



October 27, 2019
Circular no. C-06-2594

Attn:
Banking corporations and credit card companies

Re: Credit risk management
(Proper Conduct of Banking Business Directive no. 311)

Introduction

1. Due to the experience accumulated at the Banking Supervision Department, and in view of enquiries from the banking system, the need arose to revise the Proper Conduct of Banking Business Directive regarding several issues:
 - 1.1. Establishing the conditions under which the provision of credit based on “individual signature authority” is possible;
 - 1.2. Expanding the existing exemption from a financial statement for debtors in an international factoring transaction to debtors in a domestic factoring transaction as well, all subject to other compensating controls, including credit insurance;
 - 1.3. Leniencies regarding the dates of receipt of financial statements from a borrower;The amendments included in this circular will enable banking corporations to expand the financing solutions to the retail sector, to supply financial flexibility in credit terms for small businesses, and to expand their activities in financing factoring transactions. The said leniency is a continuation of the trend of regulatory easing and is not expected to adversely impact the adequacy of controls. In addition, in view of the importance that we ascribe to the existence of a suitable credit process, we limited the use of individual signature authority.
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have decided to amend Directive no. 311 on “Credit Risk Management” (hereinafter, “the Directive”).

Main Points of the Update

Part B—Operating under a sound credit granting process

3. Section 27a. (Requirement to receive a financial statement)
When approving credit to a borrower that is a nonreporting corporation, the bank is to rely on an updated financial statement. In this regard—a financial statement shall be considered updated if submitted within 9 months from the date of the financial statement.

Explanation

The change in the said section is an easing so that the date of receiving the financial statement for a borrower that is not a reporting corporation shall be within 9 months, whether or not the corporation is permitted to under the company's bylaws.

4. Section 27b. (Easings in requirements to receive a financial statement)

The bank may renew credit and approve additional credit of up to 25 percent of the balance of the borrower's indebtedness even without an up to date financial statement given the existence of certain conditions and for a period of 6 months.

Explanation

The said change is a recognition of extension arrangements with tax authorities as a justified reason, for the anomalous extension that allows credit renewal, in the absence of an up to date financial statement up to 6 months from the determining date, instead of up to 3 months. The said deviation shall not be possible in respect of large borrowers exceeding NIS 200 million except in anomalous cases and given certain conditions.

5. Section 27b. (Exemption from financial statement)

The section was updated and a requirement for compensating controls was added in cases in which the banking corporation does not have a financial statement.

Explanation

In view of the easing in the requirement to receive a financial statement, we found it correct to clarify that in parallel to the easings, the banking corporation is required to establish compensating controls, as relevant to the issue.

6. Section 27b.e. (Exemption from financial statement)

The section was updated such that the bank may purchase credit in factoring transactions, not just international factoring transactions, up to an amount of NIS 10 million, even when it is unable to obtain an updated financial statement of the debtor or it does not have a direct connection with the debtor, given the existence of the conditions listed in the directive.

Explanation

The exemption from a financial statement in respect of factoring at an amount not exceeding NIS 10 million is in place only when the transaction is backed by insurance as required in the directive and the transaction is a purchase/sale of debt with regard to the accounting treatment.

7. Section 27e. (Exceptional cases)

A paragraph was added, according to which the banking corporation may, in anomalous cases, withhold from taking steps as required by its procedures due to the absence of updated financial data, given the existence of certain conditions.

Explanation

The said change enables banks, among others, not to set credit for immediate repayment due to the absence of an updated financial statement under certain circumstances.

8. Section 43 (Hierarchy of credit certifications)

“Individual signature authority” shall be permitted given the existence of one of the following conditions: (a) based on, among other things, a credit analysis carried out by an entity with expertise but that is not certified, and with the approval of significant credit exposures shall also be based on a written opinion of the Chief Risk Officer as noted in Section 44 below; (b) the scope of credit to be extended under individual signature authority does not exceed NIS 1 million. It is hereby clarified that extending credit based on an automatic underwriting model shall not be considered the enactment of “individual signature authority”.

Explanation

The said change limits the use of individual signature authority and requires an appropriate credit process for establishing it. As a result of this, individual signature authority shall be made possible based on, at least, the “four eyes” principle.

9. Effective date

The effective date regarding Section 43 of the directive shall be no later than April, 2020.

10. With the exception of the provisions of Section 9 above, the effective date of the directive shall be the publication date of this circular.

11. Update of file

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

Remove page

(10/17) [5] 311-14-19

Insert page

(10/19) [6] 311-14-19

Respectfully,

Dr. Hedva Ber
Supervisor of Banks