

**Banking Supervision Department**

February 2, 2021

**Circular number C-06-2650**

**To: The banking corporations**

**Re: Expected Credit Losses from Financial Instruments  
(Proper Conduct of Banking Business Directives 202, 203, 314, 329)**

**Introduction**

1. In view of the update to banking corporations' financial reporting in accordance with the accounting rules established in the US regarding expected credit losses from financial instruments (CECL – hereinafter “the new rules”), the need arose to update the Proper Conduct of Banking Business Directives.
2. Therefore, and after consultation with the Liaison Committee between the Institute of Certified Public Accountants in Israel and the Supervisor of Banks, and with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have amended the Directives as follows.

**The amendments to the Proper Conduct of Banking Business Directives**

Section 10 of Proper Conduct of Banking Business Directive no. 314 on “Sound Credit Risk Assessment and Valuation for Loans” has been updated, as detailed in the Directive. The appendix to this directive is cancelled.

Section 15 of Proper Conduct of Banking Business Directive no. 329 on “Limitations on Extending Housing Loans” has been updated, as detailed in the Directive.

**Explanatory remarks**

In view of the adoption of the new rules, the requirement to calculate the group allowance at a minimum rate of 0.35 percent in respect of housing loans was cancelled, and the requirement to maintain a minimum allowance by the depth of arrears was cancelled. Guidelines regarding troubled debts in housing loans, which until now had been included in an appendix to Directive 314, have been integrated into the Directive itself.

Section 5.k and Appendix H to Proper Conduct of Banking Business Directive no. 202 on “Regulatory Capital” were added, as explained in the Directive.

Sections 75 and 78 to Proper Conduct of Banking Business Directive no. 203 on “Measurement and Capital Adequacy – the Standardized Approach – Credit Risk” have been updated, as detailed in the Directive.

**Explanatory remarks**

In accordance with amendments to directives, banking corporations are required to deduct from their Tier 1 Equity amounts in respect of housing loans that are classified for a lengthy period as nonaccruing loans. The amendments to the Directives are intended to reflect the difficulty in the reliance of supervisory needs on collateral s in nonaccruing housing loans that

over considerable time have not yet been realized. The changes are carried out in view of the cancellation of the minimum allowances by depth of arrears in respect to housing loans, the unique collection characteristics, of housing loans in Israel, and in view of the requirements set in Regulation 630/2019 of the EU regarding minimum coverage rates for nonperforming exposures.

It should be noted that in order to simplify and ease the operational preparation for implementing the Directive, and in view of the requirement in the Reporting to the Public Directives to write off up to the value of the security (net of sale costs), housing loans that are in arrears of 180 days or more are not included in the requirements established by the EU regarding deducting from capital the uninsured components of housing loans.

### **Application**

The directives established in accordance with this circular shall apply to all the banking corporations.

### **Commencement and Transitional Directives:**

The directives established in accordance with this circular shall apply to a banking corporation from January 1, 2022 and onward.

### **File update**

Attached are update pages for the Proper Conduct of Banking Business Directive no.

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(2/18) [4] 202-1-21	(02/21) [5] 202-1-22
(09/20) [10] 203-1-85	(02/21) [11] 203-1-84
(7/17) [10] 314-1-14	(02/21) [11] 314-1-12
(12/20) [8] 329-1-8	(02/21) [9] 329-1-8

Sincerely,

Yair Avidan

Supervisor of Banks