



September 29, 2016

Circular no. C-06-2514

Attn:

Banking corporations and credit card companies

Re: Remuneration policy in a banking corporation
(Proper Conduct of Banking Business Directive no. 301A)

Introduction

1. Due to the approval of the Remuneration of Officeholders in Financial Corporations (Special approval and inadmissibility of expense for tax purposes in respect of irregular remuneration) Law, 5776-2016, (hereinafter, the “Remuneration of Officeholders in Financial Corporations Law”), and its expected ramifications on the amount and composition of remuneration in banking corporations, it became necessary to update Proper Conduct of Banking Business Directive no.301A.
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I amended the abovementioned Directive as specified below.

Changes to the Directive

3. At the end of Section 2, a reference to the Remuneration of Officeholders in Financial Corporations Law is to be added.

Explanation

It is clarified that the Directive comes to add to the legislation applicable to banking corporations on the issue of remuneration.

4. Definitions

a. “Key employee”

- (1) Delete “or a manager reporting directly to such manager” from Section (a)(2)(a)
- (2) Delete the words “that are not senior officeholders” from Section (b)(2)

Explanation

The minimum group of key employees was reduced, so that there is no obligation to include a manager reporting directly to a manager reporting directly to the CEO. Likewise, it is possible not to include an employee whose remuneration meets the two cumulative conditions listed in Section (b)(2) in the definition of “Key employee”, provided that the employee is not an officeholder in accordance with the Companies Law.

It is clarified that the qualitative test (“Any person whose activity may have material impact on the banking corporation's risk profile”) remains in place.

b. “Fixed remuneration”

Delete the words “not obstructed from realization on the date it is granted” from the definition.

Explanation

Changes the definition so that shares blocked from realization on the date they are granted will be able to be recognized as fixed remuneration. For this issue, see the FAQ file.

5. Manner of granting and paying the variable component

- a. The provisions of subsection 12(b) will be marked as 12(c) and subsection (b) will be inserted before it, establishing that:

“Notwithstanding the provisions of subsection (a), predetermined criteria can include a component of judgment, provided that the amount of such component does not exceed three monthly salaries per year.”

Explanation

The amendment adopts the change set out in the First Addendum A to the Companies Law (Part B) in the Companies Order (Change in the First Addendum A to the Law), 5776-2016, regarding the CEO, and applies it as well to other key employees.

It should be emphasized that in any case the link between the remuneration and risk and actual performance should be maintained, as noted in Section 11 of the Directive.

- b. In subsection (c), the ending clause is deleted: “Accordingly, when shares or share-based instruments are granted, a minimal holding or vesting period shall be set”, and the wording from Section 15(b) is to be added: “In the case of granting variable remuneration via options, the remuneration committee is to hold a detailed discussion on why this means is preferable over shares, and to present the reasoning to the board of directors.”

- c. Section 15 is deleted.

Explanation

Cancellation of the requirement for a minimum holding or vesting period for equity instruments paid as nondeferred variable remuneration.

6. Deferral of payment of variable remuneration over several years

- a. In the opening clause of Section 14, after the words “Any variable remuneration payment” shall come “including variable remuneration granted in the form of shares and share-based instruments”.

Explanation

A clarification that the deferral arrangements set in the section are also to apply to variable remuneration granted in the form of shares and share-based instruments.

- b. Subsection 14(f) is to be changed as follows:

“Notwithstanding the foregoing, there is no obligation to defer payment of the variable remuneration granted in a specific calendar year:

- (1) for a key employee whose remuneration meets the requirements of the Remuneration of Officeholders in Financial Corporations Law regarding the remuneration ceiling, when total variable remuneration granted to the key employee in respect of the calendar year does not exceed 40 percent of the fixed remuneration in that same year;
- (2) for a key employee in a corporation controlled by the banking corporation and whose remuneration exceeds the ceiling set in the Remuneration of Officeholders in Financial Corporations Law, when total variable remuneration granted to the key employee in respect of the calendar year does not exceed 1/6 of the fixed remuneration in that year.”

Explanation

In view of the expected ramifications of the Remuneration of Officeholders in Financial Corporations Law on the amount and composition of remuneration at banking corporations, the ceiling of the variable remuneration exempt from the deferral requirement was raised.

Effective date

7. The changes to this directive shall go into effect on the date of its publication.

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

301A-1-11 [2] (8/15)

Insert page

301A-1-11 [3] (9/16)

Respectfully,

Dr. Hedva Ber
Supervisor of Banks