Introduction, Scope of Application, and Calculation of Requirements

Table of contents

* Working Framework for Measurement and Capital Adequacy (Transitional Directive), December 2008.

Introduction

1. In June 2006, the Basel Committee on Banking Supervision published a framework document on capital adequacy requirements entitled "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (hereinafter: Basel II). The purpose of Basel II was to reinforce the resilience and stability of the international banking system by strengthening the connection between capital requirements and levels of risk and by improving banking corporations' risk management systems.

   In December 2010, the Basel Committee issued a new framework entitled, "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (hereinafter: Basel III). The new framework includes changes and additions to Basel II following the lessons of the global financial crisis.

   Proper Conduct of Banking Business Directives 201–211 adopt the Basel II and Basel III recommendations for the Israeli banking system.

2. The Directives reflect the Supervisor's stance on each of the topics for which there is supervisory discretion. In formulating his stance, the Supervisor studied the way supervisory authorities abroad related to the topic and examined its suitability to the directives, laws, and particulars to the Israeli economy, to the extent necessary.

3. The Directives include guidelines for the application of advanced approaches to credit risks but do not include advanced approaches to the calculation of the mitigation of credit risk, operational risk, and market risk. However, the Banking Supervision Department is encouraging the banks to continue gathering data for the establishment of the requisite information infrastructure for the future implementation of advanced models in these fields.

The section numbering in Proper Conduct of Banking Business Directives 201-211, excluding Directive 202, corresponds to that in the original Basel II document.

Scope of Application

20. Proper Conduct of Banking Business Directives 201–211 shall be applied on a consolidated basis by:
    1. a banking corporation, to the exclusion of foreign banks and Joint Services Companies;
    2. an auxiliary corporation that is a credit card company;
    3. a corporation as specified in Sections 11(a)(3a) and (3b) and 11(b)(1) of the Banking (Licensing) Law, 5741-1981, that is incorporated in Israel and controlled by corporations as set forth in Section 1 or Section 2 above, which are subordinate to this Directive, unless one of the following conditions is present:
        a. The risk-weighted assets of the corporation which are calculated in accordance with these directives do not exceed 1 percent of the capital base of the controlling corporation or NIS 50 million, whichever is higher.
        b. The corporation that controls it meets all the following conditions:
            1. it has been indemnified for all its liabilities;
            2. it includes it in its internal risk management and auditing processes;
            3. it has no impediment, and is expected to have no impediment, including a legal impediment, to the immediate transfer of capital sources or liquidity or to the recourse of the corporation's liability by the controlling corporation.

21.-22. Repealed.[4] [5]

23. Further, as one of the principal objectives of supervision is the protection of depositors, it is essential to ensure that capital recognized in capital adequacy measures is readily available for those depositors. Accordingly, the Supervisor

---

[4] Repealed.
[5] Repealed.

should test that individual banking corporations are adequately capitalized on a stand-alone basis.

24.-39. Repealed.[6] [7] [8] [9] [10]

Calculation of minimum capital requirements

40. (a) Proper Conduct of Banking Business Directives 203–208 present the calculation of the total minimum capital requirements for credit, market, and operational risk (First Pillar); Proper Conduct of Banking Business Directive 211 describes the capital adequacy assessment process (Second Pillar). The capital ratio is calculated using the definition of regulatory capital and risk-weighted assets.

(b) The minimum capital requirements shall be as follows:

1. The Common Equity Tier 1 capital ratio for risk-weighted assets must be no lower than 9 percent. A banking corporation whose total balance sheet assets on a consolidated basis are equal to or exceed 24 percent of total balance sheet assets in the banking system shall maintain a Common Equity Tier 1 capital ratio for risk-weighted assets of no less than 10 percent.
2. The total capital ratio for risk-weighted assets must be no lower than 12.5 percent. A banking corporation whose total balance sheet assets on a consolidated basis are equal to or exceed 24 percent of total balance sheet assets in the banking system shall maintain a total capital ratio for risk-weighted assets of no less than 13.5 percent.

(c) Notwithstanding the provisions of Subsection (b), the Supervisor may determine a higher minimum capital ratio for specific banking corporations.

A. Regulatory capital

41. The definition is specified in Proper Conduct of Banking Business Directive number 202.

---

6 Repealed.
7 Repealed.
8 Repealed.
9 Repealed.
10 Repealed.

42.-43. Repealed.

B. Risk-weighted assets

44. Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 and adding the resulting figures to the sum of risk-weighted assets for credit risk.[11]

C. Transitional provisions

45.–49. Repealed.[12]

Revisions

Circular 06 number	Version	Details	Date
2268	1	Original directive	June 20, 2010
2387	2	Update	May 30, 2013
2607	3	Update	March 1, 2020

[11] Repealed.
[12] Repealed.