



June 29, 2015

Circular Number C-06-2476

To:

The banking corporations and the credit card companies

Issue: 1. Board of Directors

2. Internal Audit Function

(Proper Conduct of Banking Business Directives no. 301 and 307)

Introduction

1. A number of adjustments and editing revisions have been made to Proper Conduct of Banking Business Directive no. 301 "Board of Directors" (hereinafter, "Directive 301") and to Proper Conduct of Banking Business Directive no. 307 "Internal Audit Function" (hereinafter, "Directive 307").
2. Following consultation with the Advisory Committee on Banking Business, and with the approval of the Governor, I have decided to revise the Directives, as detailed below.

Amendments to Proper Conduct of Banking Business Directive number 301

3. In Section 35(f)(2), the sentence "The stipulations in subsection 35(f)(1) do not apply to those appointees listed in subsection 35(e) or to holders of administrative and professional positions on the committee" shall be deleted, and the following sentence will be added at the end of paragraph (1) "and office holders whose presence is permitted by the Companies Law, under the conditions set there" .

Explanation

Decisions in the Audit Committee and in the Committee for Transactions with Interested Parties shall be made in the presence of the committee members and the parties whose presence is permitted under the Companies Law, under the conditions set out in the law.

4. In Section 38(d), the sentence, "Decisions in meetings of the remuneration committee shall be made in the presence of committee members" shall be



followed by “and office holders whose presence is permitted under the Companies Law, under the conditions set there”.

Explanation

Decisions in the Remuneration Committee shall be made in the presence of the committee members and the parties whose presence is permitted under the Companies Law, under the conditions set out in the law.

5. In Section 49(d)(2), the reference to Section 3(f) in Proper Conduct of Banking Business Directive number 312 (hereinafter, “Directive 312) shall be replaced with a reference to Section 3(c1) in Directive 312.

Explanation

The Board of Directors shall not make a decision in a meeting held through communications media, *inter alia* regarding a transaction with anyone who has proposed a candidate to serve as a director in a banking corporation with no controlling core or his relative, as long as they are considered interested parties.

6.
 - (a) In Section 62(d), the reference to the Banking (Internal Audit) Regulations, 5752–1992 (hereinafter, “the Banking (Internal Audit) Regulations”) shall be deleted and replaced with a reference to Directive 307 (Section 46(b)).
 - (b) In Section 62(e), the reference to the Banking (Internal Audit) Regulations shall be deleted and replaced with a reference to Directive 307 (Section 53).

Explanation

The references were corrected in furtherance to the cancellation of the Banking (Internal Audit) Rules, the provisions of which were anchored in Directive 307.

7. In Section 62(k), in the definition of “capital”, the reference to Appendix A of Proper Conduct of Banking Business Directive number 202 (Measurement and Capital Adequacy—Capital Components) shall be deleted and replaced with a



reference to “Regulatory Capital” as defined in Proper Conduct of Banking Business Directive number 202 concerning “Regulatory Capital”.

Explanation

The reference was corrected following a change in the structure of Proper Conduct of Banking Business Directive number 202.

Amendments to Proper Conduct of Banking Business Directive no. 307

8. In Section 53, sub-section (c) shall be added: “Notwithstanding the provisions of Subsections (a) and (b), an internal auditor who was convicted of a crime that involves disgrace, in a final ruling by a court—his or her service shall be terminated.”

Explanation

Directive 307 generally adopted the applicable provisions in the Banking (Internal Audit) Regulations. Sub-Section (c) is intended to anchor the requirement that existed in Section 10(b) of those regulations.

Effective date

- (c) The amendments to the Directives pursuant to this Circular shall apply from the date of its publication.



File update

(d) The updated pages of the Proper Conduct of Banking Business file are attached. The following are the update instructions:

Remove page:	Insert page:
301-1-51 [21] (7/14)	301-1-51 [22] (06/15)
307-1-21 [1] (12/11)	307-1-21 [2] (06/15)

Sincerely,

David Zaken
Supervisor of Banks