



Report of the Monetary Committee discussion held at the Bank of Israel regarding Bank of Israel Order (Financial Entity)

The discussion was held on April 27, 2022.

Background:

1. The Bank of Israel Law, 5770-2010 (hereinafter, “the Law”), establishes various provisions regarding entities included in the definition of “Financial Entity” in Section 1 of the Law, as follows:

(a) The Bank of Israel may extend credit to a nonbank financial entity, when there is a real concern as to the stability of the financial system or its orderly activity, under the conditions set for that in law (Section 36(5) of the Law);

(b) The Governor, or someone authorized by the Governor, has the power to require from a financial entity information that is required by the Bank of Israel in order to attain its objectives and carry out its functions regarding classes of transactions or of persons as the Governor determines (Section 39 of the Law);

(c) The Bank of Israel may manage accounts for banking corporations and other financial entities, under conditions that will be determined by the Governor (in accordance with the provisions of Section 50 of the Law).

2. A payment system declared by the Governor to be a controlled system by the power granted to the Governor under the Payment Systems Law, 5768-2008, is not currently included under the definition of “Financial Entity”. However, due to controlled payment systems individually being an essential part of the overall payment system in particular, and an essential part of the financial system in general, there is room to include their operators in the definition of “Financial Entity”.

3. Defining controlled systems as a financial entity will enable the Bank of Israel to open an account at the Bank of Israel for controlled payment systems. This is in order to enable certain controlled systems to comply with international standards (PFMI) for maintaining stability and efficiency of any payment system that will be required to do so, and to contribute to enhancing the stability and efficiency of the payment system overall. The need noted above becomes clearer, among other things, in light of the changes in the domestic payment market and the new participants entering the payments area.

Main points raised in the discussion

The actual definition of an entity as a “Financial Entity” by order of the Governor does not grant entities the right to open an account at the Bank of Israel. The judgement is the Bank of Israel’s.

The type of bank account that will be opened for controlled payment systems is expected to be only for compliance with the international standards and for the existence of failure arrangements in those same systems.

Monetary Committee decision:

The Committee members approved the Governor's determination that controlled payment systems are to be defined as a "Financial Entity" in accordance with Section 9(1) of the Bank of Israel Law and the Bank of Israel (Financial Entity) Order, 5782-2022, as noted.

The decision was reached unanimously.

Participants:**Members of the Monetary Committee**

Prof. Amir Yaron, Governor of the Bank of Israel and Monetary Committee Chairperson

Mr. Andrew Abir, Deputy Governor of the Bank of Israel

Prof. Naomi Feldman

Prof. Moshe Hazan

Prof. Zvi Hercowitz

Prof. Michel Strawczynski

Other participants

Mr. Tal Biber, Head of the Markets Division in the Markets Department

Dr. Golan Benita, Chief of Staff to the Governor

Mr. Elitzur Weiser, Legal Division

Mr. Steve Lev, Payment and Settlement Systems Department

Mr. Arad May, Secretariat of the Monetary Committee and the Supervisory Council