Bank of Israel
Banking Supervision Department
Policy and Regulation Division

December 1, 2020
Circular no. C-06-2635

Attn:
Banking corporations and merchant acquirers

Re: Regulatory Capital—The Impact of Implementing Accounting Rules Regarding Expected Credit Losses
(Proper Conduct of Banking Business Directive no. 299)

Introduction

1. In Circular C-06-2634 dated November 29, 2020, the new accounting rules established in the US regarding Current Expected Credit Losses (hereinafter, "the new rules") were adopted in the Reporting to the Public Directives.

2. In accordance with the Reporting to the Public Directives, banking corporations and acquirers are required to implement these rules, generally beginning from January 1, 2022, and to attribute the impact of the initial implementation of these rules to the "Retained Earnings" item in their financial statements.

3. The new rules are intended to bring the recording of credit loss allowances earlier, and thus to reduce the cyclical conduct of the credit loss allowance and contribute to the stability of the banking corporations. However, in order to reduce the unexpected consequences on the regulatory capital of the initial implementation of the new rules, the Basel Committee on Banking Supervision and banking supervisory authorities in the US and other countries established transitional directives regarding the impact of the initial implementation of the new rules on the regulatory capital.

4. In view of the above, the need arose to revise Proper Conduct of Banking Business Directive no. 299 on "Regulatory Capital—Transitional Provisions" (hereinafter, "Directive 299").

5. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have amended Proper Conduct of Banking Business Directive no. 299.

Update of the Directive

6. In Section 5a of Directive 299, transitional provisions were established, which will apply to the impact of the initial implementation of the new rules, as detailed in the Directive.

Explanatory remarks

7. The transitional provisions were established in order to reduce unintended impacts of the implementation of the new rules on regulatory capital, in accordance with the guidelines of the Basel Committee on Banking Supervision and banking supervisory authorities in the US and in other countries.

Application

8. The start date of the amendment to the Proper Conduct of Banking Business Directive shall be the date on which a banking corporation or acquirer implements the new rules for the first time, in accordance with the requirements of the Reporting to the Public directives.

Update of file

9. Update pages for the Proper Conduct of Banking Business Directive file are attached. Following are the provisions of the update:

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Respectfully,

Yair Avidan
Supervisor of Banks