Bank of Israel
Banking Supervision Department
Policy and Regulation Division

July 10, 2017

Circular no. C-06-2534

Attn:
The banking corporations and the credit card companies

Re: **Industry indebtedness limitation**
(Proper Conduct of Banking Business Directives No.314, 315)

Introduction

1. The revision to Proper Conduct of Banking Business Directive no. 315 marks a fundamental change in the approach to the issues in the current directive regarding "Supplemental provision for doubtful debts".
2. The main change in the directive is establishing a category of a per-industry limitation, under which the indebtedness to a specific industry is not to exceed 20 percent of the total indebtedness to the public, and in some cases not to exceed 22 percent. In parallel, the mechanism of a general provision and a supplemental provision was cancelled.
3. Credit portfolio concentration, including credit concentration by industry, is one of the sources of credit risk at banking corporations. Due to the recognition of the negative impact that per-industry concentration has on the quality of the credit portfolio at banking corporations, limitations on total indebtedness to a specific industry were set.
4. The cancellation of the supplemental and general provision is part of a policy of regulatory easing and simplification of processes. In the directive, sections related to the features of the risk were cancelled, in view of the existence of a quantitative limitation in respect of them as required in other Proper Conduct of Banking Business Directives.
5. In view of the above, the structure of the directive changed markedly as did the numbering of its sections.
6. After consulting with the Advisory Committee on Banking Matters and with the approval of the Governor, I have decided to revise Proper Conduct of Banking Business Directive No. 315 on "Industry indebtedness limitation" (hereinafter, "the Directive") and Proper Conduct of Banking Business Directive No. 314 on "Sound credit risk assessment and valuation for loans".

The main amendments to the Directive

7. Section 4 (Calculating the supplemental provision) was repealed.

Explanatory note:

Due to the cancellation of the supplemental provision and the general provision, references to all risk characteristics that are not industry concentration were cancelled. Accordingly, there will be a corresponding update of the Reporting to the Public Directives (page 22–632).

8. Section 5 (Limitations) –

Total indebtedness of a particular industry to a banking corporation is not to exceed 20 percent of total indebtedness of the public to the banking corporation.

Explanatory note:

Currently, the Directive does not define a limitation for per-industry indebtedness but rather requires a supplemental provision. The change in the directive formulates the threshold as a limitation on the per-industry limitation that is not to be deviated from, similar to limitations on a borrower, group of borrowers, related parties, etc.

9. Section 6 (Deductions)

Explanatory note:

In order to measure the industry indebtedness, a bank may deduct from the indebtedness amounts in respect of certain risk characteristics. Due to its immateriality, the option of deducting up to double the excess minimum capital was canceled in the “Deductions” section, as well as the possibility of underweighting the indebtedness in respect of which there are state guarantees within the framework of encouraging residential construction.

10. Section 7 (Deviation)

A banking corporation in which a deviation from the limitation developed, shall report on the deviation without delay as well as on a plan to cancel it as soon as possible.

Explanatory note:

In view of the importance of the limitation, and its possible ramifications on the quality of the credit portfolio, the existence of a deviation requires steps to be taken, both by the banking corporation and by the Supervisor of Banks.

11. Section 8 (Reporting)

A banking corporation is to report to the Banking Supervision Department on its compliance with the limitations detailed in this Directive, once a quarter, in accordance with the reporting formulation of Directive 809.

Explanatory note:

In view of the update of the directive, an update is planned for Reporting to Banking Supervision Directive no. 809. Within the framework of the update, there will be a report on the appropriateness of the group provision in respect of the quality of financial information of borrowers.

Amendment to Proper Conduct of Banking Business Directive #314

12. A requirement that when establishing the allowance for credit losses, “credit for which there are no updated financial statements” is to be weighted as well, was added to Section 26 (the method for establishing credit loss allowances) of Proper Conduct of Banking Business Directive #314.

Explanatory note:

In view of the cancellation of the mechanism of additional allowance in general, and in respect of credit for which there are no updated financial statements in particular, the banking corporation is to weight the said risk characteristic when determining the allowance for credit losses.

Start

13. The amendments to the Directives as stated in this circular come into effect on 1.1.2018.

14. Early implementation of this circular is possible and even recommended.

Revised file

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

Insert page	**Remove page**
(07/17) [10] 314-1-14	(04/13) [9] 314-1-14
(07/17) [22] 315-1-4	(09/16) [21] 315-1-9

Respectfully,

Dr. Hedva Ber

Supervisor of Banks