

**Banking Supervision Department
Policy and Regulation Division**

December 26, 2021

Circular no. C-06-2684

To:

The banking corporations and credit card companies

**Re: Limitations on the Indebtedness of a Borrower and of a
Group of Borrowers
Proper Conduct of Banking Business Directive no. 313)**

Introduction

1. The Directive establishes that with regard to a “group of borrowers”, “controller” will be one who meets the presumption of “control” as defined in the Banking (Licensing) Law. Without derogating from the above, a controller will also be defined as one who holds the largest share of any means of control. “Control” according to the Banking (Licensing) Law is, among other things, the ability to direct the activity of the corporation and/or to prevent the reaching of business decisions.
2. An institutional investor who manages customers’ funds and who holds the means of control in another corporation for his customers and holds the highest percentage of shares in the corporation could be considered as the “holder of control” due to that presumption, even without the ability to direct the corporation’s activity. This could create temporary connections, volatility, and “shifting” of the company among “groups of borrowers”.
3. After consultation with the Advisory Committee for Banking Business Affairs and with the approval of the Governor, I have decided to amend Proper Conduct of Banking Business Directive no. 313 on “Limitations on the Indebtedness of a Borrower and of a Group of Borrowers” (hereinafter, “the Directive”).

Update of the Directive

4. Update of the definition of “control” in the section on definitions in the directive, according to which the “control” presumption in accordance with Paragraphs (1) and (2) in the definition of the term will not apply when an institutional investor’s holding of means of control in the corporation does not exceed 20 percent.

Explanatory remarks

Against the background of the across-the-board determination in the Directive that the largest shareholder of the corporation’s shares shall be considered the controller, it was established that the “control” presumptions determined in Paragraphs (1) and (2) in the definition of “control” in the Directive shall not apply when an institutional investor, who is an insurer or management company, holds less than 20 percent of the means of control. This approach will avoid “fluctuations” in the groups of borrowers, which makes it difficult to plan credit to the “groups of borrowers”. The above becomes even more important when the “control”

presumption is based on a temporary holding of an institutional investor in equities at a very small amount above the holding of other institutional investors. Any sale or purchase of fractional percentages is liable to create a group of borrowers and dismantle another one.

It is hereby clarified that the abovementioned does not derogate from the definition of “control” in the Banking (Licensing) Law.

5. The amendments to this Directive shall begin on the day this Circular is published.

Updating of the file

6. Attached are the update pages to the Proper Conduct of Banking Business file. Following are the updates:

Remove page	Insert page
(9/20) [19] 313-1-16	(12/21) [20] 313-1-16

Sincerely,

Yair Avidan
Supervisor of Banks