TRUSTS & ESTATES

The WealthManagement.com Journal for Estate-Planning Professionals

NOVEMBER 2018
$35.00

Don't Mess With Me—Fox on the Rocks by Bonnie Marris sold for $15,210 at Jackson Hole Art Auction's 2018 auction on Sept. 14-15, 2018 in Jackson, Wyo.

Committee Report on **International Practice**

Features on **Estate Planning & Taxation, Fiduciary Professions** and **Perspectives,** plus **Tax Law Update, Philanthropy** and **Tips From the Pros**

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The Association of Business Information & Media Companies

ISSN 0041-3682, USPS 495-930

Trusts & Estates is published monthly by Informa Media, Inc., 9800 Metcalf Ave., Overland Park, KS 66212-2216. Periodicals Postage paid at Kansas City, MO, and at additional mailing offices. Canadian Post Publications Mail Agreement No. 40612608. Canadian return address: IMEX Global Solutions, P.O. Box 25542, London, ON N6C 6B2. **POSTMASTER:** Send address changes to *Trusts & Estates*, P.O. Box 2100, Skokie, IL 60076-7800.

Note From The Editor

I had the pleasure of recently attending the 44th Annual Notre Dame Tax and Estate Planning Institute in South Bend, Ind. In the kick-off presentation, Turney P. Berry and Charles A. Redd discussed current developments of importance to estate planners. Their panel included a discussion of case law involving surprises for both grantors and trustees in trust administration. If you didn't make it to the conference, you can read about what happened in these cases in Charles' Tips From the Pros column, "Unexpected Consequences of Irrevocable Grantor Trusts," p. 10.

If you do plan on attending the conference in the future, I recommend a visit to the South Bend Chocolate Company and a tour of its factory. My colleague and I had a lot of fun learning about the chocolate-making process and eating the free samples. Also, apparently conveyor belts move a lot more slowly than they do in the classic episode of *I Love Lucy.*

Moving on to our International Practice Committee Report, if your clients have foreign accounts, you probably know that they must comply with certain reporting requirements. But, what if they own cryptocurrencies? According to Ruth Mattson, in her article, "Cryptocurrency and the FBAR," p. 44, your client may need to report these on the Foreign Bank Account Report (FBAR) if they exceed a certain threshold. Although the Internal Revenue Service hasn't offered guidance on this issue, her article reviews some of the steps clients should take to play it safe and avoid losing up to half of their accounts.

Our Committee Report also takes us around the world to report on changes in Japan's gift and inheritance tax laws, as well as the latest developments involving Israeli family businesses.

—Susan R. Lipp
Editor in Chief

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Subscriptions and Back Issues: $375 per year within the United States, $400 for Canada, $400 for delivery to other destinations. Back issues are $35 each.

Please address subscription inquiries to:
Trusts & Estates, PPO Box 2100, Skokie, IL 60076-7800
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On the Cover

Our cover this month, *Fox on the Rocks* by Bonnie Marris, sold for $15,210 at Jackson Hole Art Auction's 2018 auction on Sept. 14-15, 2018 in Jackson, Wyo. Marris grew up around the animals she enjoys to paint—her family home was always open to any of these creatures seeking refuge (she fondly recalls two wolves and a coyote once living with them).

They say success comes from experience, and what better way to gain experience than putting yourself in your subject's—or in our case, client's—shoes. Marris does just this, taking major trips every year to observe the animals she paints in their natural habitat, including a six month voyage she once took to Alaska, during which she actually lived in the wilderness alongside her subjects.

In addition to her art, her passion for animals led her to pursue a degree in zoology and animal behavior. Her expertise and work on various projects attracted the attention of renowned zoologist George Schaller, who invited her to design posters that would support his worldwide rare animal relief programs.

In line with Marris' approach to hands-on experience, who better to ask than our esteemed contributors from around the world, both near and far, to update our readers on significant new developments affecting the globetrotting client in this month's Committee Report: International Practice.

—Anna Sulkin, Associate Legal Editor

Throughout this issue, you can find some more of our favorites from Jackson Hole Art Auction's 2018 auction on Sept. 14-15, 2018 in Jackson, Wyo.

Images: Courtesy of Jackson Hole Art Auction 2018

BRIEFING

7/ Tax Law Update

David A. Handler, partner in the Chicago office of Kirkland & Ellis LLP, and Alison E. Lothes, partner at Gilmore, Rees & Carlson P.C., in Wellesley, Mass. report on:

- **Private Letter Ruling 201838007**—Internal Revenue Service rules on an incomplete non-grantor trust that holds community property;
- ***Belair Woods LLC v. Commissioner***—Taxpayer didn't comply with reporting requirements for charitable contribution;
- ***De Los Santos v. Comm'r***—Taxpayers didn't properly report benefits of insurance arrangement as income; and
- **Projected 2019 inflation adjustments**—Likely basic and annual exclusions.

9/ Philanthropy

In "Charitable Gift Planning Q&A," Jonathan G. Tidd, an attorney in Arizona who represents many charitable organizations, shares seven common questions he gets from clients and the answers he provides.

10/ Tips From the Pros

In "Unexpected Consequences of Irrevocable Grantor Trusts," Charles A. Redd, a partner at Stinson Leonard Street LLP in St. Louis and a fellow of The American College of Trust and Estate Counsel, discusses how to cause an irrevocable trust to be a grantor trust, as well as the unpleasant surprises that may arise for trustees and grantors during trust administration.

New on trustsandestates.com

"Taking on the Ugliest Trend in Retirement," by Darwin Bayston, president and chief executive officer of the Life Insurance Settlement Association in Winter Park, Fla.

"Help Clients Deal With the Increasing Cost of Insurance," by Henry Montag, principal at the TOLI Center East in New York City.

"Life Insurance Russian Roulette," by Bill Boersma, founder of OC Consulting Group in Grand Rapids, Mich.

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FEATURES

Estate Planning & Taxation

14/ Minimize Creditor Challenges to Self-Settled Spendthrift Trusts

By Gideon Rothschild & Daniel S. Rubin

Certain trust structures, and the manner of administering those structures, might lessen the likelihood of a fraudulent transfer being found (or an otherwise unfavorable decision being rendered on other grounds), irrespective of what jurisdiction's law governs your client's trust. Here are some approaches you can take for your client, such as suggesting the nest egg approach, using only resident trustees and considering foreign trust situs, to name a few.

Gideon Rothschild is a partner at Moses & Singer LLP in New York City.

Daniel S. Rubin is a partner at Moses & Singer LLP in New York City.

22/ It's Time to Talk About Standby Revocable Trusts

By Samuel Fifer

Clients who've had economically productive literary, scholarly or artistic lives are accustomed to keeping track of their work. But, what about those clients who may have other types of hidden treasures? The wise practitioner should inquire if the client has anything in these categories that he might want to identify and fortify for the time after he passes away. Consider the value to your clients of starting the quest for their creative nuggets right now. That way, you can use revocable trusts to help these clients control what will happen to their work after they die.

Samuel Fifer is a partner at Dentons US LLP in Chicago.

Fiduciary Professions

27/ Avoid Private Trust Company Pitfalls

By Barbara R. Grayson, Anne E. Brynn & Emily Petrovic Li

The upside of a private trust company (PTC) is significant. However, undertaking the establishment and

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By **Alon Kaplan** & **Meytal Liberman**

Case Studies From Israel

Cross-generation transitions of ownership, control and management of the family business

The state of Israel is a small country, about the same size as New Jersey in the United States. It's located on the eastern shore of the Mediterranean Sea and has excellent access by air and sea to Europe, Africa, Asia and North America.[1] It's becoming an important jurisdiction for wealthy families.

The Credit Suisse Research Institute's *Global Wealth Report* of November 2017 found that there were 120,464 ultra-high-net-worth (UHNW) individuals in Israel in 2017.[2] "Ultra-High-Net-Worth Israeli Individuals," p. 49, shows how they're divided.

As is evident, Israel provides a fertile ground for both Israelis and foreign residents who wish to invest in the Israeli market and engage in business to increase their wealth.

Family Business Sold

Keter Plastics develops, manufactures and distributes a broad range of plastic consumer products throughout the world. It's regarded as an innovative global leader in the production of plastic products for the home and garden using the do-it-yourself method.[3]

The Keter Group has over 25,000 sales points around the world, 18 manufacturing plants and two distribution centers spread over nine countries. It enjoys strong ties with retailers in all the markets in which it operates. The company has 4,000 workers, including nearly 2,000 in Israel, and its products are sold in 100 countries.[4]

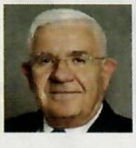
Keter Plastics was founded in 1948 in Jaffa, Israel as a factory for making toys and household utensils, with Joseph Sagol among its founders. Sami and Yitzhak Sagol, his sons, have managed the company since the early 1980s. In 2016, the Sagol family sold their 80 percent stake in the company to the investment fund BC Partners. The acquisition is believed to be at a company value of $1.3 billion USD.[5]

It's also reported that, according to the Sagol close family circle, the decision to sell Keter Plastics was made because the third and fourth generations of the family —four daughters and grandchildren—pursued careers in other fields and didn't intend to continue the family business.[6]

International Corp. Continues

In 1936, Dr. Richard and Hilde Strauss immigrated to Israel from Germany with their son, Michael, and settled in Nahariya. Around the cabin in which they lived, they grew vegetables, set up a small cow shed and cared for two cows. Shortly afterwards, they began to sell dairy products from their farm, which slowly gained popularity. Eighty years later, the Strauss Group is an international corporation that manages and develops its business to offer a wide range of food and beverage brands to entire populations, which are marketed through various commercial channels. The group has 14,000 employees worldwide and is active in more than 20 countries. The group's turnover was estimated at IS 7.9 billion ($2.3 billion USD) in 2016, of which its international operations account for 49 percent. Strauss has collaborations with Danone, PepsiCo, Haier and Virgin.[7]

In 1975, shortly after Richard's death, his children Michael and Raya took over the management of the family business. In 2001, the baton was passed to the next generation with the appointment of Ofra Strauss, Michael's daughter, as chairperson of the group. Ofra's appointment followed a series of management positions she'd held in the company. Ofra still runs the




Alon Kaplan and **Meytal Liberman** are advocates in private practice in Tel Aviv, Israel

Ultra-High-Net-Worth Israeli Individuals

A breakdown of their wealth range

Wealth Range ($ USD)*	Number of Adults	Percentage
1-5 million	104,609	86.838%
5-10 million	9,301	7.721%
10-50 million	5,685	4.719%
50-100 million	506	0.420%
100-500 million	315	0.261%
500-1 billion	28	0.023%
Greater than 1 billion	20	0.017%

*Note that the wealth range figures reflect internal estimations by Credit Suisse, shouldn't be relied on and are presented for illustration purposes only.

— Credit Suisse Global Wealth Databook, *November 2017*

family business today.[8]

In a lecture by Ofra given at a scientific conference of the Israeli Cattle Breeders' Association in July 2013, she stressed the significance of long-term planning for a family business and said:

> In Strauss, until 1995 the family was alone in the business. We made a fundamental decision not to sell the control over the business, to keep it a family business. … we built an organizational identity to distinguish ourselves from our partners. … Thus, when we came to the passing of the baton in the early 2000s, we implemented it based on organizational foundations laid down years beforehand. When the third generation joined the management of the company, the administrative infrastructure of the first and second generations was there and upon it the change of generations was executed.[9]

Court Litigation

Ofer Investments Group was founded by Sammy and Yuli Ofer in 1957, who began their activities in the shipping industry under the name "Mediterranean Lines." By the 1960s, the brothers owned dozens of ships and decided to expand their operations into the income-generating real estate sector. The company has grown and expanded over the years, acquiring and constructing

> Given the importance of the family constitution and the challenges it's intended to face, it would be advisable to complement the family constitution with separate documents that are legally binding and can be enforced.

many properties and becoming one of the leading players in its field. Today, the group is active in income-generating real estate, residential real estate, hotels and banks.[10]

Yuli passed away in 2011,[11] and after his death, a dispute arose between his son Doron, who was disinherited from his father's estate, and his daughter Liora. The long battle between the siblings was eventually concluded in a ruling of the Family Court in Tel Aviv in December 2013, whereby Liora received her father's entire stake in Ofer Investments, leaving her with 51 percent of the company.[12]

Avoiding Disputes

Elco Holdings Ltd.'s (Elco) founder and controlling shareholder, Gershon Salkind, passed away in September 2017 at age 87. Elco is one of the largest

Israeli industrial groups. Elco has several production centers in Israel, Italy, France and China, where it produces household appliances, air conditioning units and electro-mechanical equipment. Gershon founded the group in 1949 and owned 65 percent of its shares. In 2007, Michael and Daniel Salkind, Gershon's two sons, were appointed joint CEOs, and according to sources familiar with the company since their appointment, Gershon resigned from all the boards of directors on which he was previously active and remained as a partner in strategic decisions only.[13]

After Gershon's death and in accordance with his last will and testament, his shares in Elco were divided equally between his two sons, each half estimated at IS 700 million. In addition, the Salkind brothers had signed a shareholders' agreement designed to establish mechanisms for joint management of the company.[14]

The principle of freedom of testation is one of the cornerstones of the inheritance law in Israel.

In addition to his two sons, Gershon had a daughter, Dr. Daphna Sessler. According to reports, Daphna didn't inherit any shares in Elco but rather inherited other private assets of her father's. As far as is known, there are no inheritance disputes within the Salkind family.[15]

It can therefore be assumed that Gershon took the trouble and made the necessary arrangements to efficiently transfer the family business to the next generation while minimizing potential disputes among his children.

The Legal Environment

Here are the elements of the legal environment for UHNW individuals and family businesses.

The family constitution and contracts law. A family constitution is a formal document that sets out the rights, values, responsibilities and rules applying to stakeholders in the family business and provides plans and structures to deal with situations that arise in the course of the family business. Such a document may: assist the family in dealing with unexpected events; keep focus on the matters that are most important to the family; manage disputes; and create a common language and values to serve as the guidelines for the family business, even for future generations who weren't involved in the business when it was first established. A family constitution tends not to be legally binding on the family members.[16]

Given the importance of the family constitution and the challenges it's intended to face, it would be advisable to complement the family constitution with separate documents that are legally binding and can be enforced.

In Israel, a family constitution may be constructed under the applicable law of contracts, which includes the Contracts Law (General Part),[17] the Contracts Law (Remedies)[18] and relevant case law. In such cases, the family constitution may be enforceable against only the parties who've agreed to it, but given that the family constitution is meant to regulate the family relations within the family business across generations, such a contract would most likely become ineffective over time as members of the family change. Moreover, to enforce such a contract, a claim must be filed with the court, which may result in unwanted litigation.

Due to these reasons, a founder of a family business should take into account means or structures under other laws to enable the transfer of the family business to the next generation more effectively.

Gifts

The founders of the family business may transfer ownership of the business to other members of the family at any time they choose by way of a gift. The Gift Law[19] governs this procedure. There's no gift tax in Israel among family members.

The advantage of this procedure is that it allows the transfer of the family business during the lifetime of the founder, who may then assess how efficiently the business is managed by the next generation and make changes accordingly. Furthermore, this course of action prevents the need to undergo inheritance proceedings, which may result in costly and unwanted litigation, such as in the case of the Ofer family.[20]

On the other hand, under certain circumstances, this option isn't available, such as in the case of the Sagol family,[21] where none of the founder's children were in a position to assume control over the family business. Furthermore, such transfer may not be desirable by the founder of the family business, who would be reluctant to relinquish his control over the family business in his lifetime.

Inheritance

A family business may be transferred to the next generation by way of succession. The Succession Law[22] governs individuals who were residents of Israel or owned assets in Israel at the time of their death.[23] The succession procedure has its perils, and the heirs or other members of the family may challenge the bequests under the testament,[24] and litigation in court may arise, such as in the case of the Ofer family.[25]

Freedom of testation. The principle of freedom of testation is one of the cornerstones of the inheritance law in Israel. [26]

The prohibition to grant a gift to be effective on death. Another issue that must be taken into account for estate planning is when the transfer is to become effective. Section 8 of the Succession Law states in Subsection (a) that, "an agreement regarding a person's inheritance or a waiver of his inheritance, made during the lifetime of that person, is void." Subsection (b) states that, "[a] gift made by a person, such that it shall be granted to the recipient only following the death of the donor, shall have no validity, unless made in a will pursuant to the provisions of this law."

In the context of the cross-generational transfer of a family business, it follows that should a founder choose to transfer the family business by way of gift, his intention must be implemented by the transfer of the control over the business during his lifetime. It also follows that a family constitution (a contract) containing provisions relating to the time period after the founder's demise won't be enforceable.

Corporate structure. Another possible course of action a founder can take to transfer the family business to the next generation is in accordance with the applicable law of contracts,[27] the Succession Law and the Companies Law.[28]

In this context, the articles of association of the company can be regarded as a contract between the shareholders and the company, as well as a contract among the shareholders, in accordance with the well-known theory of nexus of contracts, which views the business as a collection of contracts among different parties.[29]

The articles of association of the company operating the family business can therefore be drafted to better meet the needs of the family business, and in effect, constitute the family constitution within a company framework. This allows the shareholders to protect their rights and to ensure the implementation of the family constitution through the Companies Law and the corporate documents of the company.

For example, the articles of association can provide several classes of shares, thereby allowing the founder to control management while assigning dividend shares, which don't grant voting rights to other family members. The management shares can afterwards be bequeathed

> The choice of the form of the trust requires consideration of personal and family circumstances, as well as tax planning considerations.

to selected family members. Such separation of classes is also possible in the United Kingdom.[30]

We assume that Gershon Salkind used such a mechanism to ensure the cooperation of his two sons in the management of Elco.

Other relevant mechanisms can be added to the articles of association, such as alternative dispute resolution clauses, for example, under the Arbitration Law.[31]

Trust structure. A trust structure can be a good way to hold assets under central management and regulate its activities according to the wishes of the head of the family business, who would be the settlor of the trust.

The trust has been part of Israeli society for many years, even before the establishment of the state in 1948. The Trust Law[32] defines a "trust" as the duty imposed on a person to hold or to otherwise deal with assets under his control for the benefit of another or for some other purpose.

A trust may be created by a contract, a deed or a testament, as set out below:

- A trust created by contract requires an agreement

between the settlor and the trustee with no specific procedure necessary for its validity;[33]

- A trust created by a deed must be in writing and signed in the presence of an Israeli notary. This trust is known as a "hekdesh" (that is, an inter vivos trust). It becomes operative during the lifetime of the settlor on the transfer of the assets of the settlor to the control of the trustee;
- A testamentary trust, also referred to under the Trust Law as a hekdesh, refers to a trust that's created by way of probate proceedings under the Succession Law. Accordingly, a testamentary trust must comply with the formal requirements under the Succession Law for executing a will. These include signing the will in the presence of two witnesses or an Israeli notary. A testamentary trust becomes valid only on the issuance of a probate order with respect thereof.

Due to the limitations set by Section 8 of the Succession Law mentioned above, a trust contract between the settlor and the trustee, under which control of the trust's assets passes to the trustee only on the death of the settlor, is invalid. The control must be granted during the lifetime of the settlor, or alternatively, the trust must be a hekdesh with assets effectively transferred to the control of the trustee or a testamentary trust that becomes effective on the issuance of a probate order with respect thereof.

It therefore follows that in a trust created pursuant to a contract, the death of the settlor—one of the parties to the contract—will require a succession procedure to transfer the rights of the deceased to his heirs.

It should also be noted that the choice of the form of the trust, as mentioned above, requires consideration of personal and family circumstances, as well as tax planning considerations.

SPOT LIGHT **Outdoorsy**

White Barns by Richard Schmid sold for $9,360 at Jackson Hole Art Auction's 2018 auction on Sept. 14-15, 2018 in Jackson, Wyo. Not only is Schmid a trained painter, with 50 one-man shows under his belt, he's also involved in promoting art education through his various books, articles, workshops, seminars and television presentations.

The Family Office

A family office[34] may appoint a person who'll manage the financial assets of a family. It may also choose the appropriate administration offices and management of the economic strategy of the family.

In Israel, there are two types of family office—the single family office, which provides services to one family exclusively, and the multi-family office, which provides services to more than one family at a time.

In Israel's modern economy, we find new rich families whose wealth was created in the high tech industry. When the entrepreneur makes his first exit, his lifestyle continues, but to enable him to go on with his business activities, he needs the family office to manage his wealth and take care of the family needs, including transfer to future generations.

Additional Legal Instruments

Israelis view the family constitution as an important document, as evident from Ofra Strauss' words. However, we believe that such a constitution isn't sufficient for the cross-generational transitions of the ownership, control and management of the family business. Reality shows us that situations such as marriage, divorce, death and incapacity require more than a contractual treaty among the family members, and the legal instruments of matrimonial agreements, succession and estate planning, corporate instruments and trusts may provide solutions that are more comprehensive.

Endnotes

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30. Spencer Summerfield and Beliz McKenzie, "Shareholders' Rights in Private and Public Companies in the UK (England and Wales): Overview," *Thomson Reuters Practical Law* (June 1, 2015), *https://uk.practicallaw.thomsonreuters.com/5-613-3685?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1.*
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32. Trust Law, 5739-1979, 33 LSI 41 (1966–1967) (Isr).
33. *Ibid.*, at Section 2.
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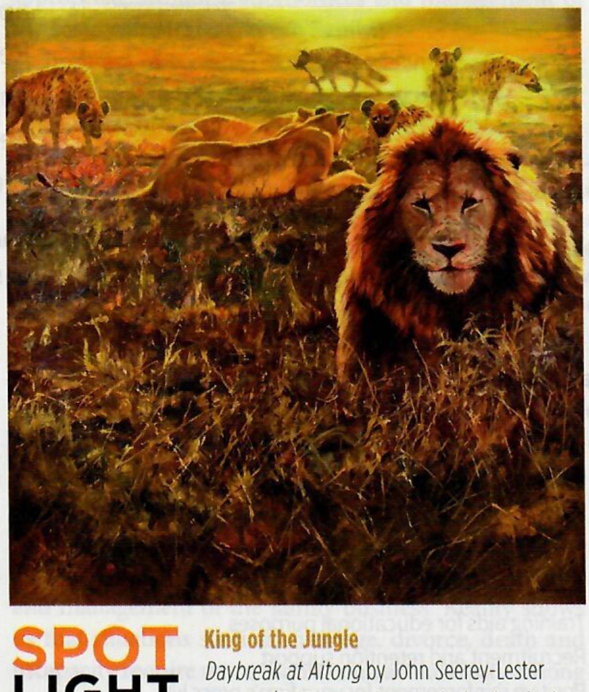

SPOT LIGHT

King of the Jungle

Daybreak at Aitong by John Seerey-Lester sold for $5,850 at Jackson Hole Art Auction's 2018 auction on Sept. 14-15, 2018 in Jackson, Wyo. A renowned wildlife artist, Seerey-Lester has gained a reputation for producing images with a mysterious and mystical narrative. His work can be found at the White House and in permanent, private and museum collections worldwide.