



October 27, 2019
Circular no. C-06-2595

Attn:
Banking corporations and credit card companies

Re: Limitations on indebtedness of a borrower and of a group of borrowers
(Proper Conduct of Banking Business Directive no. 313)

Introduction

1. In view of the unique characteristics of credit risk inherent in customers' activity in derivative instruments and securities, and the weakness of banks in Israel and abroad in managing the risk inherent in such activity, I found it proper to update the concentration limitations of borrowers and groups of borrowers engaging in speculative activity.
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have amended this Directive.

Main Points of the Update

3. **Section 3 of the Directive:**
Definitions of "borrower engaging in speculative activity" and "supervised borrower" were added.

Explanation

The provisions are consistent with the per-industry classification in the Reporting to the Public Directives and with the definition of "supervised borrower" in Proper Conduct of Banking Business Directive no. 330, "Managing Credit Risk Derived from Trading Activity of Customers in Derivatives and Securities" and the definition of "stock exchange member" in the Securities Law, 5728-1968.

4. **Section 4(a) of the Directive:**
The indebtedness of a borrower engaging in speculative activity and that is not a supervised borrower, to a banking corporation, after deducting the amounts detailed in Section 5, shall not exceed 10 percent of the banking corporation's capital.
This limitation shall also apply to the cumulative indebtedness of said borrowers who belong to a group of borrowers.

Explanation

Speculative activity in derivative instruments and securities exposes the bank to higher risk deriving from the actual activity itself, and therefore requires a tighter limitation for total risk

derived from an individual borrower engaged in said activity, and from a group of borrowers who are connected to each other and that engage in speculative activity.

Effective date

5. The effective date for meeting the limitations added in this update shall be July 1, 2020. However:
 - 5.1 A banking corporation that on the day the update is published meets said limitations, shall not deviate from the limitations set in the directive.
 - 5.2 A banking corporation that on the day the update is published does not meet said limitations, is required to reduce the deviation in the exposure by fixed quarterly rates until July 1, 2020.

Update of file

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

Remove page

(11/18) [17] 313-1-16

Insert page

(10/19) [18] 313-1-17

Respectfully,

Dr. Hedva Ber
Supervisor of Banks