



August 1, 2018

Circular no. C-06-2567

Attn:

Banking corporations and credit card companies

Re: Limitations on Indebtedness of a Borrower and of a Group of Borrowers
(Proper Conduct of Banking Business Directive no. 313)

Introduction

1. This update of the Directive is due to the legislation of the Enhancing Competition and Reducing Concentration in the Banking Sector in Israel (Legislative Amendments) Law, 5777-2017 (hereinafter, the Enhancing Competition Law) and the changes expected due to it, in all that is related to credit card companies.
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have decided to amend this Directive.

Main changes to the Directive

3. **Applicability (Section 2)**—this Directive will also apply to credit card companies.
4. **Definitions (Section 3)**

The following definitions were added:

“Credit card company”—a company that is an acquirer and that issues payment cards.
“A credit card group of borrowers”—a credit card company, and all the corporations it controls. As well, a credit card company that controls a credit card company, and all the corporations it controls.

The following definitions were revised:

“Indebtedness”—Section (8)(a) of the definition of “indebtedness” was revised.
“Group of borrowers”—“Credit card company” was exempted from the definition of “group of borrowers”.

5. **Limitations (Section 4)**

- 5.1 Section 4(b)(2) was revised so that the exposure to a “credit card group of borrowers” will be subject to the limitation of 15 percent of the banking corporation’s capital.

Explanation

The banking corporation's exposure to a "credit card group of borrowers", after deducting the amounts permitted by the Directive, shall not exceed 15 percent of the banking corporation's capital, similar to the limitation imposed on the exposure to a "banking group of borrowers".

5.2 Section 4(c) was repealed.

Explanation

Cancelling the exemption means that the indebtedness of a banking group of borrowers to a credit card company shall be subject to the "banking group of borrowers" limitation.

5.3 Revision of Section 4(e) of the Directive—such that a "credit card group of borrowers" is included in the aggregate limitation of large borrowers (borrowers whose net indebtedness to the banking corporation exceeds 10 percent of the banking corporation's capital). Likewise, the exemption of the indebtedness of a "banking group of borrowers" to a credit card company—regarding the aggregate limitation of large borrowers—was cancelled.

Explanation

Aligning the limitation with the new status of credit card companies, so that they will be included, as relevant, in the aggregate limitation of large borrowers. In addition, the indebtednesses of a banking group of borrowers to a credit card company will be included in the aggregate limitation of large borrowers.

6. Transition directives (Section 12)

6.1 Section 12(a) of the Directive establishes that during the five years following the publication of this Directive, the indebtedness of a banking group of borrowers to a credit card company shall not be subject to the limitation imposed in Section 4(b)(2) of the Directive and shall not be included with regard to the limitation imposed in Section 4(e) of the Directive.

Explanation

During the five years following the publication of this Directive, the indebtedness of a banking group of borrowers to a credit card company shall not be subject to the "banking group of borrowers" limitation and shall not be included in the aggregate limitation of large borrowers.

6.2 Section 12(b) of the Directive establishes that a banking corporation that on the publication date of this Directive deviates from the indebtedness limitation of a credit card company group of borrowers established in Section 4(b)(2) of the directive, is required to reduce the indebtedness of the credit card company group of borrowers within three years of the date of the separation of the credit card companies from the banking corporation, provided that the decrease will be gradual over the course of the period.

Explanation

In view of the deviation from the directive currently existing, banking corporations will be required to reduce the credit exposure to "credit card groups of borrowers" in a gradual manner, within three years of the date of the separation of the credit card companies from the banking corporation (as this date is defined in the Enhancing Competition Law).

Effective date

7. The changes to this directive shall go into effect with its publication, with the exception of the provisions of Section 6 above.

Update of file

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

Remove page

(10/17) [15] 313-1-5

Insert page

(08/18) [16] 313-1-6

Respectfully,

Dr. Hedva Ber
Supervisor of Banks