Bank of Israel
Banking Supervision Department
Policy and Regulation Division

March 31, 2020
Circular no. C-06-2612

Attn:
Banking corporations and credit card companies

Re: Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus (Temporary Provision)

(Proper Conduct of Banking Business Directive no. 250)

Introduction

1. Against the background of the development of the coronavirus event and its ramifications on the economy worldwide and in Israel, including essentially every private household and business, and in order to assist households and businesses to get through the challenging period, following are a series of easing steps that we formulated as temporary provisions.
2. The adjustments in this directive are intended to provide banking corporations and credit card companies with the business flexibility required at this time. However, we emphasize that it is extremely important that decisions about extending credit and assistance to businesses and households are in line with the risk assessment and risk tolerance of the banking corporation in each case individually. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have established the following Proper Conduct of Banking Business Directive as detailed below.

Main Points of the Directive

Proper Conduct of Banking Business Directive no. 201, on Capital Adequacy and Measurement (Section 3a)

3. In place of the provisions of Section 40(b) of Proper Conduct of Banking Business Directive no. 201 (hereinafter, Directive no. 201), the minimum capital targets shall be as follows:
   3.1 The Common Equity Tier 1 capital ratio for risk-weighted assets must be no lower than 8 percent. A banking corporation whose total balance sheet assets on a consolidated basis are equal to or exceed 24 percent of total balance sheet assets in the banking system shall maintain a Common Equity Tier 1 capital ratio for risk-weighted assets of no less than 9 percent.
   3.2 The total capital ratio for risk-weighted assets must be no lower than 11.5 percent. A banking corporation whose total balance sheet assets on a consolidated basis are equal to or exceed 24 percent of total balance sheet assets in the banking system shall maintain a total capital ratio for risk-weighted assets of no less than 12.5 percent.

Explanatory remarks

In view of the need to assist and support the economy and in view of the large capital surpluses at the banks in Israel, we are reducing the minimum capital targets, as many supervisory authorities have done worldwide, by 1 percent of the minimum capital ratios required during regular business activities: The Common Equity Tier 1 capital ratio must be no lower than 8 percent, instead of 9 percent, and the total capital ratio must be no lower than 11.5 percent, instead of 12.5 percent. A banking corporation whose total balance sheet assets on a consolidated basis are equal to or exceed 24 percent of total balance sheet assets in the banking system must maintain a Common Equity Tier 1 capital ratio of 9 percent instead of 10 percent, and a total capital ratio of no less than 12.5 percent instead of 13.5 percent. In order to enable banks to return to the minimum capital ratios with the end of the applicability of the temporary provision, the easing will continue to apply for an additional 24 months, provided that the capital ratios are not less than the capital ratios on the date that the applicability of the temporary provision ends or the minimum capital ratios that apply to the banking corporation before the temporary provision, the lower of the two;

We expect that the banks will make use of the capital surpluses due to the lowering of the capital requirements in order to increase the credit and to support households and the business sector, and not for other purposes, including dividend distributions or stock buybacks. It is clarified that the reduction of the capital requirement does not detract from the need for responsible credit underwriting and careful management of the risks. Notwithstanding the above, the banks are required to verify that at all times they are maintaining adequate capital that will be easily available, as required.

Proper Conduct of Banking Business Directive no. 331, on "Distribution of Dividends by Banking Corporations" (Section 11a)

4. At the end of Section 4 of Proper Conduct of Banking Business Directive no. 331, the sign "(*)" shall be added. At the bottom of the page, the following footnote is to be added: "(*) See the explanatory remarks to the amendment of Proper Conduct of Banking Business Directive no. 201 dated March 31, 2020, within the framework of Proper Conduct of Banking Business Directive no. 250".

Explanatory remarks

Within the framework of the temporary provision, Proper Conduct of Banking Business Directive no. 201 was amended, as part of which the Supervisor of Banks reduced the minimum capital ratios the banking corporations are required to maintain. As noted in the explanatory remarks to that amendment, the reduction was intended to increase credit and support households and the business sector, and not for other purposes. Accordingly, the Supervisor of Banks expects of the banking corporations that they will make use of the capital surpluses that will be created from the lowering of the capital requirements to support economic activity, and not for dividend distributions or stock buybacks, so long as the temporary provision is in force.

In addition, it is doubtful that it is possible to make a substantiated written forecast regarding the capital ratios as required in Section 4 of the Directive during the period of the coronavirus crisis and the uncertainty deriving from the development of the crisis, and therefore for that reason as well it is proper to avoid distributions so long as the temporary provision is in force.

Update of file

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

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Respectfully,

Dr. Hedva Ber
Supervisor of Banks