

Jerusalem, October 31, 2023
Circular Number C-06-2761

Attn:

The Banks and Acquirers

**Re: Adjustments to Proper Conduct of Banking Business Directives
in order to deal with the “Swords of Iron” War (Temporary Directive)**
(Proper Conduct of Banking Business Directive no. 251, deferral of the start dates of Directives
422, 434, 451, and 501)

Introduction

1. In view of the eruption of the Swords of Iron War on October 7, 2023, and its implications for the Israeli economy, and to help the banking system and its customers cope with the situation's challenges, below is a series of easing measures that the Banking Supervision Department has formulated, within the framework of a Temporary Directive.
2. The adjustments in this Directive are meant to give banks and credit card companies the business flexibility needed at this time, in order to lighten the burden on customers who have been adversely impacted by the state of war. This Temporary Directive shall be updated from time to time as required.
3. After consulting with the Advisory Committee on Banking Business Affairs and with the approval of the Governor, I have established this Directive. The regulation was not accompanied by the publication of a report under the Principles of Regulation Law, 5782-2021, in view of “concern about substantial impairment of a protected interest that mandates the urgent establishment of regulation” (Section 34(c)(1) of the Law).

Main provisions of the Directive

4. **Proper Conduct of Banking Business Directive 203, “Measurement and Capital Adequacy—Credit risk—the Standardized Approach”
(Section 2a. of the Directive)**

It was clarified that the increase in the LTV ratio in loans intended for purchasing land for goals of development or construction above the threshold of 80 percent deriving from the interest that will accrue until December 31, 2023 as a result of the “grace period” granted after October 7, 2023, shall not be taken into account in calculating the LTV ratio.

Explanatory notes

The Directive requires the allocation of a risk weight of 150 percent to loans designated for purchasing land for the purpose of development or construction, that were granted at an LTV ratio that exceeds 80 percent. The interest paid to the customer as a result of the “grace period”, together with the amount of credit, is expected to increase the LTV ratio and could lead to an LTV that exceeds 80 percent and as a result that lead to a risk weight of 150 percent. With the goal of avoiding a regulatory barrier to providing a “grace period” to the

customer at that time, it was clarified that the interest that will accrue as said will not be taken into account in calculating the LTV for Section 79.

5. Proper Conduct of Banking Business Directive no. 311 on “Credit risk management” (Sections 5a and 5b of the Directive)

- 5.1. Section 27a of the Directive—there was an extension of the period in which a report will be considered as up to date, by 3 months, for a total of 12 months from the date of the financial statements.
- 5.2. Section 27c of the Directive—there was an extension of the period in which semiannual data can be provided, by 3 months, for a total of 6 months.

Explanatory notes

In view of the “Swords of Iron” War and the adverse impact on the economy’s functioning, it appears that there will be a negative impact on the ability to prepare financial reports on time or to provide certain internal financial data. To make it possible to provide credit to borrowers who have not yet prepared financial statements due to the above, it was decided to grant an extension of 3 months regarding the obligation to receive an updated financial statement established in Section 27a and with regard to the obligation set in Section 274c; this extension shall apply whether it is a format determined by the banking corporation or a financial statement format.

6. Proper Conduct of Banking Business Directive no. 360 on “Rotation and Consecutive Vacation” (Sections 6a. to 6c. of the Directive)

- 6.1. It was determined that if the maximum length of time defined by the banking corporation for filling a sensitive position by a manager or employee will expire by December 31, 2023, the banking corporation may extend the maximum period of time until March 31, 2024, provided that the controls set according to Section 3(b)(4) are carried out.

Explanatory notes

Pursuant to the provisions of Section 3(b)(2) and for the need to provide continuous and optimal services to the banking corporations’ customers, it is reasonable under the current circumstances that a banking corporation that defined a maximum time for fulfilling a sensitive position by a manager or employer that shall expire by December 31, 2023, may extend the said maximum period until March 31, 2024, provided that the controls set according to Section 3(b)(4) are carried out.

- 6.2. If it was determined that despite the provisions of Section 4(a), employees holding sensitive positions and other office holders that still have to utilize a continuous vacation by December 31, 2023, shall be permitted to utilize it by March 31, 2024, to the extent this can be done so according to all laws.
- 6.3. Notwithstanding the provisions of Section 6.2 above, in cases in which employees holding sensitive positions and other office holders were in the midst of the continuous vacation and

were called back to work due to the security situation, the banking corporation may, with the consent of the internal exceptions committee, authorize that in view of the security situation the shortening of the continuous vacation required by the Directive, to the extent this can be done so according to all laws.

Explanatory notes

The extension of the continuous annual vacation period for employees holding sensitive positions and other office holders as noted in Section 6.2 above or the providing of the possibility for the banking corporation, with the approval of an internal exceptions committee, to shorten the continuous vacation of such workers who were called during their vacation to return to work due to the security situation as described in Section 6.3, was determined in order to enable banking corporations to provide continuous and optimal services to their customers despite the absence of many workers due to the emergency situation and the need for the entire available labor force. Obviously, the provisions of these sections will be subject to the provisions of all laws, including the Annual Vacation Law, 5711-1951.

7. Proper Conduct of Banking Business Directive no. 451 on “Procedures for Extending Housing Loans” (Sections 10–13 of the Directive).

- 7.1. In Section 11(b)(2) of Directive no. 451, “14 days” shall be replaced by “a calendar month”
- 7.2. In Section 15b(e) of Directive no. 451, “3 business days” shall be replaced by “8 business days”
- 7.3. In Section 15c(b) of Directive no. 451, “5 business days” shall be replaced by “8 business days”
- 7.4. In Section 19a, “7 days” shall be replaced by “10 days”

Explanatory notes

In view of the shortage of workers in the banking system, as a result of the war, and to allow the diverting of resources to deal with urgent cases and in particular customers who have been negatively impacted by the situation, there was an extension of the dates set in the Directive during which the banking corporation is to issue a letter of intent to customers (Section 15b(e) of Directive no. 451), acquiring approval (Section 15c(b) of Directive 451), notice that the bank has insured the customer with an insurance of the bank’s choice in cases in which the policy offered does not meet the customer’s requirements (Section 11(b)(2) of Directive 451 and approval to pledge an asset at a second degree for the benefit of a third party (Section 19a of Directive 451).

8. Proper Conduct of Banking Business Directive no. 449 on “Simplifying customer agreements” (Section 14 of the Directive)

Directive 449 shall not apply when a customer requests to defer payments within the framework of an agreement to provide credit, to the extent that this is in reference to a

deferral under the framework of assistance to customers in dealing with the ramifications of “Swords of Iron” published on the Bank of Israel website.

Explanatory notes

In order not to hold back the implementation of the special frameworks formulated in this period and that are intended to assist banking system customers by deferring loan payments, a relief was provided regarding the existence of the full disclosure requirement via the form established in Directive 449. This does not derogate from the obligation established under any other law.

9. Proper Conduct of Banking Business Directive no. 460 on “Presentation of Activity Data in a Securities Deposit” (Section 15 of the Directive)

Notwithstanding the provisions of Section 6(a) of Directive 460, the cumulative data from the beginning of the calendar year through September 30, 2023 are to be presented by November 30, 2023.

Explanatory notes

In view of the shortage of workers in the banking system as a result of the war, which makes it difficult for the banking system to prepare the report and in order to allow the diverting of resources to dealing with urgent cases and in particular customers who have been negatively impacted by the situation, a deferral was given of 1 month in sending the said documents. It should be noted that customers have the option of viewing up to date data on the websites and applications, and there has been no change in this regard.

10. Instruction from the Supervisor of Banks in accordance with Section 3(a1) of the Banking (Service to the Customer) (Due disclosure and submission of documents) Rules, 5752-1992 (Section 16 of the Directive)

In line with my powers according to Section 3(a1) of the Banking (Service to the Customer) (Due disclosure and submission of documents) Rules, 5752-1992, I instruct that despite the provisions of Section 3(a)(4) of the said Rules regarding the agreement to provide credit, a customer’s signature will not be required in order to execute a customer’s request to defer payments, so long as the reference is to deferral pursuant to the assistance framework to customers in dealing with the ramifications of the “Swords of Iron” War published on the Bank of Israel website, provided that the customer’s consent is received and documented.

Explanatory notes

In order not to hold back the implementation of the special frameworks formulated in this period and that are intended to assist banking system customers by deferring loan payments, it was established that the customer’s agreement can be received in different ways in accordance with banking corporation’s discretion, including a phone conversation, provided that it is documented.

11. Commencement

The start date of the amendment to Directive 251 as detailed in this Circular shall be the date the circular is published on the Bank of Israel website.

12. Extension of dates

12.1. The amendment to Proper Conduct of Banking Business Directive no. 422 on “Opening and managing a current account with no credit facility” according to Circular no. C-06-2745 from April 26, 2023—notwithstanding the provisions of Section 10 of the said circular, the start date of the amendment shall be June 26, 2024.

12.2. The amendment to Proper Conduct of Banking Business Directive no. 434 on “Joint accounts—the survivorship clause and the handling existing charges after a death” according to Circular no. 06-2746 from June 11, 2023:

(a) Notwithstanding the provisions of Section 13 of the said circular, the start date of the amendment to the directive shall be September 11, 2024.

(b) Notwithstanding the provisions of Section 14 of the said circular, contacting customers shall be carried out at the latest by March 11, 2024.

12.3. The amendment to Proper Conduct of Banking Business Directive no. 451 on “Procedures for extending housing loans” according to Circular no. C-06-2755 dated July 19, 2023—notwithstanding the provisions of Section 8 of the said circular, the start date of the amendment to the Directive shall be October 20, 2024.

12.4. The amendment to Proper Conduct of Banking Business Directive no. 501 on “Managing a Customer Service and Support System” according to Circular no. C-06-2744 dated March 26, 2023—notwithstanding the provisions of Section 15 of the said circular, the start date of the amendment to Directive 501 shall be June 26, 2024.

File update

Update pages for the Proper Conduct of Banking Business Directives file are attached. The following are the update instructions:

Remove page
251-1-3 [1] (10/23)

Insert page
251-1-5 [2] (10/23)

Respectfully,

Daniel Hahiashvili
Supervisor of Banks