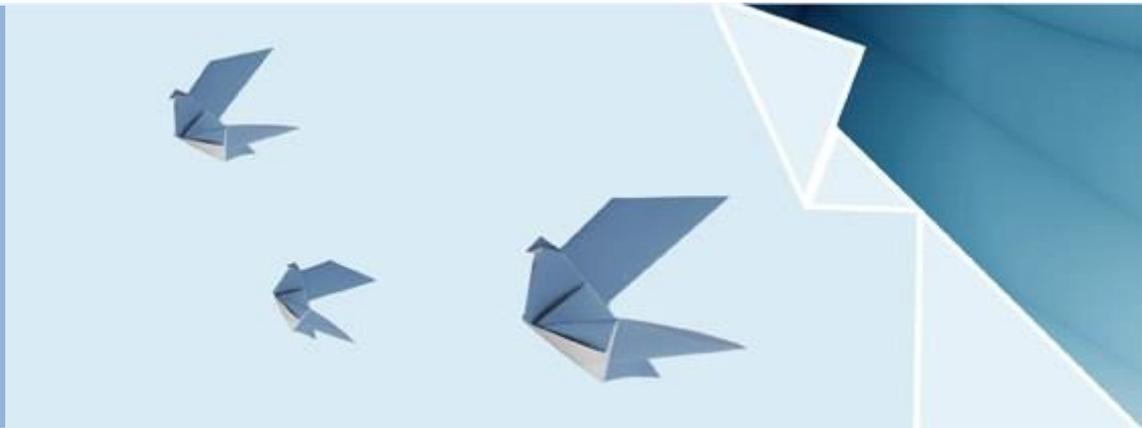


CLIENT UPDATE -
New Era for the
OCS -
Establishment of a
National Authority
for Technological
Innovation



January 2016

This is an important update for any player in the Israeli eco-system. A *National Authority for Technological Innovation* ("**NATI**") was established on January 1, 2016, following a major revision of the Law for the Encouragement of Research and Development in Industry 5744-1984 ("**R&D Law**"), whose goal is to accomplish promotion of technological and scientific innovation and increase of economic benefits and capabilities through encouragement of industrial research and development.

NATI, a statutory corporation (not part of any government office), will now replace many of the functions of the Office of the Chief Scientist of the Ministry of Economy ("**OCS**") that for more than 30 years was in charge of supporting industrial R&D in Israel.

The OCS was considered as one of the most industry-oriented and industry-friendly authorities in Israel. Signs are that NATI will now make things even more appealing for industry and investors.

NATI was established and granted powers to provide flexible and up-to-date means to support and encourage R&D and innovation, in a way that would meet the rapidly changing needs of each industry due to the global competitive eco-system and the dependence in advanced infrastructures, external markets and foreign financial resources.

From now on, NATI will be in charge of implementing government policy on technological innovation through two channels: (i) a Council, comprised of government and industry representatives, which will transform government innovation policy into action plans, primarily through support and means of encouragement of R&D, and (ii) through the authority itself, which will implement those means of support and encouragement through its administration and Research Committees.

NATI's tools-box will be better equipped than that of the OCS. It will include not only granting funds directly to companies but also participation in investment funds, grant of loans, guarantees and subsidies, and other kinds of support. Purchase of shares by NATI will not be permitted. NATI's sources of funds are not limited to the budget it receives from the Israeli government and income from royalty payments. In certain cases, NATI will be able to raise funding through debt instruments.

The OCS (consisting of the Chief Scientist together with a limited staff) will continue to consult the government regarding its policy for achieving the goals of the R&D Law, either through NATI or by other means. The Chief Scientist will also head NATI's Council and Research Committees.

The formation of NATI, the appointment of the Council and the Research Committees, and getting ordinary operation up and running is expected to take a few months. In the meantime, NATI is using mainly the existing staff of the OCS.

A few important notes:

- All the OCS programs that were in effect on January 1, 2016, will continue as programs of NATI.
- Until the Council decides otherwise, all the rules, conditions, obligations and restrictions that applied to the OCS programs continue to apply to NATI programs, including the rules regarding transfer of know-how, transfer of manufacturing, escrow, pledge, licensing, royalty payments, etc.
- Due to the reorganization, working vis-à-vis the OCS may take longer during a transition period.
- Once fully established, NATI is expected to announce new programs for supporting innovation. The Council is authorized to decide on rules concerning the ownership and exploitation of NATI-funded know-how, which are different from the restrictive rules that apply today regarding the exploitation of OCS-funded know-how.
- The Council is expected to adopt long awaited draft regulations that the Israeli parliament did not manage to approve before January 1, 2016, including:
 - (i) New royalty payments rules.
 - (ii) Licensing rules that will permit, for the first time, the grant to non-Israelis of rights to use OCS-funded know-how, including grants of R&D licenses, subject to the approval of NATI and certain payment and reporting obligations. See our former client update: <http://www.hfn.co.il/ocs-proposes-licensing-regulations>).
 - (iii) Special licensing rules for multinational corporations and affiliated parties.
- **Any transaction involving OCS/NATI-funded companies should take into account these present and expected changes.**

HFN was closely involved in this major reform in the R&D Law as well as in the drafting of the proposed regulations, and will continue to work closely with the government in the establishment of NATI. Ofer Granot, a tax and incentives partner with HFN, has appeared before the OCS and before the Finance Committee of the Knesset on the reform and advised various NGOs which took part in these legislative efforts.

Should you require any further information or clarification regarding the issues discussed in this circular, please do not hesitate to contact Ofer Granot at granoto@hfn.co.il