Banking Supervision Department
Onsite Examination Division

December 2, 2021
Circular-C-06-2678

Attn: The banking corporations and acquirers

Re: Disclosure to the Public on Environmental, Social, and Governance Aspects
(Reporting to the Public Directives)

1. Among the measures undertaken by the Banking Supervision Department to enhance the banking system's contribution to environmental and social objectives, thereby strengthening the long-term sustainability of both the banking system and the economy, and in view of the experience accumulated within the Israeli banking system and among banks worldwide in disclosing information on these matters, a need has arisen to amend the Public Reporting Directives relating to the disclosure of Environmental, Social, and Governance (ESG) matters.

2. Accordingly, following consultation with the Liaison Committee of the Institute of Certified Public Accountants in Israel and the Supervisor of Banks, as well as with the Advisory Committee on Banking Business Affairs, I have amended the Public Reporting Directives as set out below.

Amendments to the Directives

Public Disclosure of Environmental, Social, and Governance (ESG) Matters

3. Section 6 on page 620-2 shall be revised as specified in the Directive.
4. Section 3b(2) on page 650-1 shall be revised as specified in the Directive.
5. Page 655-1 shall be revised as specified in the Directive.

Explanatory Notes

6. As part of the measures undertaken by the Banking Supervision Department to enhance the banking system's contribution to environmental and social objectives, thereby strengthening the long-term sustainability of both the banking system and the economy, and in view of the experience accumulated within the Israeli banking system and among banks worldwide in disclosing information on these matters, the amendments to the Reporting to the Public Directives update the disclosure requirements contained in our directives relating to Environmental, Social, and Governance (ESG) aspects of a banking corporation's activities

6.1 **In the Board of Directors' and Management Report:**

6.1. It was clarified that a banking corporation is required to disclose a summary of key Environmental, Social, and Governance (ESG) metrics, as well as material ESG aspects of the banking corporation that are integrated into its business objectives and strategy.

6.2 In the Environmental, Social, and Governance (ESG) Report

6.2. In view of prevailing disclosure practices among leading international banks, the report title has been changed from a **"Corporate Responsibility Report"** to an **"Environmental, Social, and Governance (ESG) Report."**

6.3. It was set that banking corporations shall prepare and publish an annual ESG Report, replacing the existing requirement under our directives to publish a biennial Corporate Responsibility Report.

6.4. The publication deadline for the report has been advanced to no later than four months after the end of the reporting year.

6.5. The guidance regarding the purpose of the report, its content, and examples of topics that may be addressed therein has been clarified.

6.6. It was clarified that the report must be signed by the Chairperson of the Board of Directors and the Chief Executive Officer.

7. In addition, in light of the rapid developments in ESG-related disclosure practices, the directives concerning the ESG Report specify that a banking corporation should consider whether its disclosures in this area should be updated in accordance with leading international standards and disclosure practices adopted by banks worldwide, and should disclose the relevant standards under which it operates in this area.[1]

Public Disclosure of Environmental Risks

8. Subsection (f) has been added to page 620-17, as set out in the Directive.

Explanatory Notes

9. The existing requirement under our directives regarding the description of environmental risks and their management has been clarified.

10. In this regard, it is further clarified that, in accordance with the existing disclosure requirements under the Reporting to the Public directives, and in light of recently issued international guidance on the disclosure of climate-related risks, including guidance published by the Financial Stability Board (FSB)[2]**,** a banking corporation should assess whether there is a need to expand its disclosures on this subject in the Board of Directors' and Management Report and in the ESG Report, as applicable. Such

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[1] For example. standards such as the Global Reporting Initiative, standards of the Sustainability Accounting Standards Board, or other standards that are generally quoted in reports to the public by banking corporations worldwide.

[2] Final report from June 2017 regarding "Recommendations of the Task Force on Climate-related Financial Disclosures".

disclosures should reflect material changes in the specific environmental risks to which the banking corporation is exposed, including those arising from climate change and transition risks, as well as material changes in the manner in which such risks are managed.

In this context, consideration should be given, among other things, to:

10.1. The impact of international agreements relating to environmental risks, including agreements concerning climate change.[3]

10.2. Legal, technological, political, and other specific developments relating to environmental risks, including climate change-related developments, that may create new risks for the banking corporation.

Application

11. The provisions established under this circular shall apply to all banking corporations. The requirements set out in Sections 3 through 5 of this circular shall be implemented at the highest level of the banking group.

12. Material acquiring entities that are not part of a banking group are encouraged to include disclosures regarding Environmental, Social, and Governance (ESG) matters in their Board of Directors' and Management Report and to publish a separate report on these activities.

13. We intend to continue monitoring public disclosure requirements and leading disclosure practices adopted by leading banks worldwide in this area, and to update the Reporting to the Public Directives as necessary, including with respect to public disclosures by material acquiring entities

Commencement and transitional provisions

14. Banking corporations shall implement the amendments to the reporting to the public directives in accordance with this circular from the reports for 2021.

15. To make thing easier for banking corporations in implementing this circular, a banking corporation may:

15.1 Publish an Environmental, Social, and Governance (ESG) Report for 2021 no later than 30 June 2022**,** and shall publish an ESG Report for 2022 no later than 31 May 2023.

15.2. In its 2021 Board of Directors Report, a banking corporation shall include a summary of key quantitative Environmental, Social, and Governance (ESG) metrics, based on the information available to it as of the date of publication of the report.

[3] Such as the 2015 Paris Agreement.

16. A banking corporation experiencing difficulties in implementing these provisions should contact Mr. Ido Galil, Head of the Financial Reporting Unit**.** This also applies to difficulties associated with first-time implementation.

File update

Following are the update pages for the Proper Conduct of Banking Business Directive file.

Remove pages	**Insert pages**
4/15 [1] 620-1	*4/15 [1] 620-1
12/17 [2] 620-2	12/21 [3] 620-2
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Respectfully,

Yair Avidan
Supervisor of Banks