



Directive 12—Money Settlement in a Controlled Payment System and a Designated Controlled Payment System

1. Introduction

In accordance with Section 8 of the Payment Systems Law, 5768-2008 (hereinafter: “the Payment Systems Law”), an operator of a controlled payment system shall formulate rules that will ensure the stability, efficiency, and sound functioning of the system.

In accordance with Principle 9 of the Principles for Financial Market Infrastructures (PFMI), published in 2012 by the Committee on Payment and Settlement Systems of the BIS (CPSS) and the International Organization of Securities Commissions (IOSCO), a financial-service infrastructure should conduct its money settlements in central bank money where practical and available.

This Directive regulates the requirements that controlled payment systems and designated controlled payment systems shall meet in order to carry out money settlements safely.

2. Definitions

“Payment system” “controlled system,” “designated controlled system”, “payment-system operator”-	As defined in the Payment Systems Law;
“Payment-system operator” or “system operator”-	Operator of a controlled payment system or a designated controlled payment system;



“Payment Systems Oversight” or “Oversight”-	The oversight unit for payment systems at the Payment and Settlement Systems Division of the Bank of Israel;
“Participant in a payment system”-	One who is defined as a participant under the system rules;
“System rules”-	The rules by which the payment system operates;
“Central bank money”-	A liability of a central bank, in this case in the form of deposits held at the central bank, which can be used for settlement purposes;
“Credit risk”-	The risk that a counterparty, be it a participant or another entity, will be unable to meet its financial obligations in full when they fall due or at any future time;
“Liquidity risk”-	The risk that a counterparty, be it a participant or another entity, will not have sufficient funds on hand to cover its financial obligations in the expected form and time, although it may be able to do so in the future.



3. Incidence

- 3.1 This Directive shall apply to the operator of every payment system that the Governor has declared a controlled payment system or a designated controlled payment system.
- 3.2 The Bank of Israel may, as circumstances shall indicate, absolve or exempt a payment-system operator from the incidence of certain sections of this Directive and may rescind said exemption.

4. Central bank money

- 4.1 A payment-system operator shall act to use central-bank money¹ for money settlement in order to avoid credit and liquidity risks.
- 4.2 The system operator shall verify that the system and/or its participants have the right of direct claim on the central bank.

5. Finality of money transfers between settlement accounts

In the legal agreements between a payment system and a central bank that serve for settlement purposes and in the system rules, the following shall be clearly stated:

- 5.1 when transfers on the books of the central bank are expected to occur;
- 5.2 that transfers are to be final when effected;
- 5.3 that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday.

¹ The settlement asset in this case is money deposited at the central bank.



6. Information reported and frequency of reportage

- 6.1 At the time this Directive goes into effect and by March 1 of each year, the system operator shall present to Oversight with the model used to make money settlements safe.

7. Forwarding information to the Bank of Israel

- 7.1 A payment-system operator shall forward the information under this Directive by means of secured communication (the Kasefet application). Said application shall be used after prior coordination with Oversight. Oversight may allow the information to be forwarded in other ways.
- 7.2 The information to be presented under this Directive shall be forwarded by the system operator to the contact persons whom Oversight shall appoint for this purpose.
- 7.3 A system operator who forwards information under this Directive shall ascertain the receipt of the information by the contact persons specified in Subsection 7.2.
- 7.4 A payment-system operator who sits within a Bank of Israel structure and makes use of Bank of Israel systems shall forward the information under this Directive by means of the internal electronic-mail system of the Bank of Israel.
- 7.5 Reportage to Oversight shall be presented in digital form.
- 7.6 Reportage shall be carried out in accordance with the deadlines established in this Directive. Insofar as a payment-system operator believes that a given report will not be presented by the specified deadline, he or she shall present Oversight, by electronic mail, with a written request to revise the deadline for the presentation of the report. Said request shall include, *inter alia*, the actions taken up to said request for revision, the reasons for requesting the revision, and the requested target date for the presentation of the report in question. A report presentation for which revision is not approved by Oversight shall be presented by the deadline established for said report.



8. Promulgation and update of Directive

Date of promulgation	Essence of update
April 25, 2018	Promulgation of directive

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