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February 26, 2018

**Circular no. C-06-2555**

Attn:

**Banking corporations**

**Re: Capital Adequacy and Measurement—Regulatory Capital**  
(Proper Conduct of Banking Business Directive no.202)

**Introduction**

1. In recent years, the banking corporations have begun to issue Tier 2 Capital instruments that are included in regulatory capital in accordance with the criteria established in Directive 202. To ease the issuance process, it was decided that a banking corporation issuing Tier 2 Capital instruments shall provide notification of the issue to the Banking Supervision Department soon after the issue, rather than receiving the authorization of the Supervisor of Banks in advance, as required until now.
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have amended this Directive.

**Changes to the Directive**

3. (a) Following Section 10.a.(2), add:

(3) "Sending a notification to the Banking Supervision Department, soon after issuance of the capital instrument, using the wording in Appendix G, attached."

(b) In Appendix D, Criteria 11 requiring the Supervisor's authorization is repealed.

(c) In Appendix E, there were several technical changes.

(d) After Appendix F, add Appendix G: "Notification format of the issuance of a capital instrument recognized as Tier 2 capital".

**Explanation**

To ease the process of issuing capital instruments and to clarify the responsibility imposed on banking corporations to examine the compliance of the instruments with the criteria required in the directive, it was decided to cancel the requirement to receive authorization in advance from the Banking Supervision Department for the issue. Instead, a banking corporation that issued a Tier 2 capital instrument is required to notify the Banking Supervision Department of the issue soon after the issue, in accordance with the format established. The format of the notification and the details required are based on guidelines published in the EU.

However, in cases in which the capital instrument includes new characteristics that are liable to impact on its compliance with the criteria, it is expected that the banking corporation will contact

the Banking Supervision Department before the issue for consultation.

To clarify, if after the issue the Banking Supervision Department determines that it does not comply with the criteria, the banking corporation will be required to immediately remove the instrument from the regulatory capital.

**Update of file**

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

**Remove page**

(5/13) [3] 202-1-18

**Insert page**

(2/18) [4] 202-1-21

Respectfully,

Dr. Hedva Ber  
Supervisor of Banks