Bank of Israel
Banking Supervision Department
Policy and Regulation Division

September 28, 2014
Circular Number C-06-2432

To:
The banking corporations and credit card companies

Issue: Liquidity Risk Management
(Proper Conduct of Banking Business Directive 342)

Introduction

1. The guidelines set out in Proper Conduct of Banking Business Directive 342 (hereinafter – "Directive 342") concerning a foreign bank have been amended following the promulgation of Proper Conduct of Banking Business Directive 221 (hereinafter – "Directive 221"), regarding "Liquidity Coverage Ratio", and in view of accumulated experience.
2. Following consultations with the Advisory Committee on Banking Business, and with the approval of the Governor, I have revised this directive as follows.

Main amendments to the directive

3. Foreign bank (Section 21):
   The branch of a foreign bank (hereinafter – "foreign branch") shall not be required to meet the regulatory liquidity ratios set forth in Sections 10–16 of Directive 342, but rather must meet the liquidity ratio as defined in Appendix 3 of Directive 221 in accordance with the terms in the stated appendix. Furthermore, a foreign branch with a liquidity risk that is managed in a centralized manner by its parent bank is permitted to rely on the parent bank in fulfilling some of the qualitative requirements in Directive 342, provided that the conditions set out in Subsection (c) are met.
   These rules shall apply to a foreign branch with an average annual amount of assets that does not exceed NIS 15 billion. If the amount of assets of the foreign branch exceeds NIS 15 billion, the Supervisor shall consider expanding the liquidity requirements in regard to that foreign branch.

   Explanation
   Regarding a foreign branch, the quantitative liquidity requirements included in Directive 342 and the liquidity coverage ratio pursuant to Directive 221 shall be

replaced by the requirement to hold liquidity according to a simple quantitative model that is set out in Appendix 3 of Directive 221. Furthermore, the manner in which the qualitative requirements are met has been adjusted for a situation in which the liquidity risk is managed in a centralized manner by the parent bank.

The requirements and adjustments that apply to a foreign branch shall apply in their current format as long as the average annual assets do not exceed NIS 15 billion. The format shall be reassessed when the foreign branch crosses this activity threshold.

Date of implementation

4. This Circular will come into force on April 1, 2015.

File update

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

Remove page	342-1-9 (1/13) [3]
Insert page	342-1-9 (9/14) [4]

Sincerely,

David Zaken
Supervisor of Banks