

Banking Supervision Department



June 17, 2026

Circular-C-06-2854

To: The banking corporations

Re: Pledging the Assets of a Banking Corporation
(Proper Conduct of Banking Business Directive no. 336)

Introduction

1. Proper Conduct of Banking Business Directive no. 336 (herein: the Directive) has been updated following requests from banking corporations seeking to issue a new instrument, i.e. covered bonds, which are common in various advanced economies, including members of the European Union. The amendment to the Directive enables banking corporations to issue this new instrument under certain conditions and subject to a quantitative limit.
2. The regulation was not accompanied by the publication of a report under the Regulatory Principles Law, 5782–2021 (hereinafter – the Law), in light of the exemptions provided in paragraph 34(c)(2) and paragraph 34(c)(4), since, under the limitation specified there, its effects are not material. In addition, the regulation is based on rules commonly applied in countries with major financial markets. The regulation will not be subject to ex-post review under paragraph 36 of the Law because of its immateriality.
3. Following consultation with the Advisory Committee on Banking Business Affairs, and with the approval of the Governor, I have amended Proper Conduct of Banking Business Directive 336 as set out below.

Highlights of the Amendment to the Directive

4. A definition of "covered bonds" has been added to Section 5, according to which covered bonds are defined as bonds issued by a banking corporation whose obligations are secured by specific assets, as determined by the issuing banking corporation.

Explanatory Notes

A definition has been added for use later on in the Directive. The definition is consistent with the definitions of this instrument in other jurisdictions, such as the European Union and England.

5. A new section (Section 11a) has been added, which specifies the conditions that a banking corporation must fulfill if it wishes to issue covered bonds. These include: a limit on the quantity of assets pledged to secure the bonds; issuance in foreign

currency and to investors incorporated outside Israel; the covered bonds must be secured by residential mortgage loans; the characteristics of the covered bond instrument must be in accordance with the regulations commonly applied in major markets outside Israel; the establishment of a dedicated special-purpose entity to hold and manage the assets pledged to secure the covered bonds; compliance with corporate governance, risk management, auditing, and reporting requirements.

Explanatory Notes

Banking corporations will be permitted to issue covered bonds in order to diversify their funding sources, with particular emphasis on foreign currency funding. Since Israel does not have a regulatory framework governing the characteristics of this instrument (for example, minimum collateral coverage requirements, collateral substitution requirements, etc.), conditions have been specified that, among other things, limit the scope of issuance and the target audience of investors. In addition, a banking corporation is required to base the characteristics of the instrument on regulations commonly applied in jurisdictions outside Israel, such as the European Directive.

As with all activities of a banking corporation, and with the relevant emphasis, a banking corporation is required to manage its covered bond activities in accordance with corporate governance, risk management, control, and internal auditing requirements. As stated in the general section of the Directive, the amount of pledged assets must be monitored periodically, including those pledged in connection with this instrument.

6. Section 12 was cancelled.

Explanatory Notes

The transitional arrangements are no longer relevant and have therefore been cancelled. In order to eliminate any doubt, the cancellation of the letter from the Deputy Supervisor of Banks dated April 15, 2007, entitled "Restriction on Pledging for Repurchase Transactions of Banking Corporations" (d6615111) remains in effect.

Effective Date

7. The amendments to the Directive under this Circular will take effect on the date of publication of the Circular on the Bank of Israel website.

Updating of Files

8. Attached are the update pages for the Proper Conduct of Banking Business Directives.

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Sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a smaller, more complex mark that appears to be 'H' or a similar character.

Daniel Hahiashvili
Supervisor of Banks