Bank of Israel
Banking Supervision Department
Policy and Regulation Division

August 13, 2015
Circular Number C-06-2484

To:
The banking corporations and the credit card companies

Issue: Remuneration Policy in a Banking Corporation
(Proper Conduct of Banking Business Directive no. 301A)

Introduction

1. As a result of experience accumulated since the publication of Proper Conduct of Banking Business Directive no. 301A on Remuneration Policy in a Banking Corporation (hereinafter: the Directive), and in accordance with the guidelines of supervisory authorities around the world, it has become necessary to revise the requirements of the Directive.
2. Following consultation with the Advisory Committee on Banking Business, and with the approval of the Governor, I have set out the amendments to the Directive, as detailed below.

Main amendments to the Directive

3. **Clawback of variable remuneration paid to a key employee**
   Section 11(e) shall be added, and shall include a requirement that the banking corporation's remuneration policy and agreements shall include a stipulation that any variable remuneration granted and paid shall be subject to clawback from a key employee should the clawback criteria be fulfilled. The criteria shall be set out by the banking corporation, but must at the very least include the cases detailed in the Directive aimed at particularly extraordinary circumstances. In addition, the banking corporation shall set out the clawback amounts or the clawback rates related to various types of circumstances. Should the clawback criteria be fulfilled, the banking corporation must take all reasonable measures to claw back some or all of the relevant variable remuneration. The clawback period shall be limited to 5 years from the date the variable remuneration was granted.

   Regarding officeholders, as defined in the Companies Law, the clawback period shall be extended by a further two years should all of the following conditions be met: (a) An investigation (internal or external) was opened during the clawback period; (b) The banking corporation is of the opinion that the investigation is liable to reveal that the clawback criteria were fulfilled; (c) An authorized function of the corporation decided that the circumstances exist to extend the period.

Notwithstanding the foregoing, where the total variable remuneration in a given calendar year does not exceed 1/6 of the fixed remuneration in that year, there is no obligation to implement the clawback mechanism over that part of the variable remuneration.

Explanation

The amendment to the Directive adds a guideline to the banking corporation to anchor in the remuneration arrangements its ability to demand that a key employee return variable remuneration paid to him, and to take all reasonable measures, including through legal means, in order to actually claw back the remuneration should particularly extraordinary circumstances as set out by the banking corporation exist, taking into account the cases set out in the Directive. The clawback potential shall be limited in time, where the period is counted from the date the remuneration was granted (including deferral periods). There is no obligation to implement the clawback mechanism on variable remuneration that does not exceed the threshold set out in the Directive, similar to the arrangement set out in the deferral mechanism. If the variable remuneration does exceed the threshold set out, the entire variable remuneration for that year shall be subject to clawback requirements.

The clawback demand constitutes an additional layer in the mechanisms intended to ensure that the remuneration arrangements at the banking corporation are consistent with the risk management framework and its long-term goals.

4. **Remuneration of the chairperson of the board of directors and the other members of the board of directors**

   Section 13A shall be added, setting out that:

   (a) Members of the board of directors of the banking corporation, including the chairperson of the board of directors, shall only receive fixed remuneration.

   (b) The amount of fixed remuneration of the chairperson of the board of directors shall be determined relative to the manner of remuneration of the other members of the banking corporation's board of directors, and taking into account, inter alia, the size of the banking corporation and the complexity of its operations, as well as the scope of the position. Notwithstanding the foregoing, the banking corporation may pay the chairperson social benefits and ancillary expenses in accordance with accepted terms of employment of all officeholders at the banking corporation, as per the definition of "officeholder" in the Companies Law.

(c) Remuneration for all board members at the banking corporation, except for the chairperson of the board of directors, shall be set in an identical manner and in accordance with the manner of setting the remuneration for an external director as per the Companies (Rules Regarding Remuneration and Expense Reimbursements for an External Director) Regulations, 5760–2000.

Explanation

The amendment to the Directive adds a requirement that remuneration of the chairperson and other members of the board of directors shall be fixed remuneration only.

Remuneration of the chairperson of the board of directors shall be set in accordance with the set mechanism, and shall take into account elements such as the size of the banking corporation and the complexity of its operations. It is also expected that in setting the level of remuneration, consideration will include values reflected in relevant legislation and draft legislation.

The aim of the amendment is to differentiate between the chairperson of the board of directors and the management of the supervised entity, thereby strengthening his position as a leader of the board of directors in setting out the banking corporation's strategy and approving the banking corporation policy, alongside his role as a control function. In addition, the requirement is expected to strengthen the independence of the board of directors in making decisions regarding remuneration of officeholders.

In order to remove any doubt, it is clarified that an officeholder of a banking corporation who serves as a chairperson of the board of directors of a subsidiary company is permitted to receive variable remuneration in respect of his position at the banking corporation.

In addition, the Directive anchors the existing practice whereby remuneration of directors at the banking corporations (excluding the chairperson of the board of directors) is set identically and in accordance with the Companies

(Rules Regarding Remuneration and Expense Reimbursements for an External Director) Regulations, 5760–2000.

5. **Additional guidelines concerning remuneration**
   In Section 19, guidelines shall be added setting out that:
   (a) Every corporation in the banking group is required to bear the costs of its own senior officeholder or employee.
   (b) A key employee shall be prohibited from receiving any kind of remuneration directly from the controlling owners of the corporation, their relatives, or corporations under their control. This guideline does not apply to a director that is not an external director, but shall apply to the chairperson of the board of directors.

   Explanation
   The guidelines added are intended to prevent conflict of interests at possible junctures concerning the remuneration of officeholders and employees, including the improper division of resources within the banking group.

Transitional arrangements

6. The requirements pursuant to Sections 11(e) and 13A of the Directive shall apply as detailed below:
   (a) A remuneration agreement approved from the date of publication of this Circular onwards, including an extension or change of an existing remuneration agreement—as of the date of publication of this Circular.
   In this regard, "change of an existing remuneration agreement", excludes a change that is technical in nature that does not result in material change in the amount of remuneration received pursuant to the agreement or the remuneration mechanism.
   (b) A remuneration agreement approved prior to the date of publication of this Circular, no later than December 31, 2017.
   (c) The requirements pursuant to this Circular shall not apply to rights accumulated prior to the date of publication of this Circular.

7. The requirements pursuant to Section 19 of the Directive shall apply no later than 6 months from the date of publication of this Circular.

Effective Date

8. The amendments to the Directive pursuant to this Circular shall apply from the date of its publication.

File update

9. The updated pages of the Proper Conduct of Banking Business file are attached. The following are the update instructions:

Remove page:	Insert page:
301A-1-9 [1] (11/13)	301A-1-9 [2] (8/15)

Sincerely,

David Zaken
Supervisor of Banks