



Directive 17b

Remuneration Policy of a Payment-System Operator

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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 2 of the Principles for Financial Market Infrastructures (PFMI), published in 2012 by the Committee on Payment and Settlement Systems of the BIS (CPMI) and the International Organization of Securities Commissions (IOSCO), a financial-service infrastructure (FMI) should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI and support the stability of the broader financial system.

Appropriate remuneration arrangements are among the principles of apt corporate governance that are helpful in attaining and sustaining stability and public trust in the payment system.

This Directive establishes rules that aim to ensure that a payment system’s remuneration arrangements will be consistent with the risk-management framework and the long-term goals of the payment system as the general principles laid down in the PFMI document are applied.

2. Definitions

“Remuneration policy”—

a policy concerning remuneration of staff and senior officers of a payment system;

“Senior officer”—

an officer as defined in the Companies Law and also Chief Accounting Officer, Chief Financial Officer, internal auditor, Chief Compliance Officer, Chief IT Management



“Remuneration” —

Officer, legal advisor, and any such officer even if differently described;
terms of service or employment including granting of exemption, insurance, undertaking to indemnify, or indemnification under an indemnification permit, retirement grant and other terms of retirement, and also other benefit, payment, or undertaking to make said payment, given on account of said service or employment;

“Fixed remuneration” —

remuneration in the form of any means of payment, the granting of which is not contingent on performance, as determined in advance in the remuneration agreement, and as given in a fixed sum of money, e.g., a monthly salary;

“Variable remuneration” —

remuneration other than fixed remuneration

3. Incidence

- 3.1 This Directive shall apply to every payment-system operator 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, establish certain instructions, different from those specified below, that shall apply to a certain payment-system operator, and may exempt a payment-system operator from the incidence of certain sections of this Directive.
- 3.3 In a payment-system operator that has no Board of Directors function due to its statutory, legal, or organizational structure, the obligations of a Board of Directors established in this Directive shall apply to the function that corresponds to a Board of Directors or the



highest function that bears responsibility for the business and solidity of the payment-system operator.

- 3.4 In respect of systems that are run by the central bank, this Directive shall apply as tailored to the corporate-governance structure of the central bank.¹

4. Board of Directors responsibilities

- 4.1 The Board of Directors of a payment-system operator shall:
- 4.1.1 appoint a remuneration committee;
 - 4.1.2 discuss and establish, after weighing the recommendations of the remuneration committee, the remuneration policy of the payment-system operator, including criteria for performance evaluation and measurement;
 - 4.1.3 oversee the implementation of said policy;
 - 4.1.4 ascertain that the remuneration policy:
 - 4.1.4.1 promotes compliance with the objectives of the payment system;
 - 4.1.4.2 does not encourage risks that are exceptional or in excess of the risk appetite;
 - 4.1.4.3 facilitates the preservation of a solid capital base;
 - 4.1.5 review periodically, and at least once every three years, the remuneration policy and the need to update it;
 - 4.1.6 discuss and approve the terms of service and employment of senior officers, after weighing the recommendations of the remuneration committee;
 - 4.1.7 ascertain that the payment-system operator has in place an appropriate program for the maintenance of a worthy managerial reserve;

¹ In this context, in August 2015 the BIS published a document titled “Application of the Principles for Financial Market Infrastructures to Central Bank FMIs,” with guidelines as to how the PFMI rules should be applied to payment systems run by a central bank.



5. Remuneration committee

- 5.1 The remuneration committee of the Board of Directors shall present the Board of Directors with recommendations concerning:
- 5.1.1 The remuneration policy of the payment-system operator and periodic update thereof;
 - 5.1.2 Terms of service and employment of senior officers;
- 5.2 Once per year, the remuneration committee shall review the implementation of the remuneration policy and the remuneration mechanism and its operation, including:
- 5.2.2 its completeness;
 - 5.2.3 compliance of the remuneration mechanism with the policy laid down by the Board of Directors;
 - 5.2.4 The extent of the effect of the remuneration mechanism on risk profile and staff behavior;
 - 5.2.5 The suitability of the remuneration mechanism to the organizational goals and risk appetite of the payment-system operator.
- 5.3 The committee shall work in close cooperation with the risk-management committee and the control committee, to whatever extent necessary.
- 5.4 The committee shall have unlimited access to information and analyses of the audit and control and human resources functions and shall avail itself of said functions in its discussions.
- 5.5 The committee may avail itself of outside consulting provided the consultants be appointed in a way that ensures the independence of their consulting from consulting that senior management receives and shall not create conflicts of interest for any reason whatsoever.



6. Remuneration policy

- 6.1 The remuneration policy shall apply to all staff members of the payment-system operator and to all types of remuneration. The system operator may establish different remuneration policies for different groups of staff.
- 6.2 The remuneration policy shall be drawn up on a multiannual basis.
- 6.3 The remuneration policy shall also be based on general organizational considerations such as total remuneration costs and desired remuneration disparities among different ranks, *inter alia*:
- 6.3.1 Remuneration shall be tailored to employees' rank and position. Employees' experience, expertise, qualifications, seniority, responsibilities, and performance shall be borne in mind;
- 6.3.2 The remuneration policy shall enable the payment-system operator to retain staff members of importance for its activity.
- 6.3.3 The remuneration policy shall enable the system operator to employ and hire staff in accordance with the market conditions and the competitive environment in which the system operates.
- 6.4 The remuneration policy shall include a description of the remuneration mechanism.
- 6.5 The remuneration mechanism shall take into account the time horizon that is used to measure performance and the quality of measurement of performance, and shall offer incentives tailored to the time horizon provided it reduce sensitivity to short-term performance.
- 6.6 The remuneration mechanism shall promote behavior that is supportive of the risk-management framework and the long term financial solidity of the payment-system operator and shall make it possible to reduce or revoke variable remuneration that has been paid, or that has been deferred from previous years and not yet paid, in order to maintain the stability of the payment system.



7. Remuneration documentation and controls

- 7.1 The system operator shall maintain ongoing controls and ascertain that the existing remuneration agreements and the remuneration mechanism are being applied in accordance with policy and procedures.
- 7.2 The system operator shall appropriately document the remuneration agreements and the remuneration mechanism in all components in order to allow control and auditing of agreements set forth.
- 7.3 The internal-audit function shall review the remuneration policy and the manner of its application at least once every three years.

8. Remuneration of chair and members of the Board of Directors

- 8.1 Members of the Board of Directors, including the chair of the Board of Directors, shall receive fixed remuneration only.
- 8.2 The level of remuneration of the chair of the Board of Directors shall be determined in reference to the manner of remuneration of members of the Board of Directors at the payment-system operator and in consideration, *inter alia*, of the size of the payment system, the complexity of its activities, and the extent of the chair's position.
- 8.3 Notwithstanding the foregoing, a system operator may pay the chair of the Board of Directors social benefits and related expenses in accordance with custom and with the terms of employment of a corporate "officer" in the sense of this term in the Companies Law.
- 8.4 The remuneration of all directors of a payment-system operator, with the exception of the chair of the Board of Directors, shall be determined identically to the way the remuneration of an external director is set under the Companies Regulations (Rules Regarding Remuneration and Refund of Expenses to External Directors), 5761-2000.



9. Information reported and frequency of reportage

- 9.1 The system operator shall report the remuneration policy to Oversight shortly after said policy is updated and approved, and by March 1 at the latest.
- 9.2 The system operator shall report to Oversight once per year, and by the end of June for the preceding year, deviations from the remuneration policy established.

10. Forwarding information to the Bank of Israel

- 10.1 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.
- 10.2 The information under this Directive shall be forwarded by the system operator to the contact persons whom Oversight shall appoint for this purpose.
- 10.3 A payment-system operator who forwards information under this Directive shall ascertain by telephone or by electronic mail that the contact persons received the information.
- 10.4 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.
- 10.5 Reportage to Oversight shall be carried out in digital form and not in handwriting.
- 10.6 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 of the reporting deadline, and the requested target date for the presentation of the report in question. A reporting deadline for which



revision is not approved by Oversight shall be presented by the deadline established for said report.

11. Promulgation and update of Directive

Date of promulgation	Essence of update
April 3, 2024	Promulgation of directive

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