



Jerusalem, February 28, 2019

Circular no. C-2586-06

To:

Banking corporations and credit card companies

Re: **Share Buyback by Banking Corporations**
(Proper Conduct of Banking Business Directive no. 332)

Introduction

1. This update cancels the prohibition on share buyback of shares of banking corporations and permits banking corporations to purchase their shares subject to certain conditions. This change is consistent with acceptable practice of supervisory authorities worldwide and with the Companies Law in Israel, which permits companies to buy back their shares. Furthermore, there is an update on the restrictions that apply to providing financing secured by securities issued by the banking corporation.
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have amended this Directive.

Main points of the update

Purchase

3. Chapter B of the Directive lists the conditions required for a banking corporation and a corporation under its control to purchase securities of the banking corporation (hereinafter, "Purchase"):
 - (a) Compliance with the conditions for distribution according to Section 302 of the Companies Law and the conditions according to Proper Conduct of Banking Business Directive no. 331 (Distribution of Dividends by Banking Corporations).
 - (b) The purchase volume in each plan does not exceed 3 percent of the issued and paid-in share capital of the banking corporation.
 - (c) The purchase offer is not directed at a specific group of shareholders. This condition will not apply to shareholders who are qualified customers, as defined in the Directive.
 - (d) Share buyback is performed according to the safe harbor mechanism published by the Israel Securities Authority, which guarantees a legal defense against allegations of insider information use. The purchase plan defined according to this mechanism will also take into account the volume of trading in the banking corporation's shares.
 - (e) The purchase plan was approved by the banking corporation's board of directors.

- (f) The banking corporation obtained approval for the purchase plan from the Supervisor of Banks.

Explanation

Prior to this amendment to the Directive, banking corporations and corporations controlled by banking corporations were prohibited from buying back shares, except in special circumstances. The update to the Directive permits share buyback while increasing the certainty regarding the Supervision's expectations and the conditions that it will examine when granting approval for share buyback, with emphasis on compliance with capital adequacy requirements when an application is submitted and over the capital planning horizon. In examining such applications by banking corporations, the Supervisor will take into consideration all the distributions, through dividends and through purchases.

Extending financing for a purchase

- 4. Chapter C of the Directive prohibits a banking corporation and corporations controlled by it to provide financing for the purchase of securities issued by the banking corporation, with the exception of financing within an employee securities purchase plan of which the Supervisor of Banks is informed. Despite this prohibition, financing secured by securities issued by the banking corporation is permitted, subject the following restrictions:
 - (a) A banking corporation and a corporation controlled by it may accept as collateral for the indebtedness of a borrower or a group of borrowers securities that were issued by the banking corporation, when said collateral does not exceed 0.5% of the banking corporation's issued and paid-in share capital.
 - (b) A banking corporation or a corporation controlled by it may finance transactions involving units of share indices, including funds that invest in securities, even when the securities issued by the banking corporation are included in such index or fund investments.
 - (c) The total collateral received by a banking corporation and a corporation controlled by it, as stated in paragraphs (a) and (b) above, which are securities issued by the banking corporation, will not exceed 5 percent of the issued and paid-in capital of the banking corporation.

Explanation

The prohibition on financing purchases of securities issued by a banking corporation remains in force. Nonetheless, to facilitate the capital market activities of banking corporations' customers, several exceptions were defined with respect to the prohibition on granting credit that is secured by securities issued by the banking corporation, including activities involving share indices in which securities issued by the banking corporation are accepted as collateral.

Effective date

- 5. The changes to this Directive shall go into effect on the publication date of this Circular.

Update of file

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

Remove page

(02/1) [1] 2-1-332

Insert page

(19/02) [2] 4-1-332

Respectfully,

Dr. Hedva Ber
Supervisor of Banks