

**Banking Supervision Department
Policy and Regulation Division**

January 18, 2022

Circular no. C-06-2691

To:

The banking corporations and credit card companies

**Re: Board of Directors
(Proper Conduct of Banking Business Directive no. 301)**

Introduction

- 1) Within the framework of the Banking Supervision Department's policy to strengthen the aspects of contribution to the environment, social responsibility, and corporate governance (ESG—Environmental, Social, and Governance) of the banking system, there is considerable importance to the value of gender equality that reflects the composition of the population and the society. Despite its being a very basic and fundamental value for the existence of a humane, equal, and proper society, there are still cases of notable gaps in achieving it, such as the low participation rate of women in senior management roles.
- 2) The benefits of equality and its impact on the population and on society overall are varied, and in this, the appointment of women to senior roles encourages the employment and promotion of women at all levels of the organization, and thus contributes to their integration into employment and to their promotion at a rate appropriate to their share in the population. Moreover, such representation enables them to take an active part in the design of strategies integrating a wider range of opinions, approaches, and values (such as the aspect of adequate and appropriate corporate governance).
- 3) Gender equality is goal number 5 of the global Sustainable Development Goals (SDGs) adopted in 2015 by the UN General Assembly for a better world by 2030 (out of 17 goals). According to the UN decision, member states should act to implement the goals within a country-wide, regional, and international framework while taking into account differences among countries (abilities, development levels, priorities, etc.).
The government of Israel, in its decisions¹, supports and advocates the approach of granting equal rights and opportunities to women and men to arrange their lives and the society in which they live, including the areas of employment, economy, and focal points of decision making.
- 4) The global awareness of the issue of gender equality on boards of directors (of government/public companies) has developed markedly, and several advanced countries (Germany, France, the Netherlands, Norway, etc.) have already regulated the issue of gender diversity in law. Some of them moved ahead and established a minimum rate of positions for representation (the average is about 30 percent), and in some they even established sanctions for breaching the quota. In the financial sector as well, international banking regulators (BCBS, EBA) determined that they expect banks to consider means to

¹ Decision number 1697 dated 08.06.2014 and number 2331 dated 14.12.2014.

improve and promote gender parity and to adopt policy that supports gender integration and promotion.

- 5) In Israel, the legislature established a series of directives with the goal of ensuing appropriate gender representation in government and public entities (such as the composition of the board of directors at a government company, in accordance with the Government Companies Law and such as the appointment of an external director at a public company in accordance with the Companies Law). The Supervisor of the Capital Markets, Insurance and Savings² also integrated a requirement for suitable gender representation in entities under the Supervisor's oversight. In the past, the High Court of Justice dealt with the issue³ and established that, "the moral resilience of a society that strives for equality can be examined by the scope of the binding means and efforts it is prepared to adopt and to invest in breaking the status quo and in creating a new and equitable reality."
- 6) In view of all the abovementioned, it was decided to amend Proper Conduct of Banking Business Directive no. 301 ("Board of Directors") and to add a directive regarding proper gender representation on a board of directors as an issue of social and public importance. Therefore, after consultation with the Advisory Committee for Banking Business and with the approval of the Governor, I have decided to amend Proper Conduct of Banking Business Directive no. 301 on "the board of directors" (herein, "the Directive").

The main amendments to the Directive

- 7) The addition of Section 21b.

Proper representation of both genders

A new section was added, establishing that without detracting from the requirements in the Directive, the composition of the board of directors shall give proper representation to both genders. To that end, the Board shall establish policy for the gender diversity percentage in it, including the range of time to achieve the target and milestones.

Explanatory remarks

In order to make possible the proper representation of the public's gender composition in senior positions in banking corporations as well, the issue of proper gender representation should be integrated and anchored, including the gender equality target they are striving to reach, in the board's policy. As the change is not immediate and depends to a large extent on the completion of the tenure of a director in order for there to be a change in the gender balance on the board, it is expected that the board will formulate and outline a work plan for the coming years that includes milestones for achieving the target.

- 8) The addition of Section 62(a1) to the Directive

Report on the deviation from the policy regarding the gender diversity percentage that was established by the Board

Explanatory remarks

The banking corporation is required to report to the Banking Supervision Department if, due to various circumstances, such as the replacing of a director, change in the number of

² Circular "Board of directors of an institutional entity" (2018-9-31) published by the Supervisor of the Capital Markets, Insurance and Savings on August 26, 2018.

³ High Court 453/94 the Women's Lobby in Israel vs. the Government of Israel and PD (5), see above, pp. 526–527.

directors on the board, etc., the board's composition is lower than the minimum percentage for gender diversity that was established by the board in its policy, as required in accordance with Section 21b.

Applicability

- 9) The policy for the gender diversity percentage is to be determined within 6 months of the date the Circular is published and the target is to be achieved within 3 years from the date the policy is approved.

Updating of the file

- 10) Attached are the update pages to the Proper Conduct of Banking Business file. Following are the updates:

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Sincerely,

Yair Avidan
Supervisor of Banks