



October 22, 2017

Circular no. C-06-2541

Attn:

Banking corporations and credit card companies

Re: Capital Adequacy and Measurement—the Standardized Approach—Credit Risk
(Proper Conduct of Banking Business Directive no.203)

Introduction

1. In view of the enquiries that have accumulated from banking corporations, and after consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have decided to amend this Directive.

Changes to the Directive

2. Public Sector Entities—Section 57

This Section deals with weighting the claims on **Public Sector Entities**. The entities included in this definition and listed in Section (d), except for Ashra, were deleted. Section (e) was added to the definition—“Additional entities to be determined by the Supervisor of Banks”.

Explanation

We found that the Directive should include general definitions of Public Sector Entities, and to move the management of the list of specific entities determined by the Supervisor to a FAQ file.

3. External Credit Rating, Sections 90 and 92

Section 90 details the list of firms that are recognized as eligible external credit assessment institutions (ECAIs) for capital allocation purposes. AM Best Europe-Rating Services was added to the list.

Section 92 presents the mapping of the ratings of recognized companies for risk weights. We added AM Best to the mapping, and also added IFS/Financial Strength to the ratings, as well as added the mapping of short term ratings.

Explanation

Recently the banking corporations purchased insurance policies in respect of Sales Law collateral portfolios and in respect of other portfolios. In order to recognize the decrease in risk to the banking corporation by transferring the risk to reinsurers, it became necessary to recognize the ratings accepted in the insurance industry.

The AM Best Company specializes in rating companies in the insurance sector, and is recognized as an eligible ECAI by insurance authorities in Europe and the US, and thus we deemed it proper to add AM Best to the list of eligible ECAIs.

IFS/financial strength ratings are among the numerous ratings published by ECAIs, and are accepted for ratings in the insurance industry.

Mapping the short term ratings was updated in accordance with the EU mapping.

4. **Reduced credit risk—Section 146a**

The section details the list of major indices for the purpose of determining whether collateral is eligible as noted in Sections 143 and 145. The Euro Stoxx 50 Index was added to the list, and the Tel Aviv 100 Index was updated to the Tel Aviv 125 Index.

Explanation

The Euro Stoxx 50 Index includes the 50 largest equities in 12 major countries in the EU. In view of its importance, we found it proper to include it in the list of major indices.

In February 2017, the Tel Aviv 125 Index replaced the Tel Aviv 100 Index, and the list was adjusted accordingly.

Effective date

4. The changes to this directive shall go into effect with its publication.

Update of file

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

Remove page

(10/15) [4] 203-1-85

Insert page

(10/17) [5] 203-1-86

Respectfully,

Dr. Hedva Ber
Supervisor of Banks