



April 27, 2020

**Circular no. C-06-2618**

Attn:

**Banking corporations and credit card companies**

**Re: Additional Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus (Temporary Provision)**

(Proper Conduct of Banking Business Directive no. 250)

**Introduction**

1. Pursuant to the temporary order issued April 7, 2020, following are additional easing steps formulated by the Banking Supervision Department with the goal of assisting households, primarily mortgage borrowers, and in parallel providing the banking corporations the business flexibility required at this time to assist businesses under the anomalous conditions that have been created
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have established the following Proper Conduct of Banking Business Directive as detailed below.

**Main revisions to the Directive**

**Proper Conduct of Banking Business Directive no. 311 on “Credit Risk Management” (Section 7a)**

3. In Section 27a of Proper Conduct of Banking Business Directive no. 311, “the report shall be considered updated if submitted within 9 months from the date of the financial statement” shall be replaced by “the report shall be considered updated if submitted within 11 months from the date of the financial statement”.

**Explanatory remarks**

In view of the coronavirus crisis and the limitation on traffic in the public sphere, it appears that the reduced scope of work will not allow the preparation of financial reports on time. The tax authorities announced an extension of 2 months for the deadline to file financial reports. Pursuant to that, and in order to make it possible to extend credit to borrowers who have not yet compiled financial statements due to the above, it was decided to grant an extension of two months as well regarding the obligation to receive an updated financial report established in this Directive.

## **Proper Conduct of Banking Business Directive no. 329 on “Limitations on Issuing Housing Loans” (Sections 11 (b) and 11(c))**

4. Notwithstanding the provisions of Section 5(a) of Proper Conduct of Banking Business Directive no. 329, regarding the estimation of the income, a banking corporation may take into account the average amount of the borrower’s income in the 3 months preceding the borrower going on unpaid leave or shifting to a part-time position due to the coronavirus crisis (hereinafter, “going on unpaid leave”) given the fulfillment of the conditions described below.

### **Explanatory remarks**

In view of the coronavirus crisis, many employees were placed on unpaid leave, and accordingly their income declined, so that the “payment to income ratio” limitation is liable to be a barrier to their receiving a mortgage, and in some cases meeting obligations in respect of existing agreements. Therefore, in this temporary directive, the banks are permitted to take into consideration the average amount of the borrower’s income in the 3 months preceding the borrower going on unpaid leave or shifting to a part-time position due to the coronavirus crisis given the fulfillment of all the following conditions: In the bank’s assessment, when the coronavirus crisis passes, the borrower is expected to return to his employment at the level of income he had prior to going on unpaid leave; the borrower’s payment to income ratio, after going on unpaid leave, will not exceed 70 percent; the bank will establish an overall limitation for the scope of credit extended based on this easing.

5. Section 14a of Directive 329 shall not apply to housing loans that were approved beginning from the start of the period of the temporary provision—March 19, 2020—and until the end of the Directive period.

### **Explanatory remarks**

With the goal of helping to reduce the impacts of the crisis on mortgage borrowers, it was established as a temporary provision that housing loans that are extended during the crisis period shall not be subject to the additional Common Equity Tier 1 Capital requirement of 1 percentage point. This is intended to ease the capital requirement from the bank in respect of the mortgage, and accordingly to reduce the interest rate on housing loans.

## **Proper Conduct of Banking Business Directive no. 355 on “Business Continuity Management” (Section 12)**

6. In Section 13a, which was added to Proper Conduct of Banking Business Directive no. 355 via Section 12 of Proper Conduct of Banking Business Directive no. 250:
  - (1) In Subsection a(1), “15 percent” shall be replaced by “30 percent”.
  - (2) In place of Subsection a(3) shall be:

“Customer in-person branches shall provide only cash withdrawal and deposit services and check withdrawal and deposit services. The provision of other services is subject to advance coordination and availability of the service at the branch. The services are also to be provided to the banking corporation’s customers from other branches;

A banking corporation whose share of branches that provided teller services prior to March 19, 2020, was lower than the minimum share as provided in Paragraph (1), shall open in addition to all those branches, additional branches that will provide cash and check withdrawal and deposit services via ATMs, so that the total number of branches providing such services, either by a teller or by ATMs, shall reach at least the share established in Paragraph (1).”

### **Explanatory remarks**

In view of the government’s decision on easing in the limitations on activity, activity by branches that provide service to customers in person shall be expanded, such that the minimum share of open customer in-person branches shall be 30 percent. In those branches, only cash withdrawal and deposit services and check withdrawal and deposit services shall be provided. The provision of other services is subject to advance coordination and availability of the service at the branch.

We expect that the banking corporations shall continue to act to encourage customers to switch to receiving services via digital means and by phone.

### **Proper Conduct of Banking Business Directive no. 357 on “Information Technology Management” (Section 12a)**

7. In Section 11(a)(2) of Proper Conduct of Banking Business Directive no. 357, at the end shall be: “Regarding a security survey to which the period of 18 months applies, the banking corporation may extend such period by a maximum of 6 months with the reasoned authorization of the Chief Risk Officer”.

### **Explanatory remarks**

In view of the coronavirus crisis, some of the banking corporations are encountering difficulties in implementing the guideline to carry out a security survey for high-risk systems and e-banking systems (hereinafter, “the systems”) at least once every 18 months.

The goal of the amendment is to make it easier for those banking corporations and to defer the latest time for carrying out such a survey by a period of up to half a year, in a manner that will enable them to organize the carrying out of such a survey, and this does not detract from the other obligations imposed on the banking corporations in this regard.

To remove any doubt, it is clarified that the said easing is granted only for those systems for which the 18-month period is ending, during the period that the temporary provision applies.

It is emphasized that the extension of the time between surveys is liable to increase the probability that the risks in said systems will be realized, and particularly in the current period when there is an increase in cyber threats and additional risks as a result of changes for customers’ benefit, in processes that are generally carried out in routine times. Therefore, the relevant control functions at the banking corporation, including the Chief Risk Officer, are required to take into account these and other aspects in the process of implementing said deferral, while ensuring that the banking

corporation shall make a reasonable effort to carry out the said survey even prior to the last possible due date established in the temporary provision.

**Start date**

8. From the publication date of this Circular.

**Update of file**

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

**Remove page**

(April 7, 2020) [4] 250-1-7

**Insert page**

(April 27, 2020) [5] 250-1-7

Respectfully,

Dr. Hedva Ber  
Supervisor of Banks