Bank of Israel
Banking Supervision Department
Policy and Regulation Division

October 22, 2017
Circular no. C-06-2543

Attn:
Banking corporations and credit card companies

Re: Limitations on Indebtedness of a Borrower and of a Group of Borrowers
(Proper Conduct of Banking Business Directive no. 313)

Introduction

Beginning in January 2017, the banking corporations are required to implement the requirements of allocating capital in respect of exposures to central counterparties as provided in Proper Conduct of Banking Business Directive no. 203, and consistent with the requirements of the Basel Committee on Banking Supervision on the issue. In light of that, and to maintain the consistency of the calculation in the various directives, the need arose for updating the said calculation method including the definition of "indebtedness" in the Directive.

Likewise, as part of the gradual framework of aligning the elgible credit risk mitigants in Directive 203 to "deductions" permitted regarding the limitation on borrower's indebtedness, and consistent with the update of Directive 315 in which eligible credit protection was partially recognized for measuring exposure to an industry, the need arose for updating the Directive. The update takes into account the effect of transferring risk in respect of the borrower's indebtedness to an insuring entity and allows partial recognition of eligible credit protection for measiuyring the limitation on indebtedness to a borrower in the Directive.

Asfter consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have decided to amend Proper Conduct of Banking Business Directive no. 313 on "Limitations on Indebtedness of a Borrower and of a Group of Borrowers".

Changes to the Directive

Section 3—Definitions

The calculation of the banking corporation's indebtedness to the Maof Clearing House (Section (5) of the indebtedness definition) based on the approach implemented for calculating the amount of the exposure to central counterparties as noted in Directive 203, Appendix C.

Explanation

For consistency between the directives.

Section (8)(b) of the definition of "indebtedness"—insurance companies' gurantees

An insurance companies' guarantee, which is recognized as a deduction and from which repayment can be made in respect of the "borrower's" indebtedness, was added to the definition of indebtedness, and will be weighted in the total amout.

Explanation

It was decided to allow some deduction in respect of the indemnity of inruance companies to the indebtedness of certain entities (as noted in Section 6 below). The said deduction will be considered the indebtedness of the protection supplier.

Section 5—Deductions
Section 5(b3)—Recognition of indemnity from insurance companies as a "deduction" from indebtedness.
The "deductions" were expanded for the purpose of the limitation on a borrower's indebtedness, so that it will be possible to also subtract an insurance company's indemnity from the amount of the indebtedness to a government company rated A or higher (hereinafter, the borrower). The weight of the indemnity according to Directive no. 203 shall not exceed 50 percent. The amount of the deduction from the indebtedness shall be 70 percent of the amount recognized as a credit risk mitigant under Directive no. 203.

Explanation
The expanding of the deductions is part of the gradual framework of aligning of the eligible credit risk mitigants in Directive 203 with the "deductions" that are relevant to measuring regarding the borrower's indebtedness (Directive 313). For reasons of conservatism and care, only partial recognition of the amount of credit protection is possible.

Effective date
3. The changes to this directive shall go into effect with its publication.

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

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Respectfully,

Dr. Hedva Ber
Supervisor of Banks