



October 22, 2015

Circular no. C-06-2485

Attn:

Banking corporations and credit card companies

Re: Capital requirements for exposures to central counterparties
(Proper Conduct of Banking Business Directives no. 203 and 204)

Introduction

1. In July 2012, the Basel Committee for Banking Supervision published a document “Capital requirements for bank exposures to central counterparties”. To implement the Basel Committee guidelines on this issue, the need arose to update Proper Conduct of Banking Business Directives 203 and 204.
2. At this opportunity, in Directives 203 and 204, a limitation was instituted on the size of the loan—NIS 5 million—that allows a reduced risk weight as per paragraph 72 of Proper Conduct of Banking Business Directive 203 (“Claims secured by residential property”). Until the current revisions, this guideline was arranged in Section 7 of Supervisor of Banks Circular 2426 dated July 15, 2014.
3. In addition, in Directive 203, in addition to Appendix C, several translation and editing corrections were made.
4. After consultation with the Advisory Committee on Banking Business Affairs, and with the approval of the Governor, I amended the Proper Conduct of Banking Business Directive 203 (Credit Risk—the Standardized Approach) and Directive 204 (The Internal Ratings-Based (IRB) Approach to Credit Risk) as specified below.

Main changes to the Directive

Appendix C of Directive 203—Handling Counterparty Risk

5. Appendix C of Proper Conduct of Banking Business Directive 203 was revised and now includes a detailed framework regarding capital requirements for banking corporations’ exposures to central counterparties. The guidelines differentiate between a central counterparty and a qualifying central counterparty. For the latter, there are reduced capital requirements.
6. **Section 2—General terms**
Various relevant terms were added to this section, including central counterparty, qualifying central counterparty, clearing member, client, initial margin, variation margin, trade exposure and default fund contribution.

7. Section 6—Scope of application

This section, in its new format, establishes, among other things, that the new guidelines will apply to central counterparty exposures arising from OTC derivatives, exchange traded derivatives transactions, and securities financing transactions.

8. Sections 110–125: Exposures to qualifying central counterparty

These paragraphs regulate the method for calculating the risk assets and capital requirements for exposures to a qualifying central counterparty. Among other things, this section arranges the following types of exposures:

- Exposures of a clearing member banking corporation to a central counterparty. As a rule, a risk weight of 2 percent is to be applied to these exposures (in contrast to an exposure value of zero prior to the revision).
- Exposures of a banking corporation to a client active on the stock market. According to the revision, such exposures are to be capitalized as a bilateral trade, including allocating capital in respect of CVA risk. The calculation method that was in place until now based on Paragraph 6b of Appendix C—calculation according to stock exchange rules—will be cancelled.
- Exposures of a banking corporation client active through a clearing member.
- Clearing member banking corporation contributions to a default fund.
- Collateral deposited by the banking corporation with a clearing member or with a central counterparty.

9. Sections 126–127: Exposures to a nonqualifying central counterparty

These paragraphs arrange the method of calculating risk assets and the capital requirement in respect of exposures to a nonqualifying central counterparty. These paragraphs establish that exposures to a nonqualifying central counterparty are to be assigned the relevant risk weight for the counterparty, while contributions to a default fund are to be weighted at 1,250 percent.

10. As part of regulating the issue, updates were also made in paragraphs 3 and 4 of Appendix B to Directive 203, and in paragraphs 256 and 262(i) of Directive 204.

Effective date and transitional provisions

11. The provisions in this Circular shall go into effect beginning on July 1, 2016.

12. Until June 30, 2017, it will be possible to regard the Tel Aviv Stock Exchange (TASE) as a qualifying central counterparty.

Update of file

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

Remove page

203-1-78 [3] (5/13)

204-1-110 [2] (5/13)

Insert page

203-1-85 [4] (10/15)

204-1-110 [3] (10/15)

Respectfully,

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