



Banking Supervision Department

Jerusalem, April 7, 2022

Circular Number C-06-2701

Attn:

Banking corporations and credit card companies

Re: Update of Directives

(Proper Conduct of Banking Business Directives no. 203, 218, and 313)

Introduction

1. On July 1, 2022, Proper Conduct of Banking Business Directive no. 203A, on “Handling Counterparty Credit Risk” will go into effect, replacing the existing guidelines. The need thus arose to update the directives that are affected.
2. After consulting with the Advisory Committee on Banking Business Affairs and with the approval of the Governor, I have amended Proper Conduct of Banking Business Directives 203, 218, and 313.

Main provisions of the Directives

Directive 203:

3. Sections 186–187(i) of the Directive, and Chapters I–VII and IX of Appendix C of the Directive were cancelled. These regulated the old approaches to calculating the exposure deriving from transactions in derivative financial instruments and from transactions against central counterparties. Also updated were the references to Sections 52, 84(iv) and 87 of Directive 203A instead of to Appendix C of Directive 203.

Directive 218:

4. In Section 19, there was an update to the reference to the exposure calculation method in respect of financial derivative instruments so that the calculation shall be carried out based on Directive 203A instead of Appendix C of Directive 203.

In addition, Sections 22–26 were cancelled. They had regulated the manner of handling related collaterals, in calculating the exposure in respect of derivative financial instruments.

Explanatory notes

At this stage, and in order to reduce the operational burden incorporated in calculating the exposure in the new approach, it was decided to implement the SA-CCR method fully for Leverage Ratio purposes. The Banking Supervision Department intends to adopt the Basel III guidelines for the Leverage Ratio in the future, and at this time to complete the adjustments for calculating the amount of the exposure in respect of derivative financial instruments.

Directive 313:

5. The references in the definition of indebtedness were updated so that the calculations related to derivative financial instruments will be carried out based on Directive 203A instead of Appendix C of Directive 203.

In addition, Section 5 was updated to permit deductions from the indebtedness that were not included in the calculation of the amount of the exposure in respect of financial derivative instruments.

Explanatory notes

The calculation of the exposure in respect of financial derivative instruments includes a calculation of collaterals recognized based on Directive 203A. It was clarified that the deductions in Section 5 refer to risk reductions that were not taken into account as noted above.

Commencement

6. These updates shall go into effect on July 1, 2022.

File update

7. Update pages for the Proper Conduct of Banking Business Directives file are attached. The following are the update instructions:

<u>Remove page</u>	<u>Insert page</u>
(12/21) [12] 203-1-85	(04/22) [13] 203-1-85
(3/20) [2] 218-1-9	(04/22) [3] 218-1-9
(12/21) [20] 313-1-17	(04/22) [21] 313-1-17

Respectfully,

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Supervisor of Banks