



May 7, 2019
Circular no. C-06-2589

Attn:
Banking corporations and credit card companies

Re: Control over Issuing of Guarantees by a Banking Corporation
(Proper Conduct of Banking Business Directive no. 353)

Introduction

1. In view of enquiries by banks, and in order to remove barriers to technological innovation, it has become necessary to revise this Directive. Until now, a banking corporation could only issue guarantees to a customer on paper. In order to enable banking corporations to promote technology-based business innovation in this area as well, the directive was updated to allow the issuing of guarantees on digital media.
2. The update of the directive serves as a continuation of the trend to reduce regulatory requirements and to promote technology and innovation.
3. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have amended Proper Conduct of Banking Business Directive no. 353 on “Control over Issuing of Guarantees by a Banking Corporation (hereinafter, “the Directive”).

The Amendment to the Directive

4. Sections 1 and 2 were added to the Directive (“General”). Under those sections, the banking corporation is required to have regular processes of managing the credit risk and operational risk when the guarantees are issued, which will be based on the updated and adequate processes for monitoring, supervision and control.

Explanation

The update establishes that the bank shall verify that the issuing of guarantees is based on appropriate processes and on an effective mechanism that serves the needs of operating the credit.

5. Section 8 was added to the Directive. The section establishes that in the process of issuing guarantees on digital media, emphasis is to be placed on managing the unique risks on such media, including aspects of information security, cyber, and privacy protection.

Explanation

In the process of issuing guarantees on digital media, emphasis is to be placed on managing the unique risks deriving from the actual transfer of the guarantees to the customer on such media. Within this framework, there should be an emphasis on, among other things, the risks of fraud via copying

files, printing guarantees more than once, and the possibility of changing it by unauthorized entities. Examples of controls required against these risks are detailed in the Directive itself.

Effective date

The changes to this Directive shall go into effect on the date this circular is published on the Bank of Israel's website.

Update of file

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

Remove page

(12/95) [3] 353-1-2

Insert page

(05/19) [4] 353-1-3

Respectfully,

Dr. Hedva Ber
Supervisor of Banks