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Annual Report of the Banks'
Clearing House Committee

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The 2013 Annual Report of the Banks' Clearing House Committee is presented herewith to the Banks' Clearing House Committee members, in accordance with Part A, Chapter 101, Section E of the Clearing House Rules

Preface

The payment and settlement systems in Israel have been changed considerably in recent years, including major changes in the activity of the Banks' Clearing House—the Paper-based (Checks) Clearing House and the interbank Automated Clearing House (known by its Hebrew acronym Masav). The main changes include: settlement processes were brought in line with the Zahav (RTGS—Real Time Gross Settlement) system environment, the Paper-based Clearing House system operated by the Bank of Israel has been replaced, changes have been made in the settlement sessions and the manner in which they are managed, manual settlement has been reduced considerably, and changes have been made in the settlement processes at Masav.

A number of important issues feature on the agenda of the Banks' Clearing House Committee at the beginning of 2014. These include advancement of the Check Truncation Law, which regulates the move from the physical settlement of checks to electronic settlement and the issue of check destruction; implementation of the planned reform in the issue and settlement of corporate securities, including computerization of the process; issues that arose at the Joint Committee headed by the Director General of the Prime Minister's Office, which is acting to reduce the amount of unreported economic activity—the shadow economy—in Israel's economy by curtailing the use of paper-based means of payment (funds and negotiable checks) and by increasing the use of advanced electronic means of payment; revision of the Banks' Clearing House rules, including the inclusion of a diamond denominated accounts agreement for the purpose of regulating the work processes between the branches of the banks providing interbank settlement services in accounts that are designated for diamond transactions; and the processing of other issues, inasmuch as they arise, in connection with the increased oversight of the Automated Clearing House and Automatic Banking Services (known by its Hebrew acronym of Shva), bodies that were declared as designated payment systems in July 2013.

In the past, we have succeeded in implementing extensive and significant changes. By virtue of the efforts and willingness of all settlement members to be at the forefront of the technology in the field, and by virtue of the cooperation between the members of the Banks' Clearing House Committee, I believe that this year as well we will succeed in coping with the challenges facing us.

With thanks and regards,

Ronit Chitayate
Chairperson

1. Main Developments in 2013

a. The Banks' Clearing House Committee

The Banks' Clearing House Committee convened once a quarter in 2013 (in February, May, August and December), and discussed various issues. The main issues that were discussed are presented below:

End to the maintenance of the *Access* paper-based clearing house operation system

In November 2012 the Bank of Israel put in place an advanced system for the operation of the Paper-based (Checks) Clearing House. From the business aspect, the new system is similar to the previous system, with changes made for the purpose of reducing the amount of manual work and replacing it with automatic processing in order to enhance work processes and to increase the extent of oversight. After the system was fully integrated in the production environment, the Bank of Israel decided to stop maintaining the previous system. This system continued to serve the participants, in their current activity and for use as backup in the event of malfunction. Participants were required to make suitable preparations and to develop an independent replacement system, or to maintain the old system themselves.

Abolition of manual settlement

In the first clearing house session, presentations and returns of nonmagnetic drafts are transferred. These are drafts which the banks transfer between each other, such as manual debits and credits, returns of manual debits and credits, and payments in respect of securities issuances. Since manual settlement inevitably involves a high level of risk, in 2009 a subcommittee was established for the purpose of advancing the abolition of manual settlement and transferring drafts settled manually to electronic settlement or to advanced and secure payment systems.

The subcommittee examined the transactions that were settled manually and ways of transferring them to electronic settlement. In Section 3 it can be seen that manual settlement activity decreased considerably during recent years. In the years 2011, 2012 and 2013 the amounts processed in this way fell by 40, 8.5 and 15 percent respectively. The Banks' Clearing House members are continuing to work to reduce manual settlement until it is completely ended. In this respect, a decision was made to change the manner in which securities issuances are settled in place of the current manual settlement process.

In order to advance the reform in the process of corporate securities issuance and settlement, a committee headed by the Bank of Israel and the Israel Securities Authority, in cooperation with the stock exchange and the banks, was established in 2011. The committee prepared a reform

program, the main elements of which are the institution of a system that will collate the exchange of information, funds and securities between the entities involved in the process. The Tel Aviv Stock Exchange will be responsible for the development and maintenance of the system, on the basis of the infrastructures which the clearing house currently uses in order to connect between its members. Apart from the actual development of the system, major changes will also be necessary in processes such as bid offers by institutional bodies and account debiting authorizations. The committee's recommendations were presented at the Payments and Settlement Council and a green light was given for its advancement, subject to the stock exchange's agreement to develop the system.

In the course of the Banks' Clearing House Committee's discussions during 2013, the committee's members agreed that the date for final preparation for the process of corporate securities issuance will be the same as the date for the complete abolition of manual settlement activity and the termination of the relevant clearing house session.

Box 1: Reform of the payment and settlement system in recent years

During recent years the Bank of Israel has spearheaded a reform in the payment and settlement systems, focusing on matching all of the payments systems in Israel to generally accepted international rules. These rules refer inter alia to the implementation of a Real Time Gross Settlement System (RTGS). In July 2007, the Bank of Israel launched such a system—the Zahav RTGS system. For the first time, the system has made it possible to transfer funds between bank accounts immediately and with finality, that is, without possibility of cancellation, and settles the results of all the currently existing interbank payments systems—the Stock Exchange Clearing House, the Maof Clearing House, the interbank Automated Clearing House (Masav) and the Paper-based Clearing House. The introduction of this system is an important step in strengthening the financial stability of the economy, because it reduces the risks involved in settlement—including credit, liquidity and operational risks—within the system itself and within all the other systems connected to it.

Principal landmark events in the reform:

- Abolition of the retroactive recording of movements in the banks' accounts and receipt of a final balance in their accounts.
- Extension of the activity hours in the business day from 15:00 to 18:30, in order to enable transactions to be conducted in the Zahav system in the afternoon and evening hours as well.

- Formulation of an interbank arrangement for dealing with a failure on the part of one of the participants in multilateral Banks Clearing House and Paper-based Clearing House settlement, in order to ensure that settlement at these clearing houses is completed by the end of the day, at the very latest.
- Enactment of the Payment Systems Law, 5768–2008. The Bank of Israel led the process toward legislation in order to assure the efficiency of the payment systems in Israel and to minimize the risks, including legal risk, involved in them, The law relates to the arrangements that are necessary for the proper operation of the payment system, and includes definition of the term “payments system”, formulation of the criteria for the finality of payments in the system, and reference to bankruptcy by a system participant. In addition, the law authorizes the Bank of Israel to enact amendments and to oversee the payments systems in Israel, stipulates the terms under which a payment system will be subject to oversight authority, the obligations of the operator of a system that is subject to oversight, and the oversight tools that are available to the Bank of Israel.
- The addition of the shekel in participation in the Continuous Linked Settlement (CLS) system in May 2008. Operation of the Zahav system opened up new opportunities for Israel in the international arena, the most important of which has been the shekel's inclusion in CLS. The CLS Bank was established at the beginning of the millennium and operates as an international clearing house for inter-currency conversion transactions. This activity is similar to that of an RTGS-type system, but instead of settlement activity in a single currency, settlement and conversion transactions from one currency to another are conducted in CLS.

Establishment of subcommittees for examining check truncation

Check truncation implies a move from physical settlement to electronic settlement, by imaging the checks and discontinuing the further processing of the physical check beyond the presenting bank. This method will increase the efficiency of paper-based clearing and will save costs in three ways: First, it will obviate the need for transporting checks from the charging bank at which they are deposited, to the bank at which they are presented for settlement (and in reverse, in the event that a check is returned). Second, it obviates the need for storing checks in designated locations. Finally, since electronic settlement is faster than physical settlement, the time elapsing from presentation of the check for redemption to crediting of the customer's account will be shortened, thereby making it possible to assure the certainty of the transaction within a shorter period of time. Truncation has been applied in several countries in recent years, and those countries enacted laws

that regulate the banking system's activity in the electronic settlement of checks. The proposed Check Truncation Law is intended to regulate the rules governing the transition from the physical settlement to the electronic settlement of checks.

Since the cooperation between the parties involved has expedited the process of legislation and in view of the renewed contacts with the relevant entities, the Banks' Clearing House Committee decided to resume the work of two subcommittees—the Committee for the Definition of Principles for Work Processes and the Committee for the Establishment of a Communications Network between Settlement Participants. Apart from the contacts that were mentioned previously, there was another reason for the Committee's decision—the continually growing need for solving the problem involved in maintaining check-reading machines.

The first subcommittee was charged with the formulation of guidelines that would serve as the basis for the joint work of the Clearing House members when the Check Truncation

Law is applied. The committee recommended rules for the presentation and return of checks, reconciliations, processing of excesses and errors, image quality and information security in respect of photocopies. The committee also recommended principal stages and timetables for the implementation of the project. The recommendations are discussed at the Banks' Clearing House Committee.

Box 2: Check 21

The federal law known as the Check Clearing for the 21st Century Act—Check 21 for short—went into effect in the US in October 2004.

The law was passed a year previously, and regulated the checking payments system in order for interbank settlement of checks to be effected via the exchange of electronic files, with the physical checks remaining at the bank at which they were deposited. In other words, the law made it possible to practice check truncation.

The new law was intended to save costs and to increase the sophistication of the settlement systems. It was also intended to avoid a situation similar to that which arose as a result of the events of September 11, 2001, when the decision to ground air transportation in the US prevented millions of checks from reaching their destination.

Although the law makes it possible to truncate checks as stated, it deals mainly with the legal status and tradability of the check substitute.

The main sections in the law contain:

1. Technical regulations concerning the imaging of checks and the transfer of electronic files instead of manual drafts.
2. An agreement between the financial institutions concerning the receipt of electronic files.

The other subcommittee is responsible for the establishment of an encrypted private communication network for transferring files containing images of the checks. This subcommittee discussed the content of the files, the manner in which they are to be sent, the quality and completeness of the imaging, processing of errors and their transfer between banks, the work process in normal times and in an emergency and information security aspects.

The subcommittees submitted their recommendations to the Banks' Clearing House Committee and a decision will be made in respect of them following a discussion at that committee.

Application of oversight of Masav

From the aspects of volume and value, the Masav system settles a considerable proportion of the payments transferred within the payments network in Israel, and is connected to other payments systems operating in Israel. Masav's current activity and proper functioning is essential to the payment system in Israel in general, and for the activity of the Zahav system in particular (Masav serves as a backup in the event of a continuing malfunction in the Zahav system). Masav is subject to the oversight of the Banking Supervision Department at the Bank of Israel by virtue of its status as a joint services company, as per Paragraph 23 of the Banking (Licensing) Law, 5741-1981. During the last quarter of 2011, an IMF delegation evaluated the financial system in Israel (FSAP¹, see Box 3). The evaluation emphasized *inter alia* that the efficient and safe functioning of the Paper-based Clearing House and of Masav is essential for the payments system in Israel.

In July 2013, the Bank of Israel declared Masav and Automatic Banking Services (*Shva*) as designated systems in accordance with the Payment Systems Law, 5768-2008. The Bank of

Box 3: FSAP

In the first quarter of 2012, the IMF published an evaluation of the level of financial stability in a number of focal points in the Israeli economy, including the Zahav system and the Tel Aviv Stock Exchange clearing houses. The FSAP evaluation states that these systems meet the majority of international standards, that they are stable and that they meet the needs of their users. The main findings regarding the Zahav system relate *inter alia* to the need to institute oversight over the payment and settlement systems in Israel, the need to continue advancing the business continuity plan for the Zahav system as part of the Bank of Israel's overall business continuity plan, and the need for changes in the Payment Systems Law in order to expand the protection which it provides to globally accepted standards.

¹ Financial Sector Assessment Program.

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Israel (Payment Systems Oversight) examines the stability, safety and efficiency of the systems in accordance with principles of the International Organization of Securities Commission (IOSCO).

Establishment of a subcommittee for examining the settlement of collection vouchers

Due to the need to upgrade the settlement of collection vouchers, a decision was made to establish a subcommittee that would analyze the existing settlement process, examine the proposal to be submitted to the Banks' Clearing House Committee concerning obviation of the need for a physical voucher, present the advantages and disadvantages of the proposal, and suggest changes in the process. The subcommittee held three meetings in 2013, and its activity will continue in 2014.

Main changes made in the Banks' Clearing House rules, appendices and standards:

Nature of the change	Revision in the rules
Mention of the Banks' Clearing House supervisor was deleted from the reports.	Reports 410, 411, 412, 413 and 416 in the Banks' Clearing House forms were revised
Mention of BNP was removed from the appendices due to the termination of its activity in Israel.	Appendices 302, 304 and 307 of the Banks' Clearing House appendices were revised
The first settlement session on Independence Day was brought forward to 21:30.	Section 202 – Settlement sessions and their times
Revisions were entered concerning the fact that the Clearinghouses Operations Unit is the entity operating the Banks' Clearing House and the operational changes necessitated by this were detailed.	Section 204 – Management of the session and accounting in the Zahav system, Paragraphs A(3), A (6) and B(2)
A revision was made to the manner of dealing with cases when errors are discovered in the reports sent from the Banks' Clearing House.	Section 205 – Deficiencies in non-magnetic settlement drafts, Paragraph D

b. The Lawyers Committee

The Lawyers Committee convened three times in the course of the year and discussed the following matters:

“Rolling” of checks: Cases exist where checks are returned in a manner that is not consistent with the Banks' Clearing House Rules, and they “roll” back and forth between the Banks' Clearing House members for an unlimited period. It was proposed to define rules that will restrict the “rolling” of checks by setting an upper threshold for the charging bank presentations (after which

the check will be stopped at the bank on which the check was drawn), without detracting from that bank right to turn to arbitration or to legal proceedings. Discussion of the matter is continuing.

Letter of indemnity: An examination was made of the paragraph in the Banks' Clearing House Rules concerning mismatch of electronically settled magnetic drafts. In the event of a mismatch, a letter of indemnity will only be issued at the request of the bank on which the draft was drawn, and the very existence of a shortfalls report will constitute an obligation on the part of the presenting/returning bank to submit a letter of indemnity. The proposal will be discussed at the Banks' Clearing House Committee for the purpose of changing the formulation in the rules.

Company seal: The Lawyers Committee agreed that the provisions of paragraphs A(1) and A(2) in Section 214 will also apply in the event that the endorsement was made by imprinting a seal that is apparent as the seal of a corporation or of a representative of a condominium or of a workers committee even without a signature alongside it. In addition, it was proposed that in the event a rubber stamp without a signature exists, the charging bank will relate to it as it would to a "we have credited" seal. In this case the charging bank will be able to present the check for collection without any endorsement seal and to state that the beneficiary's account has been credited, and it will be responsible towards the bank redeeming the check. This matter was sent for the approval of the Banks' Clearing House Committee.

Reason for return: The need for adding the reason for the return in cases where the structure of the check is improper or its quality is not good was raised at the Committee. In addition, as part of the examination of the truncation of checks, the question was raised as to whether the presenting bank, instead of the bank on which the check was drawn, can imprint the seal specifying the reason for the return of the check and return it to the customer. These matters were sent for discussion in accordance with the decisions of the Banks' Clearing House Committee.

c. The Body for the Resolution of Disputes between the Banks— clarifiers Panel

The body for resolving disputes between the banks—the clarifiers panel—is continuing its activity in accordance with the directives in the Banks' Clearing House rules. The body's coordinator, his alternate and the list of clarifiers are presented in Appendix C.

During 2013 five cases were referred to the clarifier's panel. Two of them were resolved by the applicants, two were resolved after settlement of the dispute, and the fifth is still under discussion.

2. The Banks' Clearing House

The Banks' Clearing House is comprised of the Paper-based (Checks) Clearing House and the interbank Automated Clearing House (Masav), and operates in accordance with the agreement between its members—the Banks' Clearing House Rules. The Banks' Clearing House is managed by the Banks' Clearing House Committee.

a. Banks' Clearing House Committee

The Banks' Clearing House Committee has 14 members, half of them Bank of Israel representatives and half of them representatives of the banking system, and are appointed by the Governor of the Bank of Israel or a person authorized by him. (A list of members and their alternates is presented in Appendix A). The committee convenes at least once a quarter and as required in order to discuss current needs, including revision of the Banks' Clearing House Rules. These rules were first published on the Bank of Israel web site in 2008, and since then they have been revised on the site on an ongoing basis. The committee publishes a report on its activity once a year.

b. Paper-based (Checks) Clearing House

Most of the drafts presented by the banks in the Paper-based (Checks) Clearing House are checks, which are now only presented electronically. Magnetic collection vouchers and non-magnetic drafts (manual drafts) are also presented. As of December 31, 2013, the Paper-based clearing house had 35 members—the banking corporations in Israel, the Postal Bank and the Bank of Israel. Some of them operate in the clearing house directly, and the rest of them represent other participants. In the settlement of electronic drafts (hereinafter: “electronic settlement”), 8 banks have the status of direct participants and 27 the status of represented banks, 15 of which are banks in the area of the Palestinian Authority. Twelve banks participate directly in the settlement of non-magnetic (manual) drafts, and 23 are represented there, 15 of which are banks in the area of the Palestinian Authority. The banks operating within the Palestinian Authority are clearing house members, and all of them are represented by three banking corporations in Israel (Bank Hapoalim, Discount Bank, and Mercantile Discount Bank). The Bank of Israel acts in two functions in the Paper-based Clearing House—as a member of the clearing house and as its operator.

The Banks' Clearing House operates on every banking business day, as stipulated in the Banking Regulations (Service to Customer) (Check Debiting and Crediting Date), 5752-1992. In addition, on Fridays and on the days preceding public holidays (except for the days preceding Purim, Independence Day, and Tisha B' Av), the Banks' Clearing House operates in order to facilitate the processing of drafts at the conclusion of the Sabbath or a public holiday. A list of the business days is published on the Bank of Israel web site and is revised annually.

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At the close of the business day, at 18:30, the participants collect all the drafts (mostly checks) which customers have deposited at the branches in the course of that day. Concurrently (during or at the close of the day), the participants create electronic files containing information on the drafts that were deposited on the same day. At the end of the day, the files are sent to the other clearing house members, and a summary file presenting the total amount credited to the participant's account against the other participants' debits is sent to the clearing house. The clearing house conducts net processing and creates a multilateral transaction. This transaction is sent for settlement in the Zahav system in the morning of the following day (T+1) at the Paper-based Clearing House's settlement window, which opens at 09:30. Two settlement sessions are held in the nighttime, during which the participants transfer the drafts from the charging banks² to the paying banks. In the first session, presentations and returns of manual drafts are carried out. In the second session, presentations and returns of magnetic drafts and electronic presentations of collection vouchers are carried out.

Session times:

	Weekdays	Following the conclusion of Sabbath and Public Holidays
First session (manual drafts)	22:30	22:30
Second session (electronic drafts)	01:00 (the following morning)	23:00

Clarifications:

- During the period when summer time is in force, the second session at the conclusion of the Sabbath or a public holiday takes place at midnight instead of 23:00.
- On the 15th of the month (or at the conclusion of a Sabbath or a public holiday falling on the 16th of the month), the second session is held at 02:00 (on the following morning).
- If the conclusion of the Sabbath or a public holiday falls on the 15th of the month, the second session on the 16th of the month will be postponed to 02:00 (on the following morning).
- When the intermediate days of Passover and Succoth fall between Sunday and Thursday (except for holiday eves), the first session is held at 21:00 and the second session at 23:00.
- On the eve of Independence Day, the first session is held at 21:00 and the second session at 23:00.

² The charging bank is the bank at which the beneficiary's account is managed.

Customers are credited/debited on value date T, while the banks are credited and debited on the next business day (value date T+1). The Bank of Israel conducts interest accounting among the banks at the end of each calendar month. According to the reasons for return stipulated in the rules (lack of coverage or an error in the details for example), the banks are entitled not to honor electronic and manual drafts presented to them, and may return them on the business days following their deposit. In special cases and as specified in the Banks' Clearing House Rules, returns can be delayed.

c. Masav (Automated Clearing House)

Non-paper based interbank movements such as standing orders, authorizations, salary and tax payments are settled at Masav. The transactions are sent to Masav by the banks, the Postal Bank, Automatic Banking Services (Shva) and the credit card companies, and the organizations that are entitled to send payment instructions directly.

Two types of transactions are executed at Masav: **Direct credits**, which are payments deriving from organizations (including the government) and consist of salaries, payments to suppliers, tax payments and other payments; as well as payments from banking corporations which reflect activity by the banks' customers. **Direct debits**, which are debits deriving from organizations (standing orders).

Organizations' debit and credit transactions are settled at the end of the transfer day at same day value (T). The accounting between the banks in respect of instructions that were sent to Masav, are transferred for settlement in the Zahav system on the business day following the transfer day (T+1). Masav has two settlement windows in the Zahav system: The first at the start of the business day (at 10:00), and the second prior to the end of the day (at 18:00 on weekdays and at 13:30 on Fridays and the days preceding holidays).

Payment instructions are accepted at Masav during the entire working day. The instructions are not final, because the beneficiary is entitled to return the credit within two business days, and the payer is entitled to return the debit within five business days. In the Zahav system, returned payment transactions receive the value of the day of their presentation.

Masav has 35,310 active participants³, including banking corporations, the Postal Bank, government ministries and public institutions, as well as other settlement organizations such as the credit card companies. All Masav participants are direct participants. Participants send payment instructions to Masav in the course of the business day by means of batch files.

On receipt of the files, a clearing process is carried out at Masav, whereby the mutual liabilities of the participant banks are calculated and the net file designated for final settlement in the Zahav system is created. Before the final net amount is sent to the Zahav system, the banks are sent

³ As of December 2013.

interim calculations which Masav compiles from time to time during the business day. This is in order to enable the banks to prepare in a timely manner the liquidity required for settlement in the Zahav system.

As of December 2013, 2,587 active employer codes in the system for employers' deposits to provident funds and advanced training funds were listed at Masav, compared with 2,476 active codes in December 2012, an increase of 4.5 percent. These institutions transferred 22 million transactions in 2013.

3. Statistical data and analysis of trends

a. The Paper-based Clearing House

Apart from funds money, paper-based means of payments include vouchers and checks, and payments that are discharged by the latter two means—as well as returns in respect of them—are settled at the Paper-based Clearing House. Checks are accepted and common in Israel and account for over half of the payment instructions executed in the interbank payments systems.⁴

In 2013 the number of Paper-based Clearing House transactions declined by 1.3 percent to 120,555 thousand transactions, while the value settled at the paper-based clearing house rose by 5.2 percent to NIS 934,127 million. The number of checks has declined gradually since 2008, and by the end of 2013 the decrease had amounted to 18.9 percent. However, the total value of checks increased by about 12.8 percent, from NIS 800 billion in 2008 to NIS 902 billion in 2013.

Table 1: Components of the paper-based clearing house, 2010 to 2013

	2010		2011		2012		2013		Change in 2013	
	Value (NIS m.)	Volume (th.)	Value	Volume						
Manual drafts ¹	50,588	431	30,388	217	27,793	250	31,985	189	15.1	-24.4
Debits	38,895	190	29,184	180	27,272	193	31,196	169	14.4	-12.4
Credits	11,693	241	1,204	37	521	57	789	20	51.4	-64.9
Checks	806,473	124,608	846,489	123,551	860,245	121,899	902,142	120,366	4.9	-1.3
Presentations	783,657	121,645	804,944	119,726	814,208	118,143	850,519	116,699	4.5	-1.2
Returns	22,816	2,963	24,315	2,883	24,820	2,804	26,026	2,647	4.9	-5.6
Collection vouchers ²			17,230	942	21,217	952	25,597	1,020	20.6	7.1
Total	857,061	125,039	876,877	123,768	888,038	122,149	934,127	120,555	5.2	-1.3

¹ The number of movements of manual drafts is an assessment based on reporting for one day in a month.

² Until November 21, 2010, collection vouchers were cleared through manual clearing. After that date, the process was integrated into electronic clearing, in a separate session (clearing session 151).

SOURCE: Bank of Israel.

⁴ Payment instructions are settled in the Zahav (interbank) system, at Masav (credits) and at the paper-based clearing house.

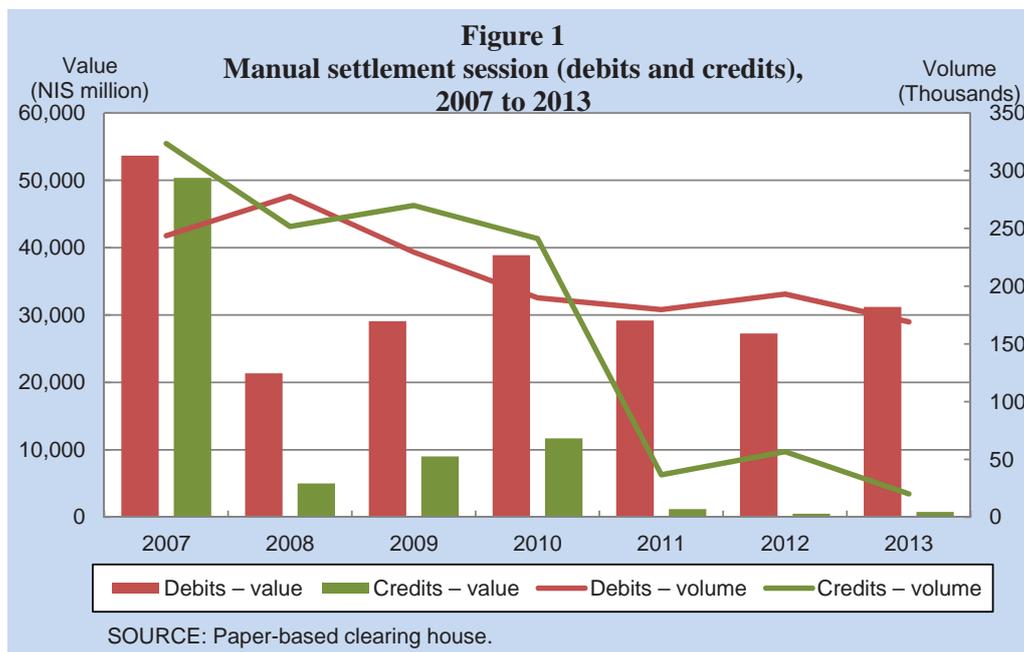
During recent years an uptrend was also recorded in the average amount per check, from NIS 5,394 in 2008 to NIS 7,495 in 2013—a significant 39 percent increase. The level of the average value of transactions by means of checks indicates that they are highly acceptable in the business sector in Israel as a means of payment at large amounts, inter alia for payments within the framework of transactions and for tax payments. Check returns accounted for 3 percent of the overall amount, similar to that in 2012.

TABLE 2: Presentations and returns of checks and presentations of collection vouchers at the paper-based clearing house, 2013

Period	Check presentations		Collection vouchers		Checks returned		Total electronic settlement		percent of returns	
	Volume (th.)	Value (NIS m.)	Volume (th.)	Value (NIS m.)	Volume (th.)	Value (NIS m.)	Volume (th.)	Value (NIS m.)	Value	Volume
January	10,106	74,844	241	2,178	91	2,168	10,438	79,189	2.38	2.91
February	8,854	64,905	208	2,078	72	1,999	9,134	68,982	2.35	3.20
March	10,265	70,297	228	2,142	79	2,065	10,572	74,504	2.22	3.05
April	9,238	66,398	210	1,870	73	1,900	9,521	70,168	2.27	2.82
May	10,488	75,873	220	2,159	86	3,996	10,794	82,027	2.10	2.85
June	9,165	67,433	205	2,054	70	1,395	9,440	70,883	2.24	3.05
July	10,499	78,002	223	2,304	90	2,029	10,812	82,335	2.12	2.95
August	9,173	70,817	212	2,160	81	2,134	9,466	75,111	2.31	3.05
September	9,002	65,231	195	1,852	72	1,586	9,269	68,669	2.17	2.84
October	10,510	74,451	253	2,307	98	2,067	10,861	78,825	2.41	3.10
November	9,677	70,345	222	2,764	105	2,049	10,004	75,158	2.29	3.93
December	9,724	71,925	230	2,159	102	2,208	10,056	76,292	2.37	3.00
Total	116,701	850,519	2,647	26,026	1,019	25,597	120,367	902,142	2.27	3.06

SOURCE: Paper-based clearing house.

In 2013 as in previous years, the Bank of Israel took action to improve the payments system. In this respect, it endeavored to reduce manual settlement (manual credits and debits) in the Paper-based Clearing House. Since some 90 percent of the total value of manual debits derived from the settlement of funds from the issuance of corporate securities, it became necessary to move this activity to electronic settlement. The result was a large decline in the amounts of debits settled in the Paper-based Clearing House. The considerable change that occurred during recent years in manual settlement in the Paper-based Clearing House can be seen in Figure 1.



Beneficiary codes for use in collection vouchers

When customers wish to issue collection vouchers at the banks for the purpose of payment to their accounts, they initially have to contact the bank at which their account is managed in order to receive beneficiary codes for the collection vouchers. The banks then ask the secretary of the Banks' Clearing House Committee to allocate beneficiary codes to them. Following this allocation, the Bank of Israel reports to all the banks on the allocation of the beneficiary codes.

At the banks' request, the Bank of Israel issued 224 codes for magnetized collection vouchers in 2013 compared with 442 codes in 2012, of which 198 were codes for the private sector and 26 for local authorities.

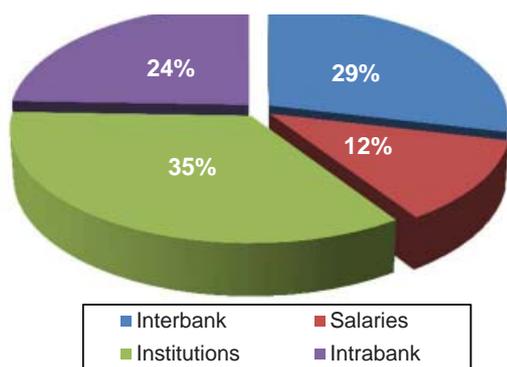
b. Masav

Direct electronic payments (direct debit/credit) are payments that are carried out in a computerized manner, without manual intervention in the process. The two systems making electronic payments in Israel are Zahav and Masav. The Zahav system carries out credits only (the initiator of an instruction can credit the counter party but not debit it), and Masav carries out both credits and debits.

Direct credits: Direct credits are made via Zahav or Masav as stated, and are initiated by the debited customer who instructs the bank to charge his account and to credit the beneficiary. If his account contains an adequate amount, the bank transfers the payment instruction to the clearing house, which settles the payment. If the payment is settled in the Zahav system, the credit is immediate, final and irrevocable. If the payment is settled at Masav, the credited party can return the payment within 2 business days from the date of execution. The majority of direct credits (salaries and pension payments and other payments) are initiated electronically, which considerably reduces the cost of processing each payment instruction for the customer, for the bank and for the clearing house.

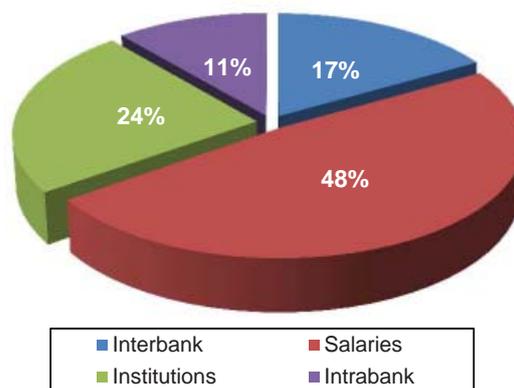
The volume of direct credits and the value credited at Masav has grown consistently in recent years. Direct credits totaled NIS 1,997 billion in 2013 compared with NIS 1,911 billion in 2012, an increase of 4.5 percent.

Figure 2
Value of credits in Masav by purpose–2013



SOURCE: Masav.

Figure 3
Crediting volume in Masav by purpose–2013



SOURCE: Masav.

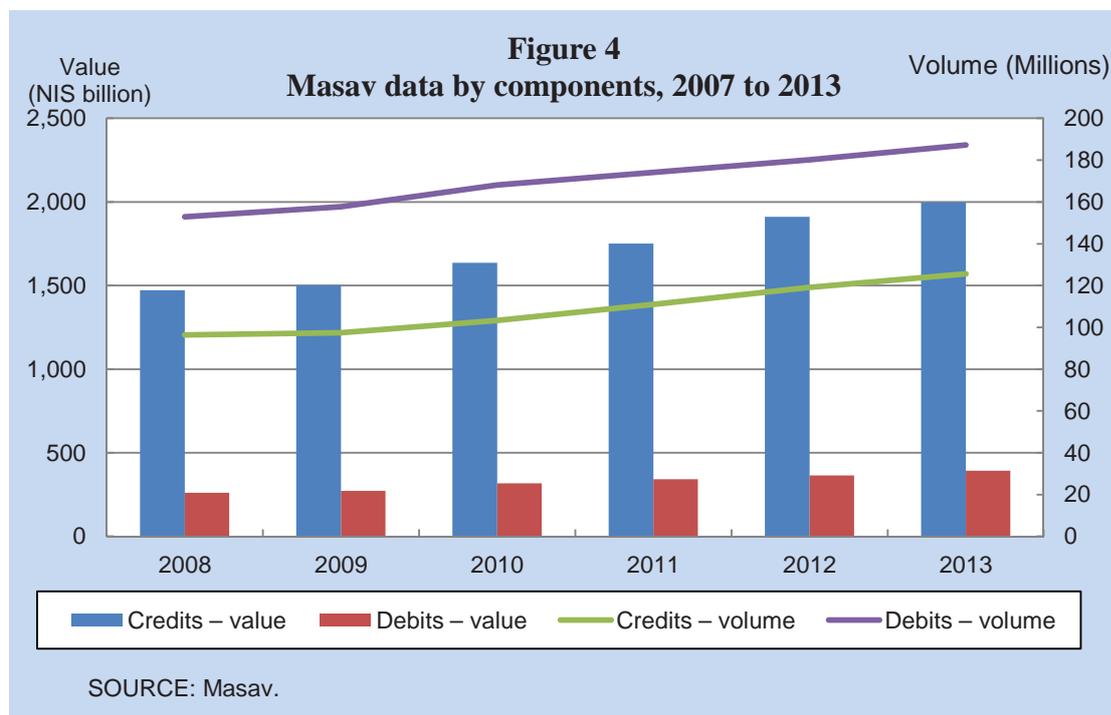
Table 3: Masav activity, 2013

Period	Volume (th.)	Value (NIS m.)	Average value per transaction (NIS)
January	25,973	196,680	7,572
February	25,982	184,783	7,112
March	26,571	203,707	7,666
April	25,843	188,674	7,301
May	26,541	198,176	7,467
June	26,114	197,291	7,555
July	26,961	201,699	7,481
August	26,438	190,854	7,219
September	25,981	203,574	7,835
October	26,715	207,907	7,782
November	26,248	188,549	7,183
December	27,812	232,727	8,368
Total	317,179	2,394,623	7,550

SOURCE: Masav.

Direct debits: Direct debits in Israel are made only via Masav, and are initiated by the beneficiary through the bank that manages the beneficiary's account. The beneficiary's bank is the one that charges the funds from the bank managing the account of the debited party, subject to the legal terms to which the debited party agreed. The main type of direct debit in Israel is a standing payment order (payments to providers of services such as electricity, water and telephone): Payment is made automatically every month, at current value.

The volume and value of direct debits has grown during recent years. Direct debits totaled NIS 391 billion in 2013 compared with NIS 363 billion in 2012, an increase of 7.6 percent.

**Table 4: Masav activities, 2013**

Period	Credits				Debits			
	Credit presentations		Credit returns		Debit presentations		Debit returns	
	volume (th.)	value (NIS m.)	volume (th.)	value (NIS m.)	volume (th.)	value (NIS m.)	volume (th.)	value (NIS m.)
January	10,218	164,574	10	87	15,372	31,629	373	390
February	10,079	153,632	14	61	15,554	30,738	336	353
March	10,482	172,312	13	69	15,720	30,973	356	353
April	10,046	156,604	9	80	15,438	31,616	350	374
May	10,666	166,012	12	75	15,519	31,729	344	359
June	10,360	165,215	13	72	15,417	31,651	324	353
July	11,021	167,757	12	83	15,601	33,510	326	349
August	10,404	156,454	11	82	15,704	33,982	319	337
September	9,918	169,210	9	61	15,720	33,947	333	357
October	10,619	172,748	10	116	15,713	34,461	373	582
November	10,346	155,758	11	79	15,523	32,328	368	384
December	11,491	197,290	12	81	15,923	34,958	387	398
Total	125,650	1,997,566	136	946	187,204	391,522	4,189	4,589

SOURCE: Masav.

APPENDICES

Appendix A: Members of the Banks' Clearing House Committee and their alternates who were appointed for two years from January 1, 2013 to December 31, 2014

	Member	Alternate
<u>Bank of Israel representatives</u>		
Chairperson	Ronit Chitayate	Anat Shabat
	Regina Sabov	Helene Balouka
	Sasha Saposhnik	Ariel Sanua
	Tal Harel Matityahu	Shaul Pearl
	Elad Yaakobi	Dror Nagar-Halevi
	Margalit Rokach	Yonatan Mor
	Ronen Shriki	Yafa Moshe
<u>Banks Representatives</u>		
Israel Discount Bank Ltd.	Moshe Sinman	Yitzhak Contanta
Israel Postal Bank	Genya Habaz	Yitzhak Florentin
Bank Hapoalim B.M.*	Shmuel Alon	Zeev Hugi
The First International Bank of Israel Ltd.	Dalia Lavon	Motti Shaul
Bank Leumi Le-Israel Ltd.	David Segev	Yehoshua Levi
Mizrahi-Tefahot Bank Ltd.	Meir Nissim	Moshe Romi
Citibank Israel	Inbal Tatro	Assi Levy
Banks' Clearing House Secretary—		
Bank of Israel representative	Ori Altalat	

* Since January 1, 2014, the member of the committee on behalf of Bank Hapoalim has been Zeev Hugi, and his alternate, Dror Kriegel.

Appendix B: Members of the Banks' Clearing House and the network of representations¹

Bank Code	Name of Bank	The representing bank in the		
		Settlement of non-magnetic drafts	Settlement of electronic drafts	Settlement via Masav
4	Bank Yahav for Government Employees Ltd.	Hapoalim	Hapoalim	Hapoalim
9	Israel Postal Bank	+	+	+
10	Bank Leumi Le-Israel Ltd.	+	+	+
11	Israel Discount Bank Ltd.	+	+	+
12	Bank Hapoalim B.M.	+	+	+
13	Union Bank of Israel Ltd.	Leumi	Leumi	Leumi
14	Bank Otsar Hahayal Ltd.	First Interntnl.	First Interntnl.	First Interntnl.
17	Mercantile Discount Bank Ltd.	+	Discount	Discount
20	Mizrahi-Tefahot Bank Ltd.	+	+	+
22	Citibank N.A.	+	+	+
23	HSBC Bank plc	+	Leumi	+
26	UBank Ltd.	First Interntnl.	First Interntnl.	First Interntnl.
31	The First International Bank of Israel Ltd.	+	+	+
34	Arab Israel Bank Ltd.	Leumi	Leumi	Leumi
39	State Bank of India	+	Leumi	+
46	Bank Massad Ltd.	First Interntnl.	First Interntnl.	First Interntnl.
52	Bank Poalei Agudat Israel Ltd.	First Interntnl.	First Interntnl.	First Interntnl.
54	Bank of Jerusalem Ltd.	Leumi	Leumi	+
68	Dexia Israel Bank Ltd.	+	Discount	+
99	Bank of Israel	+	+	+

¹ The + sign means that the bank represents it self.

Appendix B (contd.) Members of the Banks' Clearing House and the network of representations¹

Bank Code	Name of Bank	Settlement of non-magnetic drafts	Settlement of electronic drafts	Settlement via Masav
37	Bank of Jordan	Hapoalim	Hapoalim	Hapoalim
38	Commercial Bank of Palestine	Hapoalim	Hapoalim	Hapoalim
43	Jordan National Bank	Mercantile Discount	Discount	Discount
49	Arab Bank plc	Discount	Discount	Discount
66	Cairo-Amman Bank	Discount	Discount	Discount
67	Arab Land Bank	Hapoalim	Hapoalim	Hapoalim
71	Jordan Gulf Bank	Hapoalim	Hapoalim	Hapoalim
73	Arab Islamic Bank	Hapoalim	Hapoalim	Hapoalim
74	HSBC Bank Middle East	Hapoalim	Hapoalim	Hapoalim
76	Palestine Investment Bank	Hapoalim	Hapoalim	Hapoalim
82	Al-Quds Bank for Development and Investment	Discount	Discount	Discount
83	Union Bank for Savings and Investment	Discount	Discount	Discount
84	The Housing Bank	Discount	Discount	Discount
89	Bank of Palestine	Hapoalim	Hapoalim	Hapoalim
93	Jordan Kuwait Bank	Discount	Discount	Discount

Appendix C: Clarifiers for resolving disputes between Banks' Clearing House members

Name of the institution	Name of clarifier		
Association of Banks	Tal	Nadav	Adv.
	Ran	Vinerko	Adv.
Union Bank of Israel Ltd.	Aliza	Rozanes	Adv.
	Ephraim	Liberman	
Israel Discount Bank Ltd.	Zaki	Hashash	
	Alona	Hazan	Adv.
	Aryeh	Cohen	
	Nissim	Madjar	Adv.
	David	Peleg	Adv.
Israel Postal Bank	Myra	Steinberg	Adv.
	Shlomo	Katz	Adv.
Mizrahi-Tefahot Bank Ltd.	Ofer	Mor	
	Meir	Nissim	
	Moshe	Romi	
	Shmuel	Alon	
Bank Hapoalim B.M.	Moriah	Doron-Hoftman	Adv.
	Gideon	Dor	Adv.
	Ephraim	Shwartz	
	Hani	Avirim	Adv.
Bank Leumi Le-Israel Ltd.	Yehuda	Avni	
	Asher	Sarussi	
	Varda	Kleipstein	Adv.
	David	Segev	
	Leah	Davidoff	
Mercantile Discount Bank Ltd.	Yoav	Mintz	Adv.
	Dan	Sofer	
The First International Bank of Israel Ltd.	Orna	Gav-Ziverski	Adv.
	Mordechai	Shaul	
UBank Ltd.	Gal	Steiger	
External clarifiers—not employees of Banks' Clearing House members	Yigal	Shapira	Adv.
Coordinator of the clarifiers panel	Tal	Nadav	Adv.

Appendix D: Major events in the past decade

Month and year	Event
August 2003	Prohibition on Money Laundering Order goes into effect.
July 2005	Accounting separation: value date T between customers and the banks, and value date T+1 between the banks themselves.
August 2005	Prohibition on Terrorism Financing Law goes into effect.
November 2005	Requirement for electronic settlement of checks becomes effective.
December 2005	Transmission of results of check settlement from the banks to the Bank of Israel begins.
February 2006	Extension of the business day until 18:30 , and change in settlement times accordingly.
July 2007	The banks start to image checks and send the files between them.
July 2007	Launch of the Zahav system in Israel.
July 2007	Postponement of accounting in respect of interbank settlement to the next business day, without changing the value date; that is, customers will be credited/debited on value date T, and the banks, on value date T+1.
July 2007	Abolition of the recording of transactions at a retroactive value in order for the banks' balances to be final. This change was made in order to fulfill one of the fundamental terms for the operation of the Zahav system—management of the banks' balances in real time.
July 2007	Merger of settlement sessions for presentations and returns of credits and of settlement sessions for presentations and returns of debits. Since manual drafts are notable for their low volume and low value, a decision was taken to amalgamate the settlement of their presentations with the settlement of returns.
September 2008	Revision of Banks' Clearing House regulations and their publication as "Banks' Clearing House Rules" on the Bank of Israel web site. The Banks' Clearing House Rules were published in September 2008, revising the Banks' Clearing House regulations that in the past had governed the settlement of manual drafts and checks and automated settlement at Masav. The revision included mainly bringing the regulations in line with the decisions that were made at the Banks' Clearing House Committee in the past and which had yet to be included in the regulations. In addition, changes were made which derived from the operation of the Zahav system (the system began to operate at the end of July 2007, as noted). Apart from that, the formulation of the regulations was adapted to the means currently used by the banks: Since all checks are settled electronically, all the clauses relating to magnetic (non-electronic) settlement were abolished.

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Month and year	Event
October 2007	The amount transferrable at Masav was restricted to NIS 3 million. Transfers in excess of this amount can only be made in the Zahav system (except in exceptional cases as determined by the Bank of Israel).
May 2008	Commencement of operation of the method involved in allocating ranges of beneficiary codes for contractors' projects, following the regulation of payment to construction finance accounts only. Construction financing for contractors was regulated in Proper Conduct of Banking Business directives. The directives stipulate that payments will be made to these accounts only, by means of collection vouchers. For this purpose, the Bank of Israel allocated to each bank a range of beneficiary codes for contractors' projects, and a circular on the matter was distributed to all the banks. It was decided that the collection voucher for contractors will be uniform at all the banks.
June 2008	The notifications issued in accordance with the Banks' Clearing House rules are sent to the banks' clearing houses by email only, and not on paper. The notifications are sent to designated email addresses at the banks' clearing houses. Each bank specified the addresses to which notifications received from other banks are to be sent.
January 2009	Cessation of the representation of the branches of the banks operating in the Gaza Strip. With the approval of the Acting Chairman of the Banks' Clearing House Committee, Bank Hapoalim ceased to represent the branches of the banks operating in the Gaza Strip on January 1, 2009, and Discount Bank stopped representing them on January 10, 2009.
July 2009	Following the revision of the Banks' Clearing House regulations and their publication under the name "Banks' Clearing House rules" on the Bank of Israel web site in September 2008, the appendices, standards and specifications of the Banks' Clearing House rules were revised as well, and were published on the Bank of Israel web site.

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Month and year	Event
July 2009	Commencement of computerized reporting from the Bank of Israel to the banks on the beneficiary codes in use. During 2009 the Bank of Israel began to report to the banks by computerized means on the allocation of collection vouchers' beneficiary codes (except for contractors' codes). In the event that a bank wishes to receive a report on beneficiary codes that were allocated in the past, it has to contact the Secretary of the Banks' Clearing House Committee. Institutions' requests to move to optical collection vouchers were opposed by the banks' representatives on the Banks' Clearing House Committee. It was agreed that if a bank wishes to move to optical collection vouchers, vouchers of this type will be charged at that bank alone, and will not be sent as drafts between the banks.
December 2009	Computerized return of credits received via Masav, by means of a returns and credits system. In the past, returns of erroneous credits obtained from banks via Masav were carried out manually, or by the bank receiving the erroneous credit crediting in respect of it at Masav. This method requires manual operation for the purpose of connecting between the credit operation and its return.
2010	Replacement of the bank representing Bank Massad and Bank Otsar Hahayal, from Bank Hapoalim to First International Bank. After First International Bank acquired Bank Massad and Bank Otsar Hahayal, their representation passed to it. The change in Bank Massad's representation went into effect on February 5, 2010, and the change in Bank Otsar Hahayal's representation, on May 28, 2010.
March 2010	Cessation of the representation of the Islamic Palestine Bank (Bank No. 81) at the Banks' Clearing House.
July 2010	Restriction on the amount of a transfer at Masav to NIS 1 million. In excess of this amount, the transfer will be made in the Zahav system only (except in special cases as determined by the Bank of Israel).
August 2010	Translation of the Banks' Clearing House rules to English and publication of the translation on the Bank of Israel web site.

Month and year	Event
September 2010	<p>Abolition of accounting at the paper-based clearing house between the representing banks and the represented banks at the clearing house. Accounting settlement between the representing banks and the represented banks in the manual settlement session had until then been carried out at 09:30, at the first settlement window in the Zahav system. The Banks' Clearing House Committee decided to move this accounting settlement to direct settlement in the Zahav system, in order to minimize risks and to increase the efficiency of the process. By September 5, 2010, all the representing banks except for Bank Leumi had moved to the accounting management by means of direct crediting. Bank Leumi completed the process in May 2011.</p>
November 2010	<p>Initial electronic settlement of collection vouchers. In line with the effort to abolish manual settlement, in 2010 a sub-committee for moving the settlement of collection vouchers from manual to electronic settlement has established.</p> <p>It should be noted that electronic settlement does not apply to government vouchers. The proceeds of these vouchers are transferred to the Bank of Israel or to the Postal Bank, and the charging bank sends the vouchers themselves directly to the government ministries (and not via the bank through which the proceeds are transferred to the government). Optical vouchers transferred between the banks were not to be settled electronically either. A solution for vouchers of this type will be devised as part of an overall solution for the issue of manual settlement.</p>
August 2011	<p>Transfer of operation of the Banks' Clearing House from the Bank of Israel in Tel Aviv to the Bank of Israel in Jerusalem. As the result of several processes—including the development of a new settlement system, the decision to abolish the session for the presentation and return of non-magnetic (manual) drafts, and the personnel changes made among the settlement controllers in Tel Aviv—the operation of the paper-based clearing house's computer systems was transferred to the Bank of Israel in Jerusalem. The meeting place of the banks' representatives in the first and second sessions remained unchanged, at the Shalom Tower in Tel Aviv. As a result of the change, the relevant regulations in the Banks' Clearing House rules were revised in 2012.</p>

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Month and year	Event
July 2012	Cessation of the activity of the BNP Paribas bank at the Banks' Clearing House in Israel. BNP ceased to operate in Israel, including in this respect its participation in the Banks' Clearing House, on July 20, 2012.
November 2012	Installation of a new system for operation of the clearing houses at the Bank of Israel. In November 2012 the Bank of Israel integrated an advanced system based on innovative technology. The system enables the Bank of Israel to more effectively manage clearing house sessions.
July 2013	Declaration of Masav and Automatic Banking Services (Shva) as designated controlled systems in accordance with the Payment Systems Law, 5768-2008.
December 2013	Cessation of the maintenance of the Access checks settlement system.

