



A TALE OF DEBT AND DARKNESS

Eliezer Fishman faces the largest ever bankruptcy of an Israeli businessman. How did the banks allow things to go so far?



WITH THE fall of tycoon Nochi Dankner and his IDB pyramid, and with legislation now forbidding holding companies from owning both financial and industrial investments, one might think that the shameful parade of tycoon bankruptcies, financial pyramids and “haircuts” (massively ‘trimming’ what you owe) is over at last.

Far from it. The latest and biggest of all involves Eliezer Fishman, Fishman Group and a loan of some 4.5 billion shekels (\$1.2b.) that Fishman appears unable to repay. Fishman owes Bank Hapoalim 1.8b. shekels, Bank Leumi 1.7 million shekels, and smaller banks (Mizrahi-Tefahot and Union) several

hundred million. The Group’s assets amount to less than half of that sum.

What is worse – another tycoon, Lev Leviev, controlling owner of Africa Israel, waits in the wings, as his losses, too, pile up.

On August 22, the business daily Globes (owned by Fishman) reported that the Israel Tax Authority asked the courts to declare Eliezer Fishman bankrupt, because of a 200m. shekel (\$54m.) tax debt.

“This is probably the largest-ever bankruptcy of an Israeli businessman,” Globes reported.

TheMarker journalist Michael Rochwerger wrote that Fishman’s debts to Bank Leumi

and Bank Hapoalim matched in size the total losses of those banks on all loans made to small businesses over the past decade.

In fairness, Fishman and his family have put their own money into the Group, buying shares and trying to stem the tide. But it now appears hopeless; bankruptcy looms.

How did this dubious record of debt and darkness happen?

Who is Eliezer Fishman?

Fishman was born on May 1, 1943, in Russia and made aliya with his family when he was five. The family initially lived in a *ma’abara* (immigrant camp) in Givat Olga. Fishman studied accounting and started his



own accounting business in the 1970s.

Has he been in financial trouble before?

Indeed he has, more than once.

In the 1980s, he launched mutual funds named after his two daughters, Ronit and Anat, and during the Tel Aviv stock market bubble of the early 1980s they accumulated assets worth a staggering \$1.6b. In 1983, the bubble burst, bank stocks collapsed and Fishman's mutual funds crashed, as investors cashed in their shares.

Fishman used his own money to pay some of them back.

In 1985, he was charged with violating securities laws, because the funds he ran il-

legally controlled more than 10 percent of a bank and insurance company. After an eight-year court wrangle, he was finally acquitted.

In 2006, Fishman wrote financial options on the Turkish lira and lost a reported 2b. shekels (\$450m.). Again, in 2008, Fishman bet against the Japanese yen, selling it short, and saw the yen rise to an all-time high, again causing heavy losses.

Why wasn't Fishman labeled as a bad risk by lenders? Ordinary people get negative credit ratings for far less.

Those losses were just a bump in the road. Despite the global 2008 financial crisis, Fishman borrowed huge sums and

Better times: Eliezer Fishman at the Tel Aviv Stock Exchange in July 2012

invested in industry, retail, media, real estate, venture capital and telecoms, in Israel and abroad. Despite his track record of reckless currency speculation, somehow Israeli banks regarded him as an ideal borrower.

The Fishman Group invested in a controlling interest in Jerusalem Economic Corporation. Its shares have declined 75 percent since the beginning of 2008, one of

the biggest drops of any listed company. A Fishman subsidiary MirLand Development Corp., which operates in Russia, sold stock in London, in 2006, not long after Fishman's Turkish lira fiasco. Once worth about \$1b., MirLand stock is now worth only \$140m. after Russia's economy and real estate market tanked.

"Do you write about me when I make money, too?" Fishman once complained to TheMarker.

The Fishman Group website claims it helps industries "to maximize their potential by applying sound judgment and advanced business models." Is the shoemaker barefoot?

I admit that it is very easy to badmouth Fishman in hindsight. Who could predict that the price of oil would crash and trash the Russian economy and real estate market? Who could predict the yen would soar, and the Turkish lira would drop? The point is, borrowing big sums to finance such gambles is gambling, not investing.

And Fishman was not alone. The banks were accomplices.

Why did the banks wait so long before asking the courts to appoint a receiver and sell the remaining assets?

WHEN GAMBLERS lose heavily, they often make even bigger bets to recoup losses. This is the gamblers' fallacy. It leads to ruin.

Banks have it, too. When the banks knew Fishman was losing heavily, they refrained from asking the courts to liquidate his assets. Why?

First, seeking to bankrupt him would reveal to all the terrible mistake the banks made in lending him billions. Those responsible might be held to account.

Second, banks hoped Fishman's investments would miraculously recover. But in the age of global deflation, debt is deadly. There was very little chance of that. The relatively small 200m. shekels debt for Israeli income taxes did Fishman in. If you owe money to Israel's equivalent of the IRS, they are relentless and unforgiving, unlike the banks' attitude toward feckless tycoons. Once the Tax Authority sought receivership, the banks had to follow. Like vultures, creditors are now fighting in court over the remaining assets.

On September 1, Bank Leumi finally asked District Court Judge Eitan Orenstein to appoint three official receivers to liquidate Fishman Group's assets and repay the 1.7b. shekels owed to the bank. Fishman, in turn,

has asked the court to appoint a mediator, in an effort to forestall court-declared bankruptcy, which would immediately remove Fishman from control of his assets.

Meanwhile, on the same day, Leviev's Africa Israel Investments Ltd. announced its second-quarter financial results, a loss of 163m. shekels, following a loss of 1.75b. shekels in 2015, largely due to losses of his company AFI Development.

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Africa Israel accountants admit there is "significant doubt that Africa Israel can continue to exist as a going concern." The cause? Bad real estate deals in Russia, the same thing that helped sink Fishman. Leviev, who has a controlling interest in Africa Israel, owes bondholders 3b. shekels (\$680m.) and is struggling to repay it. (Unlike many other tycoons, Leviev has used his own personal assets to bail out his ailing company – \$50 m. alone in September).

And who are the bondholders? In the end, we, the people.

Four years ago, I wrote: "If we allow tycoons to borrow irresponsibly large sums, we deserve the mess the tycoons have brought us." ("Tycoons in Trouble," *The Jerusalem Report*, October 22, 2012).

Who is the "we" in that sentence?

First, the credit officers and senior management at Bank Leumi and Bank Hapoalim, who for years continued to allow Fishman to pay only the interest on his huge bank loans, not the principal as the loan agreements stipulated, even though they knew many of his businesses were essentially broke.

Only they knew this, because Fishman's businesses are mostly privately held and

not bound to release financial reports to the public.

And, how in the world did the banks agree to lend Fishman billions, when he recklessly speculated in currency markets and more than once lost his shirt?

Second, the Banking Supervision Department of the Bank of Israel, whose official mandate is "avoiding risks to [the banking corporations'] stability, protecting depositors' money and ensuring that the banking corporations are managed properly."

Bank of Israel Governor Karnit Flug repeatedly stresses the crucial importance of maintaining the commercial banks' "stability" by not allowing more competition and continuing to let the banks scalp us with their outrageous commissions. How then can she justify letting Israel's two biggest banks lend irresponsibly huge sums and then for years let those sums balloon as Fishman repeatedly missed principal payments?

Third, the media. Because Fishman owned major media interests – the business daily *Globes*, and a third of a leading daily newspaper *Yedioth Ahronoth* and its widely used Internet portal *Ynet* – I suspect coverage of his mishaps was not as vigorous as it should have been.

Finally, we, the people. The money the banks lent Fishman is our money, deposited in good faith. It is our democratic responsibility to try to understand complex financial dealings – complexity that conceals dubious manipulations – and protest loudly when there is wrongdoing.

The last time scoundrels hid behind a smokescreen of complexity was the 2008 US subprime mortgage and credit-default swap mess, which nearly destroyed the global economy.

In Amos Oz's hit novel, "A Tale of Love and Darkness," about growing up in pre-state Israel, there is darkness mingled with love. But, in the Fishman saga, I see only a tale of darkness.

It is frustrating that we, the public, are scalped repeatedly by tycoon haircuts, and clearly we have not seen the last of them. Israel's financial system seems trapped in what Albert Einstein defined as "insanity – doing the same thing over and over and expecting different results." ■

The writer is senior research fellow at the S. Neaman Institute, Technion and blogs at www.timnovate.wordpress.com