

**Banking Supervision Department  
Policy and Regulation Division**

**December 26, 2021**

**Circular no. C-06-2683**

To:

**The banking corporations and credit card companies**

**Re: Update of directives**

**(Proper Conduct of Banking Business Directives no. 203, 208A)**

**Introduction**

1. Credit risk that derives from banking corporations' exposure to insurance companies, provident funds, or mutual funds is low compared to the risk that derives from the exposure to other corporations. Insurance companies are supervised with respect to stability by the Commissioner of Capital Markets, Insurance and Savings, who implements, among other things, the EU's Solvency II directive as well as liquidity management rules. In addition, losses derived from the activity of provident funds and mutual funds are borne by the depositors, not by the entities themselves.
2. Due to the low risk, it was decided to reduce the risk weight attributed to insurance companies, provident funds, and mutual funds, and to equate it with the risk weight attributed to banking corporations. The reduction of the risk weight for insurance companies is consistent with the Basel Committee guidelines from December 2017 on "Calculation of RWA for credit risk", according to which the debts of financial institutions that are subject to prudential supervision (particularly capital and liquidity requirements) will be handled based on the rules that apply to banking corporations.<sup>1</sup>
3. It was also determined that a banking corporation may also implement the relief on similar entities that incorporated abroad, provided that this is in accordance with the guidelines of the supervising authority in that country, and that this is a member country of the OECD and rated A- or better.
4. In view of the above, and after consultation with the Advisory Committee on Banking Business Affairs and with the approval of the Governor, I have amended Proper Conduct of Banking Business Directives no. 203 and 208A.

**Main provisions of the update**

5. Section 65a. was added to Proper Conduct of Banking Business Directive no. 203, establishing that the debts of an insurer, as defined in the Control of Financial Services (Insurance) Law, 5741-1981, a provident fund as defined in the Control of Financial Services (Provident Funds) Law, 5765-2005, and a mutual fund as noted in Section 3 of the Joint Investment Trust Law, 5754-1994, will be treated as the debts of banks. In

<sup>1</sup> [https://www.bis.org/basel\\_framework/chapter/CRE/20.htm?inforce=20230101&published=20201126](https://www.bis.org/basel_framework/chapter/CRE/20.htm?inforce=20230101&published=20201126)

parallel, the reference to insurance companies from Section 66, which deals with debts of corporations, was deleted.

6. In addition, Section 65b. was added to Directive 203, establishing that debts of similar entities in other countries shall be treated in accordance with the guidelines of the supervisory authority in that country, provided the country is a member of the OECD and is rated A- or higher.
7. In Section 50.16 of Directive 208A, a clarification was added, according to which a banking corporation may implement an investment rating for banking corporations that incorporated in Israel and for entities detailed in Section 65a. of Directive 203. In addition, it may implement an investment rating for similar entities that were incorporated in foreign countries, provided that such an instruction was established by the supervisory authority in that country, and that the country is a member of the OECD and is rated A- or higher.

### **Explanatory remarks**

These amendments are required in order to reflect the low risk deriving from exposure to institutional investors.

8. A technical update in Section 75 for adjusting the LTV ratio in this section to the LTV ratios in Section 72.

### **Commencement**

9. The amendment to Directive 203 shall begin on the day this Circular is published.
10. The amendment to Directive 208A shall begin on January 1, 2023.

### **Updating of the file**

11. Attached are the update pages to the Proper Conduct of Banking Business file. Following are the updates:

<b>Remove page</b>	<b>Insert page</b>
(02/21) [11] 203-1-84	(12/21) [12] 203-1-84
(12/21) [1] 208A-1-29	(12/21) [2] 208A-1-29

Sincerely,

Yair Avidan  
Supervisor of Banks