

## **Control or Substantial Noncontrolling Interest in Nonbank Financial Corporations**

### **Introduction**

1. Banking corporations wishing to control or to hold substantial noncontrolling interest in auxiliary corporations or other nonbank financial corporations, including establishing such corporations (henceforth “**corporation**”) shall act as set out in this directive.
2. According to the Basel Committee guidelines, which have been adopted by many countries, the supervisory authorities in the country of the parent corporation must ascertain that the parent banking corporation shall have procedures, control, and supervision regarding each of the corporations it holds, including abroad.
3. Control or substantial noncontrolling interest in corporations, even if they are not banking corporations, involves risks which are liable to have repercussions on, among other things, the stability of the parent corporation in Israel. The goal of this directive is to enable the Supervisor of Banks to establish criteria for examining significant acquisitions/investments by banking corporations (directly or via subsidiaries or sub-subsidiaries) in order to ensure that the new group structure does not expose the banking corporation to excessive risk nor prevent effective supervision.

### **Applicability**

4. (a) This directive shall apply to all banking corporations.  
(b) This directive does not apply to holdings in a banking corporation or in a foreign corporation as specified in Section 31 of the Banking (Licensing) Law, 5741–1981, or in a real corporation.

### **Definitions**

5. Substantial noncontrolling interest—as defined in the Banking (Licensing) Law, 5741–1981.

## **Notification**

6. (a) (1) A banking corporation wishing to control or have substantial noncontrolling interest in a nonbank corporation in Israel or abroad, including establishing such, must notify the Supervisor of Banks accordingly, in writing, 45 days prior to obtaining control or substantial noncontrolling interest (whether directly or indirectly via domestic or foreign subsidiaries or second-tier subsidiaries (sub-subsidiaries)), to make it possible to ensure proper preparation for that activity.
- (2) Subsection (1) herein does not derogate from the requirement to obtain a specific authorization from the Supervisor of Banks as required according to a permit granted to a banking corporation or to a banking holding corporation.
- (b) In this 45-day period, the Supervisor of Banks will ascertain that the conditions and steps taken meet the requirements set by the Banking Supervision Department in Sections 7 and 8 of this directive. If within the stated period the Supervisor advises the banking corporation that its state of preparedness to hold a corporation does not meet these requirements, the banking corporation will be required to change its preparedness accordingly before acquiring control or substantial noncontrolling interest.
7. In its notification, the banking corporation shall provide the following details:
- (a) Name of the corporation acquired/established and place of incorporation
  - (b) Goal of acquiring/establishing the corporation
  - (c) Banking corporation's intended share of holding in the corporation
  - (d) Information regarding partners in the holding in the corporation (for holdings less than 100%) and a control diagram which includes every entity involved in the holding.
  - (e) Cost of acquisition/establishment and sources of funding for the transaction
  - (f) The main synergy to be achieved from the corporation (with the parent company or other companies in the group), if such exists.
  - (g) Expected commercial ties between it and the corporation (i.e., providing guarantees, etc.)
  - (h) The banking corporation's fulfillment of regulatory requirements before and after the acquisition—capital, liquidity, exposure limitations, corporate governance, internal audit, risk management, and compliance requirements.

- (i) Existence of management or custodian agreements in the corporation as well as detailed listing of branches or corporations under control or under substantial noncontrolling interest of the corporation.
- (j) The areas of activity and the risks of the corporation (to be acquired/established):
  - (1) Its goals and strategies as well as the business plan for the coming 3 years (financial targets, projected balance sheet and profitability and level of exposure to various risks) in accordance with the plans of the acquiring banking corporation.
  - (2) Charting the range of risks deriving from its activities (i.e., credit, operational, legal, interest rate, market, liquidity)
  - (3) Financial data about it over the previous 3 years to the extent that they exist, including audited financial statements
  - (4) Its financing strategy including the parent company's method of support
- (k) Management, monitoring, and control systems in the corporation, including:
  - (1) Organizational and managerial structure
  - (2) Board of directors composition and roles, and major committees and how they are appointed
  - (3) Procedures which entrench the distribution of roles and authorities of senior management, in terms of all areas of activity and types of risks set for the corporation
  - (4) Internal audit system
  - (5) Risk management and risk control systems
  - (6) External accountant and the function that appoints the accountant
  - (7) IT system
  - (8) Information security system
  - (9) Human resources and development system
- (l) Supervision and control of the parent banking corporation over the corporation:
  - (1) The means used by the banking corporation to verify the adequateness of the control and monitoring systems in the controlled corporation, including those listed in Section 7(k) above.
  - (2) The appropriateness of the supervision and control mechanisms that will be extended to the controlled corporation as required in Section 10 of Proper Conduct of Banking Business Directive no. 301.

(3) The policies and limitations on the corporation's exposure to risks.

Notwithstanding the provisions above, in acquiring substantial noncontrolling interest, when the banking corporation does not have specific information items listed above, it shall note that in an announcement.

8. In the purchase/establishment of control/substantial noncontrolling interest of nonbank corporations abroad, the following items shall also be included:
  - (a) Assessment and analysis of the country risk of the country where the corporation is located, including the effects of supervisory, monetary, and other limitations existing in the country on the activity of the corporation in general and the group in particular.
  - (b) The supervisory authorities to which the corporation is subject, and the existence of data transfer constraints and/or other limitations which impact on the effective supervision and control ability, of the parent company in the group or of the supervisor in the parent company's country (such as, transfer of customer data, credit, or audits).
  - (c) Procedures which arrange separation between the entity which conducts the corporation's activities abroad and the entity responsible for registering and reporting, as well as the audit, control and supervision function.

### **Decision**

9. The decision of whether or not to approve the banking corporation request, or to deny it, or to make it contingent on stipulations, will take into account, among other things, the following:
  - (a) The effect of the purchase/establishment of the corporation on the financial resilience of the entire group, including capital adequacy.
  - (b) The administrative ability of the corporation to confirm that the activities of the corporation are managed cautiously and are not liable to negatively impact the reputation of the banking corporation.
  - (c) The corporation's activities are in line with the banking corporation's risk appetite.
  - (d) The public good.
  - (e) The effect of the permit on the development of competition, preventing concentration, and the level of service.

- (f) The extent of cooperation with supervisors in the host country.

### **Reporting**

10. The banking corporation shall update the Supervisor in advance of or near to the occurrence of the following changes, by item:

(a) A significant change in the scope of its holdings in corporations in which it has control or a substantial noncontrolling interest, and/or a change in the areas of activity of the corporations noted above.

(b) A significant acquisition by the banking corporation of means of control of another corporation which does not grant it control or substantial noncontrolling interest, but which has a significant effect on its financial state, its business strategy, reputation, or management of sources. Examples of such a transaction, as noted in subsection (b), are: when the banking corporation is a significant stockholder in another financial corporation (in Israel or abroad), when the agreement of another regulator is required, when the transaction makes up the lesser of 1 percent or more of the banking corporation's capital base or NIS 200 million.

11. The banking corporation shall submit to the Banking Supervision Department periodic reports or any other information on the corporation at intervals and in a manner to be determined by the Supervisor.

### **General**

12. Cancelled.

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### Updates

<b>Circular 06 number</b>	<b>Version</b>	<b>Details</b>	<b>Date</b>
2017	1	Original directive	6/12/00
2392	2	Revision	05/08/13
2561	3	Revision (Changed number)	24/4/18
2669	4	Revision	30/9/21