

CONTROL OVER ISSUING OF GUARANTEES BY A BANKING CORPORATION

General

1. A banking corporation is to verify that issuing of guarantees is based on appropriate and updated processes, monitoring processes, supervision and control of the credit risk.
2. The procedures and work methods for managing the issue of guarantees, presented in this directive, are intended to ensure the existence of an effective mechanism that fully serves the needs of bank guarantee operations, with an emphasis on issuing guarantees via digital media.

Application

3. This directive shall apply to the following corporations that deal with issuing guarantees for their customers (hereinafter, “banking corporation”):
 - 3.1. A banking corporation as used in the Banking (Licensing) Law, 5741-1981 (hereinafter, “the Law”);
 - 3.2. A corporation as noted in Sections 11(a), (3a), and (3b) of the Law;
 - 3.3. A corporation as noted in Section 11(b) of the Law;
 - 3.4. A merchant acquirer as defined in Section 36i of the Law;
4. Repealed.

Definition

5. “**Guarantees**”—a written, irrevocable, commitment by the banking corporation, at the customer’s request, to pay a third party, up to the amount of the guarantee, in accordance with and subject to the terms of the commitment document.

Procedures regarding adequate functioning of the issuing of guarantees

6. A banking corporation's management is to establish procedures on the issuing of guarantees, as part of which it shall relate inter alia to the following subjects:
 - 6.1. The type of guarantees the banking corporation will issue;
 - 6.2. A uniform format for all types of guarantees and arrangements for approving exceptions to the uniform format by an authorized entity;
 - 6.3. The manner of approving the guarantee letter by an authorized signatory, with reference to approving guarantees of large sums, as determined by management;
 - 6.4. The way the guarantees are to be issued: the recording in the guarantees book, the filing of the various copies, etc.;
 - 6.5. If the guarantee is contingent on the underlying transaction between the party requesting the guarantee and the party for whom the guarantee is being issued—monitoring the existence of the debt against which the guarantee was issued, and the cancellation of the guarantee once it expires due to repayment of the debt;
 - 6.6. Monitoring the completeness of the records in the bookkeeping by periodic reconciliation of the balance in the guarantees book with the balance recorded in the accounting records;

7. With regard to issuing printed guarantees, the following provisions shall apply as well:
 - 7.1. Printing the guarantees on special paper;
 - 7.2. Numbering the guarantee forms in advance, with each type of guarantee bearing a different series number;
 - 7.3. Arrangements for keeping the forms in a closed, secure place, with controlled access to it;
 - 7.4. Recording the details of the guarantees in a guarantees book which will be kept at each branch, by type of guarantee, specifying the numbering of the guarantee forms even before they are used, in consecutive order;
 - 7.5. The manner in which the branch is monitoring the stock of blank guarantee forms by periodic reconciliation between the numbers on the as-yet-unused guarantee forms

recorded in the guarantees book and the stock of blank forms. This process should be automated in such way that the numbers on the guarantee forms issued to each branch are reported to the computer. When a guarantee is issued, its number shall be removed from the file in the computer as part of the bookkeeping process, so that at any time it will be possible to obtain a report of the numbers of the blank forms that should be in stock. The frequency of this report and how it is examined is to be determined;

8. In the process of issuing guarantees on digital media, emphasis should be placed on managing the unique risks to guarantees issued via such media, including aspects of information security, cyber, and privacy protection. Within such framework, emphasis should be placed on the risks of fraud via copying files, printing guarantees more than once, and the possibility of changing the details of the guarantee letters by unauthorized parties. Appropriate controls shall be set in respect of the risks noted, including:
 - 8.1. Controls to prevent an adverse impact to the completeness of the guarantees file, such that for the customer who requests the guarantees as well as for the beneficiary of the guarantees there will be certainty regarding its integrity.
 - 8.2. Controls to prevent an adverse impact in terms of confidentiality and privacy protection of the customer requesting the guarantees.
 - 8.3. Controls that enable the beneficiary of the guarantees to identify the banking corporation that commits to the beneficiary by force of the guarantees and to authenticate that the guarantees have in fact been issued.

Updates

Circular 06 number	Version	Details	Date
1471		Original circular	July 29, 1990
----	1	Integration into Proper Conduct of Banking Business Directives	August 1991
1530	2	Revision	November 10, 1991

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2589	4	Revision	May 7, 2019
2669	5	Revision	September 30, 2021

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