BANK OF ISRAEL

**Banking Supervision Department**
Jerusalem, December 24, 2023
**Circular No. C-06-2767**

**To: The Banking Corporations and Merchant Acquirers**

**Re: Opening a Current Account with a Credit Balance for Financial Entities**
(Proper Conduct of Banking Business Directive no. 424)

## Introduction

1. In recent years, licensing and supervision requirements have been defined for entities providing nonbank financial services in Israel. These include enacting the Control of Financial Services (Regulated Financial Services) Law, 5776-2016 and the Payment Services Occupation Regulation and Payment Initiation Law, 5773-2023. In addition, in May 2023 an amendment was made to the Banking (Service to the Customer) Law, 5741-1981 (hereinafter—the Law), which determines that in the event that a banking corporation refuses to provide the service denoted in Section 2(a)(2) of the Law to a financial entity, for itself or for the financial entity's customers, or if such service had not been provided within three months from the date the first request was submitted by the financial entity to open and maintain an account, the banking corporation shall inform the Supervisor of Banks of this and provide explanation for its refusal to the above.
2. This directive is designed to regulate the requirements applicable to the banking corporation while opening and maintaining the account for entities providing nonbank financial services.
3. The regulation was not accompanied by the publication of a report in accordance with the Regulation Law, 5782-2021, as the direct and indirect impacts the regulation is expected to have on the factors to which it is designed to apply or on other protected interests, including costs for compliance with it, are not material, in accordance with Section 34(c)(2) to the Regulation Law.
4. After consulting with the Advisory Council on subjects pertaining to banking business, and with the Governor's approval, I have established Proper Conduct of Banking Business Directive No. 424, on the subject of "Opening a Current Account with a Credit Balance for Financial Bodies") (hereinafter—"the Directive"), as detailed below.

## Main Points of the Directive

### Deciding on a Request to Open an Account (Sections 6-7)

5. Sections 6-7 of the Directive establish substantiation and disclosure requirements with which the banking corporation must comply vis-à-vis a financial entity seeking to open an account for itself or for the customers of the financial entity in the banking corporation, in the event of refusal to open an account or a delay exceeding three months in providing notice on whether the request has been accepted or refused.

   **Explanatory remarks**

   As part of an approach of fairness and transparency toward the customers of the banking corporation, the directive states that in any event of a refusal to open an account, the banking corporation is required to provide its decision on the refusal to open the account, in writing and near the date of the decision, to the financial entity, with its decision including detailed reasons for the refusal, subject to the law. Within the framework of submitting this decision, the banking corporation shall make it clear to the financial entity that it is entitled to contact the Banking Supervision Department regarding the refusal.

   The directive also establishes that if three months have passed from the date the financial entity asked to open an account in a banking corporation, and the financial entity has not been provided notice on whether the request has been accepted or refused, the banking corporation shall send the financial entity written notice; such a notice shall include details of the reasons for the delay, subject to the law; such notice shall also include a message to the financial entity that it is entitled to contact the Banking Supervision Department regarding the delay.

### Reporting to the Supervisor of Banks (Section 8)

6. Section 8 of the Directive anchors the reporting obligation to the Banking Supervision Department in the event that a banking corporation refuses to provide the service denoted in Section 2(a)(2) of the Banking (Service to the Customer) Law, 5741-1981, to a financial entity, or for the customers of the financial entity, or if such service had not been provided within three months from the date the first request was submitted by the financial entity to open and maintain an account at the banking corporation, which includes the reasons for its refusal to provide the service or the delay in providing service, as the case may be. This report shall be in accordance with Reporting to Supervision Directive 824 on the subject of "Reporting Requests to Open an Account for a Financial Entity."

   **Explanatory remarks**

   The banking corporations are required to report to the Banking Supervision Department on any refusal to open an account to a financial entity, or a delay in opening the account exceeding three months from the date of the first request by the financial entity to open an account in the banking corporation. This report shall also include cases in which a banking corporation has refused to open an account in which the money of the financial entity's customers will be managed. The report shall include the reason to refuse to open the account or the reason for the delay in opening the account, as the case may be. The reporting shall be in accordance with Reporting to Banking Supervision Directive no. 824 on the subject of "Reporting Requests to Open an Account for a Financial Entity".

**File Update**

7. Attached are update sheets for the proper bank conduct file. The following are the update instructions:

| **Remove page** | **Insert page** |
|---|---|
| ---- | (12/23) [1] 424-1-2 |

Respectfully,

Daniel Hahiashvili

Supervisor of Banks