Banking Supervision Department
Policy and Regulation Division

Jerusalem, July 14, 2025
Circular No. C-06-2822

Attn: The banking corporations and payment service providers with prudential importance license holders

<u>Re: Board of Directors</u>
(Proper Conduct of Banking Business Directive No. 301)

Introduction

1. In view of the experience accumulated at the Banking Supervision Department and after relevant legislative changes, it was decided to update Proper Conduct of Banking Business Directive no. 301 on the issue of "Board of Directors", including its appendices (hereinafter, "the Directive").
2. The updates are concentrated in the Directive's Section 4, which deals with the issue of approving an office holder at a banking corporation, and in Section 31(c) of the Directive, which deals with the cooling off period required when a director who served at one banking corporation moves to the Board of Directors of another banking corporation. In addition, the appendices to the Directive were revised.
3. The amendment to this Directive was not accompanied by the publication of a report in accordance with the Principles of Regulation Law, 5782-2021 (hereinafter, the Law), in view of the exemption established in Section 34(c)(2) of the Law, as the expected direct and indirect impacts of the amendments listed above on the functions on which it is intended to be imposed on or on other protected interests, including the costs of compliance with it, are not material. In addition, the revised Directive does not require a periodic examination as noted in Section 36(a) of the Law in view of the exemption set in Section 36(a)(1) in the Law, as the revisions are not a structural change and the core of the Directive and its principles remain in place, while the allocation of the resources required to carry out such an examination is not reasonable, given the cost of compliance with the amendments as noted, and their ramifications on the burden of this regulation.
4. After consultation with the Advisory Committee on Banking Business Affairs and with the approval of the Governor, I have amended this Directive as follows.

Main updates

Chapter 1 – General

5. **Application (Section 2 of the Directive)**
   In Section 2(a)(3), the words "acquirer as defined in Section 36(i) of the Banking (Licensing) Law" shall be replaced with:
   "one holding a license as a payment service provider with prudential importance, as defined in Section 36i of the Banking (Licensing) Law; however, for an entity listed in paragraph (1) of the said definition that does not meet the conditions set forth in Section 36j(b) of the Banking (Licensing) Law, only Section 4 of this Directive shall apply."

   Explanatory remarks
   Amendments were made to the scope of application following the enactment of the Payment Services and Payment Initiation Regulation Law, 5783-2023. The term "acquirer" was replaced with **"payment service provider with prudential importance", referring to entities that meet the conditions specified in Section 36j (b) of the Banking (Licensing) Law.** That is, prior to the publication of the Law to Promote Competition and Reduce Concentration in the Banking Sector (Legislative Amendments), 5777-2017, such entities were engaged in the clearing of payment transactions initiated by payment card instructions.
   Additionally, the Directive's Section 4, which deals with the approval of office holders, shall also apply to payment service providers with prudential importance, under Paragraph (1) of Section 36i of the Banking (Licensing) Law, **that do not meet the conditions set forth in Section 36j(b) of the Law.**

Approval of Office Holders (Section 4 of the Directive)

6. In Section 4(a), the words "the questionnaire form is attached as Appendix A" shall be replaced with: "the questionnaire and its appendices are attached in Appendix A (hereinafter – 'the Questionnaire')." In addition, after the words "and to update the Questionnaire from time to time", the following shall be added: "the Questionnaire constitutes an integral part of the notice of appointment of an office holder and the commencement of the review process by the Banking Supervision Department."

Explanatory remarks:
The appendices form an integral part of the Questionnaire; therefore, the notice of appointment of an office holder must include them as well.

7. In Section 4(b), after the words "as required under the Ordinance", the words "together with the Questionnaire" shall be added. Furthermore, the concluding phrase beginning with "to such notice" has been deleted.

Explanatory remarks:
The instructions regarding the appointment of office holders in the cases detailed in the section have been clarified. Accordingly, the Questionnaire attached as Appendix A must be submitted, rather than merely a list of changes provided by the candidate in a previous Questionnaire.

8. A new Section 4(b1) has been added, addressing the appointment of an office holder for a short period not exceeding four months.

Explanatory remarks:
As the appointment is for a short period, there is no need to attach the Questionnaire to the notice of appointment; instead, an explanation of the special circumstances and the expected duration of the tenure should be provided.

9. A new Section 4(b2) has been added, addressing the appointment of an office holder within 12 months of their appointment to another office holder position (a different role within the same banking group) or an additional position (in addition to an existing role within the same group). If changes have occurred in the details listed in the Questionnaire, the candidate must attach a declaration in the format specified in Appendix B1 of the Directive; if further changes have occurred, an additional declaration in the format specified in Appendix B2 must be attached.

Explanatory remarks:
When the appointment of an office holder within the same banking group occurs within one year of their previous appointment to another or additional position, it is not necessary to attach the Questionnaire to the notice of appointment; the relevant declaration(s) will suffice.

10. In Section 4(c), before the word "changes", the word "material" has been added; after the words "in the details listed", the words "in the Questionnaire" have been added; and the phrase beginning with "in Sections 4, 5, 6 and 7.10…" has been deleted, except for subsections 6.2 and 6.3 in Appendix A as well as in the other details listed by the Supervisor of Banks. Additionally, the term "Appendix B2" replaces "Appendix B."

Explanatory remarks:
It is expected of the office holder and the banking corporation to update the Banking Supervision Department on changes that can impact on the aspects related to his functioning as an office holder (for example, aspects of honesty and integrity, conflict of interest, and affiliation).

11. Section 4(c1) has been added, stipulating that the banking corporation must notify the Supervisor of Banks of any material change in its organizational structure or any material change in the scope of responsibilities and duties of an office holder, for the purpose of reviewing the list of office holders requiring appointment approval.

Explanatory remarks:
This amendment aligns the regulation with existing practice.

Chapter E – Eligibility to Serve as a Director

Permanent Conflict of Interest (Section 31)

12. The numbering of Section 31(b)(4) has been changed to Section 31(b1), and the word "small" has been deleted.

Explanatory remarks:
The amendment reflects that the section stands on its own and is not part of Section 31(b).

13. In Section 31(c), after the words "unless with the consent of the board of directors of which he was a member," the words "provided that at least six months have passed since the end of his term as a director in the other banking corporation" have been added. In addition, the phrase "or with the consent of the Supervisor after consultation with the chairperson of the board of directors of which he was a member" has been deleted.

Explanatory remarks:
Based on past experience, it was decided that the cooling-off period for a director moving from one banking corporation to another, even with the consent of the previous board, shall not be shorter than six months. The option to shorten the cooling-off period with the Supervisor's consent after consultation with the chairperson of the board of which he was a member has been removed.

Appendix A – Questionnaire for Candidates for Office Holder Positions in a Banking Corporation

Questionnaire for Candidates

Consent for disclosure of information from the Criminal Register

16. The section referring to Section 15c(b) of the Banking Ordinance instead of Section 36i(c) of the Banking (Licensing) Law was adjusted.

Explanatory remarks:
Adjustment due to the indirect amendment to the Criminal Information and Rehabilitation of Offenders Law, 5779-2019.

Banking corporation declaration

17. The following aspects were added to the banking corporation's declaration:

- Undertaking to notify the Supervisor of Banks of changes in accordance with Section 4(c) of the Directive, according to which the Banking Supervision Department is to be updated of material changes in the candidate's particulars that have been submitted in the questionnaire.
- Declaration on receiving the candidate's original signed declaration and its being kept in the banking corporation's offices.
- Declaration that the banking corporation examined the aspects of conflict of interest and affiliations according to all law and requirement to attach the background material and wrote the decisions of the discussions in the Audit Committee that deal with the examination of affiliations and conflicts of interest of the candidate, as relevant.

18. The declaration by the internal auditor was separated from the banking corporation's declaration.

Explanatory remarks

The banking corporation's declaration was updated on the basis of the experience accumulated at the Banking Supervision Department.

Verification of the completeness of the material submitted

19. The verification of the completeness of the material provided by the banking corporation was deleted.

Explanatory remarks:

Details on the material that is required to be submitted were included in the questionnaire guidelines.

Appendix B1 – Declaration by an Office Holder in a Banking Corporation

20. A new appendix has been added, containing a declaration by an office holder in a banking corporation who is a candidate for another or additional office within the same banking group, confirming that no changes have occurred in his or her details since the previous questionnaire submitted to the Supervisor of Banks. The appendix also includes a new declaration by the banking corporation confirming the candidate's eligibility for the proposed position and that the appointment does not contravene any law or directive of the Supervisor of Banks.

Explanatory remarks:

The declaration was updated based on experience accumulated at the Banking Supervision Department.

Appendix B2 – Declaration by an Office Holder upon Updating Details

21. A new declaration has been added confirming that the continued service of the office holder does not contravene any law and/or any Proper Conduct of Banking Business Directive of the Supervisor of Banks.

Explanatory remarks:
The declaration was updated based on experience accumulated at the Banking Supervision Department.

Appendix C—Capital Market Corporations

Amendments were made to align with existing legislation.

Commencement

The amendments to this Directive will go into effect on the day the Circular is published.

File update

Following are the updates to the Proper Conduct of Banking Business file:

Remove pages	**Insert pages**
301-1-57 [30] (2/23)	301-1-66 [31] (7/25)

Respectfully,

Daniel Hahiashvili

Supervisor of Banks