



GLawBAL
Enhancing Performance

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Foreign lawyers – Have they already arrived?

Translation to English of the full interview with Adv. David Zalmanovitch, CEO and founder of GLawBAL Enhancing Performance

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Some of them have been operating here for several years, some of them are located here but are not yet able to operate formally and the majority of them have set their sights on Israel and are attempting to figure out whether the recent legislative amendments regulating the operation of foreign lawyers in Israel creates a genuine opportunity.

“If we judge according to the number of industrialists, phone calls and invitations to lecture that we have been receiving over the last few weeks from lawyers and law firms in Israel and overseas, opening a law office in Israel is the next best business opportunity, at least in the eyes of several overseas firms and lawyers”.

That’s what we heard from Adv. David Zalmanovitch, CEO of GLawBAL, who specialises in consultancy, mergers and staff placement in the legal sector, who has just returned from a two week trip around Europe and the USA, where he’s been invited to lecture, meet and advise various firms regarding opening the legal industry in Israel to foreign firms and potential opportunities for mergers with Israeli law firms.

In June this year the Finance Minister signed a directive setting out specific conditions for foreign lawyers operating in Israel, some two years after the Israel Bar Association Law was amended in this regard. In these two years, various legislative and standardisation entities held numerous deliberations to establish the special conditions for qualifying and regulating the operation of foreign lawyers and to address supplementary issues such as professional indemnity insurance for these lawyers. Regarding the legislative amendment, Adv. Zalmanovitch states that the group of foreign lawyers, who are affected by the law, can be divided in three groups:

The first group is comprised of small law firms and sole proprietorships, representing domestic overseas clients, predominately wealthy Jewish people who do business in Israel, in the main purchasing apartments as an investment, or other local enterprises, sometimes involving patent attorneys or foreign lawyers who specialise in specific areas such as international taxation or immigration issues.

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This group, which has to a certain extent being operating in Israel even before the amendment, is the most dominant one in the implementation of the legal provisions and we meet many of them who contact us with advanced practical questions regarding issues such as professional indemnity insurance, marketing and branding etc. Almost all 11 candidates who sat and passed the Israel Bar Association tests, a prerequisite for the qualification process according to the legislative amendment and the directive, were effectively from this group.

The second group is comprised of foreign lawyers who are currently working in the medium to large firms in the main, who to date, due to the fact that they were not also qualified to operate in Israel, acted in the capacity of a consultant or paralegal and almost no use was made of their formal education overseas or if it was used it was done very cautiously (amongst other things, due to the fact that this activity is not covered by the professional indemnity insurance of most law firms). Adv. Zalmanovitch points out that the medium and large firms are still not very keen to obtain formal assistance from these lawyers due to the need to ensure their ongoing overseas training (for example in the USA to ensure they participate in the annual continuing legal education program which every lawyer is required to undergo), as well as due to the insurance barrier and perhaps most significantly since the firms prefer these lawyers to also be qualified in Israel and speak Hebrew fluently to ensure that their overall aptitudes create maximum flexibility for the firm in becoming involved in transactions and cases involving both Israeli and foreign entities and laws.

The third group, states Adv. Zalmanovitch, creates the largest amount of work for us. This is the group comprised of overseas law firms that are considering opening offices in Israel and/or merging with local offices, similar to the mergers which were made in the large accountancy firms. Due to the fact that overseas offices are reconsidering the way they operate following the 2008 recession (a process called “New Normal”) as part of which the strategy is to seek opportunities, due to the fact that in the international legal industry Israel is considered to be a technological and scientific superpower creating a significant amount of legal involvement in global transactions, as well as due to the fact that many overseas law firms almost always contain some Jewish partners who will have the opportunity to realise the Zionist dream albeit partially; the interest is great although at this stage only a small amount is put into practice and there are a numerous concerns and questions which need to be addressed. Examples of foreign firms which have opened offices in Israel are BLP, ALO Asserson and Greenberg Traurig.

Many overseas law offices do albeit work and liaise with Israeli firms, however to date they have not viewed them as potential partners for merging. Adv. Zalmanovitch

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points out that the diversity of questions raised in the meetings and lectures he has held in these firms is quite surprising. He gives examples of questions which he was asked in a series of meetings and lectures he recently held in Europe and the USA.

“All of the firms go into great detail with trivial questions regarding difficulties, obstructions, regulation, organizational issues, ethics etc., however many of them also ask questions relating to the level of personal security or welfare of their staff if and when they merge with an Israeli firm or open an office in Israel. For example, I was asked whether each lawyer in the office has immediate access to a gas mask, whether every office has a bomb shelter, if it’s permitted to travel anywhere on the Sabbath, if it’s necessary to abide to a specific modest dress code in the office, or even if foreign lawyers might be drafted into national service or voluntary service in an emergency. Some of them really surprised me with their unfamiliarity and/or perception of Israel as a modern country, such as those who asked whether organic food is readily available in Israel, or why government ministries are not located in Tel Aviv which is a much safer place... (The interview was conducted the day before Operation Pillar of Defence commenced). The foreigners are also amazed by the obstructions and restrictions applicable to Israeli firms regarding marketing and client acquisition. For example, I crossed out whole paragraphs from a business plan of a certain firm that drafted and allocated significant marketing budgets for advertising the merged firm on billboards on trains and in universities around Israel – a very common marketing channel in the USA although completely prohibited in Israel.

An equally interesting question which was raised by the foreign firms is identifying which Israeli firms are good opportunities for being acquired or merged with overseas firms.

Here the equation is very clear, answers Zalmanovitsh: Large firms which have extensive and reciprocal business relations with several overseas firms will have difficulty in limiting themselves to working solely with a single firm if they merge or are taken over. The majority of legal work involving advice based on foreign law is “from Israel outwards” and I do not see the Israeli firm deciding for a legal adviser or CEO – its clients, or for itself, that for example in a public offering or service for companies with double registration (companies which are floated both in Israel and overseas) that they will obtain assistance solely in the relevant branch of the merged firm in the other country of registration.

The firms which are more suited to merging or being taken over, despite all of the difficulties involved, according to Adv. Zalmanovitsh, are the firms contacting us with the following characteristics: They need to be large enough to handle large

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clients or those who have needs relating to overseas work, however due to the reciprocal difficulties mentioned before they will not be the large commercial firms. They also need to have an organisational culture and agenda which can conduct a successful dialogue with overseas offices, in the majority of which the management and organizational culture is highly developed in comparison to the average Israeli firm.

Similarly, a major issue relates to fee tariffs which differ by hundreds of percent between the conventional rates in the majority of law firms in Israel and those in overseas firms. Here, according to Adv. Zalmanovitch, the majority of the merged firms will have to find the correct model and profile of fee tariffs which will enable them both to compete with other local firms and also be feasible for the overseas offices. The majority of the firms who are taking an interest in Israel do have branches in various countries elsewhere in the world where the fees are also lower, however the comparison to Israel is not always accurate since nearly all firms want one or two of their senior (Jewish) partners to be based in Israel and these partners are used to annual takings of at least 2-4 million Dollars or even more, a level which is more than double of the annual takings of the most senior partners in Israeli firms (Income tables of partners in Israeli firms can be found in our home page at www.glawbal.com).

Furthermore, overseas offices have increasingly being requested by their clients to adopt alternative billing methods since the 2008 recession such as: fixed tariffs, retainers, contingent fees and combinations of these (called AFA – Alternative Fee Arrangements by overseas offices), however the percentage of cases which are priced on an hourly basis in the medium and large American firms is much higher than the corresponding percentage in the medium to large firms in Israel.

As presented in the graph below, in Israel even before the 2008 recession, approx. 55% of the income of the medium and large firms was charged on an hourly basis. Despite competition and even after the recession we see a relatively small decrease and the scope of income from cases charged on an hourly basis dropped to 47%.

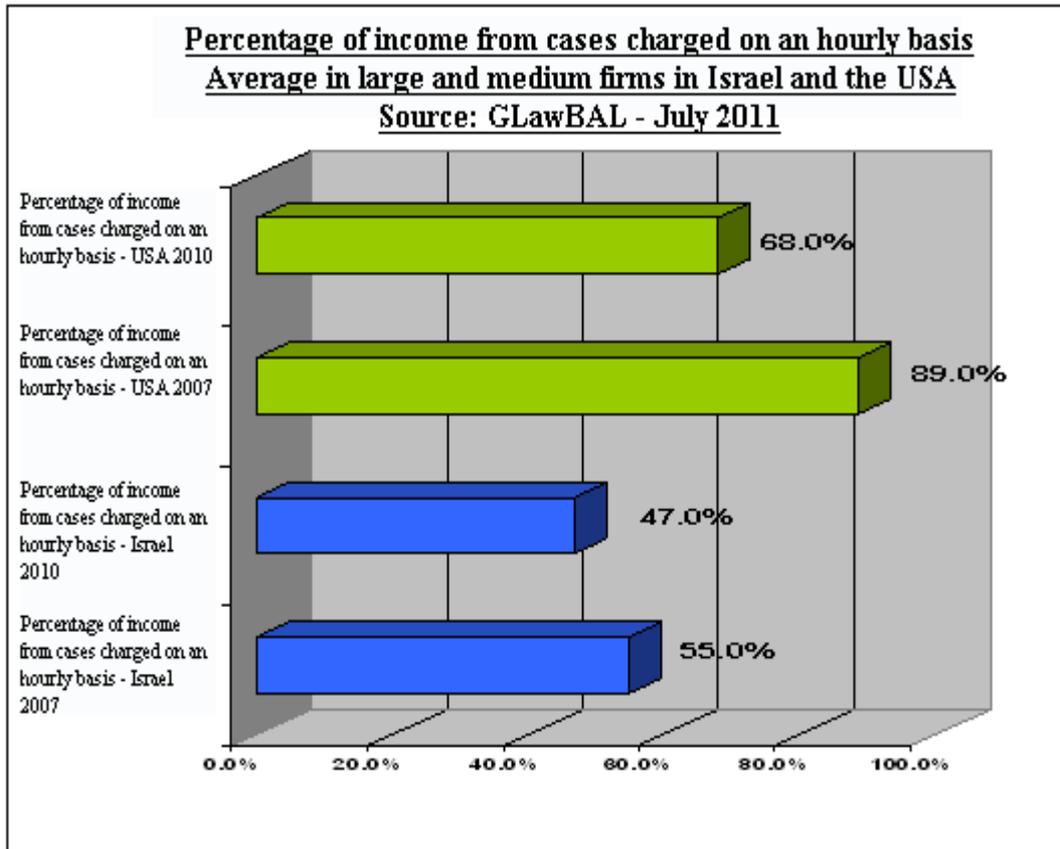
In the USA on the other hand where the medium and large firms were used to charging approx. 89% of their income on an hourly basis, the recession, commercial pressure and additional processes have led to a decrease of more than 30% in the scope of income charged on an hourly basis which currently stands at approx. 68% of all cases, however remains a much higher ratio than the corresponding ratio in Israel.

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Adv. Zalmanovitch summarises: There is no doubt that there is considerable interest in Israel and we will eventually see more and more foreign offices with a presence in Israel. Nonetheless, the road is long and numerous issues need to be addressed regarding regulation, ethics, economics, insurance etc. on the one hand as well as even more complex issues regarding organisational, ideological culture and values and personal issues of partners such as welfare and personal security, on the other hand.

Adv. David Zalmanovitch, CEO of GLawBAL, specialises in consultancy, enhancing performance, mergers, staff placement etc. for law firms and legal departments in the legal sector.

Details of the services our firm offers together with various articles can be found at: www.glawbal.com

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