



January 7, 2021

Circular no. C-06-2649

To: **Banking corporations**

Attn: **CEO**

**Re: Industry Indebtedness Limitation
(Proper Conduct of Banking Business Directive no. 315)**

Introduction

1. In view of the transactions executed recently by the banking corporations to purchase credit protections and in view of the recognition of the suitability of these collaterals for the purposes of reducing credit risk as noted in Directive no. 203, the need arose to update the Directive with regard to the impact on the industry indebtedness of transferring the risk to an insuring factor.
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have amended the Directive as follows.

Update of the Directive

3. Concentration of industry indebtedness

The definition of “indebtedness” was amended, so that the indebtedness of an industry in respect of which the banking corporation purchased credit protection that is suitable for purposes of reducing credit risk as noted in Directive 203, shall be classified in accordance with the activity industry of the protection provider.

Explanatory remarks

The purchase of an insurance policy against credit and collaterals reduces the banking corporation’s credit exposure. The suitability of the insurance policy for capital adequacy purposes made it possible to recognize the switch of the counterparty to the insuring factor. Consistent with the recognition of the transfer of the risk to the protection provider for purposes of calculating capital adequacy, the amounts of the credit protection purchased should be qualified in accordance with the main activity industry of the protection provider.

In addition, in view of the accumulated experience with insurance of sale guarantees, it was decided to fully recognize the transfer of the risk to the insuring corporation.

Application

4. The start date of the amendment to the Proper Conduct of Banking Business Directive shall be the date of publication of this circular.

Update of file

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

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Respectfully,

Yair Avidan
Supervisor of Banks