



Directive 17

Corporate Governance— Board of Directors of a Payment-System Operator

The following secondary directives are attached to this Directive as integral parts of this

Directive:

Directive 17a: Officers of a Payment-System Operator—Appointment and Conclusion of
Term of Service

Directive 17b: Remuneration Policy of a Payment-System Operator

Directive 17c: Internal Audit at a Payment-System Operator

Directive 17d: Risk Management at a Payment-System Operator

Directive 17e: Compliance Risk Management at a Payment-System Operator

Directive 17f: Financial Statements and Audit of Books of Account at a Payment-System
Operator



Directive 17

Corporate Governance—Board of Directors of a Payment-System Operator

1.	Introduction.....	3
2.	Definitions.....	4
3.	Incidence.....	6
4.	Duties and powers of the Board of Directors.....	7
5.	Compulsory topics for discussion by the Board of Directors.....	7
6.	Frequency of discussions.....	10
7.	Composition of the Board of Directors.....	11
8.	Chair of the Board of Directors.....	13
9.	Fitness for service as director.....	13
10.	Delegation of powers to Board of Directors committees.....	14
11.	Board of directors committees.....	14
12.	Meetings of Board of Directors and Board of Directors committees.....	21
13.	Meetings in absence of management.....	25
14.	Means of monitoring implementation of decisions.....	25
15.	Instructions for efficient Board of Directors functioning.....	26
16.	Information reported and frequency of reportage.....	28
17.	Payment-system operator that is a reporting corporation.....	30
18.	Forwarding of information to the Bank of Israel.....	31
19.	Promulgation and update of Directive	32



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 and shall have in place measures for the management, prevention, and mitigation of risks that the system may face.

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, other relevant public interest considerations, and the objectives of relevant stakeholders.

The operator of a controlled payment system must have effective corporate governance for stable, efficient, and sound functioning in which the public’s trust in the payment array in Israel will be attained and retained. Given the importance of controlled payment systems and their impact on the financial system at large, the sound performance of the system operator’s Board of Directors and management, as part of appropriate corporate governance and sound management of the payment system, is all the more important.

This Directive lays down rules for the duties, composition, and modus operandi of the Board of Directors in order to maintain the stability, efficiency, and sound functioning of payment systems amid the application of the PFMI principles.

Controlled payment systems may need to adjust the application of this Directive to their specific corporate-governance structure and the statutes applying thereto. Thus, the obligations set forth in this Directive shall be tailored, where necessary, to corresponding entities and functions in the system.



2. Definitions

“Related party”-

an entity that has the ability to control or materially influence the system operator’s decision-making and an entity that the system operator is able to control or materially influence in its decision-making, including the operator’s officers; where the related party is an individual, the definition includes his or her relative;

“Governance” or “corporate governance”-

or

“corporate

the set of relations among the owners of a payment-system operator, the Board of Directors (or a corresponding body), management, and other relevant parties, including participants, authorities, and other interested parties (e.g., participants’ customers, other FMIs with which interdependency relations exist, and the market at large);

“Officer”-

a director, Chief Executive Officer, legal advisor, internal auditor, and anyone whom the Oversight Unit for Payment Systems at the Bank of Israel shall designate; in respect of each payment system, the Oversight Unit for Payment Systems at the Bank of Israel shall determine which officers require approval of appointment, provided said determination not include more than seven officers of the payment system;



“Payment-service provider”-	as defined in the Payment Services Law, 5779-2019;
“Professional qualifications”-	an academic degree as required under one of the conditions in Paragraph 1 or 2 of Section 2(a) of the Companies Regulations (Conditions and Tests for a Director having Accounting and Financial Expertise and Director having Professional Qualifications), 5766-2005, and experience as required in Paragraph 3 ibid.;
“Relative”-	as defined in the Companies Law, 5759-1999;
“Control”-	the individual or collective ability to guide the activity of a corporation, with the exception of ability originating solely in the discharge of duty of a director or other officer of the corporation; without derogating from the generality of the aforesaid, a person shall be seen as controlling a corporation if he or she does one of the following: (1) holds half or more of a certain type of means of control in the corporation; (2) is able to thwart decision-making in the corporation except for decisions concerning the issuance of means of control in the corporation or decisions concerning the sale, liquidation, or material revision of most of the corporation’s business affairs;
“Remuneration”-	terms of service or employment including granting of exemption, insurance, undertaking to indemnify, or indemnification under an



“Risk appetite”-

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;

the level of risk, in quantitative and qualitative terms, that a payment-system operator is willing to assume in consideration of risk-versus-return characteristics.

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.
- 3.3 In a payment system 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 to the highest function that bears responsibility for the business and solidity of the payment-system operator.
- 3.4 In respect of payment systems that are run by a central bank, this Directive shall apply as tailored to the corporate-governance requirements of the central bank.¹

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.



4. Duties and powers of the Board of Directors

The Board of Directors of a payment-system operator:

- 4.1 shall formulate the strategy of the payment-system operator, including risk-management and risk-appetite strategy, and shall approve the policy that will guide the payment-system operator in his or her activity;
- 4.2 shall ascertain that the payment-system operator's strategy gives high priority to system stability and efficiency and keeps the wellbeing of participants, their customers, and other stakeholders in mind;
- 4.3 shall ascertain that the payment-system operator maintains purviews of responsibility and accountability;
- 4.4 shall delineate an organizational culture that demands high standards of professional behavior and integrity;
- 4.5 shall inspect management's actions and their consistency with the policy established;
- 4.6 shall ascertain that the payment-system operator is compliant with statute and regulation;
- 4.7 shall make policy on term limits for chairs of the Board of Directors and of Board of Directors committees;
- 4.8 shall establish guidelines for cases of potential conflict of interests between a director's business affairs and the payment system.

5. Compulsory topics for discussion by the Board of Directors

The Board of Directors of a payment-system operator shall discuss and decide upon the following matters at the very least, keeping in mind the need to ensure the stability, efficiency, and sound functioning of the payment system:

5.1 General strategy and policy

- 5.1.1 setting the payment-system operator's general policy objectives, including:



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- 5.1.1.1 business models, sources of earnings, and operational efficiency;
 - 5.1.1.2 fair and open access to the payment system;
 - 5.1.2 ascertaining that the payment-system operator's organizational structure corresponds to its business strategy and that appropriate channels of communication and reportage exist;
 - 5.1.3 approving policy on new products and areas of activity, and reviewing and approving *a priori* material new products and services before they are introduced;
 - 5.1.4 establishing, by itself or by committees acting on its behalf, strategy and policy on payment-system IT and information and cyber security such as will fit into and support the main activity of the payment system;
 - 5.1.5 setting annual performance targets in accordance with the general strategy and policy that it established for the payment system and approving a work plan that accords with said targets;
 - 5.1.6 discussing the business condition of the payment-system operator, setting its total budget, and monitoring its implementation in accordance with the budget plan.
- 5.2 **Supervision and control**
- 5.2.1 determining which matters require reportage and deciding how and how frequently each matter should be reported;
 - 5.2.2 defining a material deviation from the policy that it approved and discussing and approving any such deviation;
 - 5.2.3 determining types of aberrant events that must be discussed by the Board of Directors and discussing them in accordance with the circumstances, provided that said discussion take place immediately upon each event that may have a material effect on payment-system activity. The list of aberrant events shall include the following at the very least:
 - 5.2.3.1 violation or ostensible violation of the law;



- 5.2.3.2 noncompliance with Oversight Directives;
- 5.2.3.3 breach of ethics;
- 5.2.3.4 an event that deviates from routine payment-system activity and may have a material effect on the payment-system operator’s business affairs or assets;
- 5.2.4 an aberrant event that raises suspicion of criminal offense shall also be handed over immediately for investigation by the internal auditor or the police, as the case may be.

5.3 Staff and remuneration policy

- 5.3.1 establishing a process for the appointment of the Chief Executive Officer, discussing and approving said appointment, dismissal, and evaluation of his or her performance, and defining in detail his or her manner of work and obligations to the Board of Directors, including regular reportage to the Board of his or her actions;
- 5.3.2 making policy on appointing and evaluating the performance of the payment-system operator’s officers;
- 5.3.3 ascertaining that the payment-system operator has in place an appropriate program for training a worthy professional and managerial reserve;
- 5.3.4 establishing an appropriate remuneration policy after weighing the recommendations of the remuneration committee, a policy that is consistent with relevant regulatory directives, compliant with accepted practice in relevant financial-service entities, and based on long-term achievements and the need to maintain the system’s stability and efficiency;
- 5.3.5 establishing a periodic rotation policy and a rolling vacation policy for certain officers of the payment system;
- 5.3.6 establishing a compliance policy relating, *inter alia*, to upholding the provisions of statutes and rules applying to the payment system and to its staff and relating



to maintaining the secrecy of information in the possession of the payment system's officers and staff.

5.4 Code of ethics

- 5.4.1 establishing a code of ethics that sets high values and standards of professional behavior and responsibility that will guide staff of the payment-system operator in their ongoing activity and addresses matters such as corruption, personal business affairs, unethical behavior, and unfairness toward participants and customers;
- 5.4.2 ensuring the taking of measures to assure that the standards established will be disseminated and applied across the board by every operator of the payment system;
- 5.4.3 ascertaining the existence of mechanisms that encourage reportage of illegal or unethical actions, giving appropriate protection to staff members who complain about adverse implications.

5.5 Miscellaneous

- 5.5.1 approving the annual and quarterly public financial statements;
- 5.5.2 approving the issuance of shares, options, and convertible securities;
- 5.5.3 establishing policy and controls to prevent conflicts of interest;
- 5.5.4 establishing guidelines on transactions with related parties;
- 5.5.5 discussing and deciding in any other matter of material importance for the activity of the payment system that is within its purview.

6. Frequency of discussions

- 6.1 The Board of Directors shall maintain a reasonable and appropriate schedule of meetings for discussion of each of the matters within its purview.



7. Composition of the Board of Directors

7.1 Appropriate representation of both sexes

7.1.1 The Board of Directors of a payment-system operator shall ensure appropriate representation of both sexes. For this purpose, the Board shall establish a policy as to the extent of gender diversity among its members, including a time frame and milestones for attaining the target.

7.2 Number of directors

7.2.1 The Board of Directors shall be composed of a number of members that will promote efficiency and material strategic discussion, provided it include no fewer than five directors and no more than nine.

7.2.2 No alternate director or observer shall be appointed to the Board of Directors of a payment-system operator, with the exception of a director who is a board member and is allowed by law to serve as an observer in the committees.

7.3 Payment-system employees as directors

7.3.1 Employees of the payment-system operator shall not be appointed as directors during their term of employment.

7.4 External directors

7.4.1 At least one-third of the directors shall be external directors.

7.4.2 For the purposes of this Directive, an external director is:

7.4.2.1 an individual who is a resident of Israel;

7.4.2.2 satisfies the conditions specified in Section 240 of the Companies Law, 5759-1999;

7.4.2.3 in addition to the contents of Section 240(b) of the Companies Law, also has no linkage, as defined in the Companies Law, with anyone who holds more than 5 percent of a certain type of means of control in a payment-system operator;



7.4.2.4 neither he/she nor his/her relative holds shares in the payment-system operator, shares in a corporation that controls a payment-system operator, or shares in a corporation controlled by either of them;

7.4.2.5 has professional qualifications as defined in this Directive.

7.4.3 External directors and independent directors who are appointed under the Companies Law may be included among the external directors.

7.5 Qualifications of the Board of Directors

7.5.1 At least one-third of all directors shall have experience in the field of payments, with one of the following considered as having “experience in the field of payments”:

7.5.1.1 a person who served for at least three years as an officer of a payment-system operator, of a participant in a payment system, or of a payment-service provider, or who has engaged in management or control of a core area of, or a material risk to, a payment system; for the purposes of this Section, an “officer” is as defined in this Directive and also an executive who reports directly to the Chief Executive Officer and also one who reports directly to said executive.

7.5.1.2 a person who served as a partner in a CPA-auditor office, as an official in charge of auditing a payment-service operator, as a participant in a payment service, or in a payment-service provider, including knowledge in constructing system SOX processes for a cumulative period of at least five years.

7.5.1.3 A person whom Oversight approves as having equivalent experience.

7.5.2 At least two directors shall have accounting and financial expertise in the sense of this expression in Section 240 of the Companies Law.

7.5.3 At least two directors shall have knowledge and proven experience in IT fields.

7.5.4 At least half of all directors shall have professional credentials.



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- 7.5.5 To eliminate doubt, a director who has several of the requisite qualifications under this Directive may be appointed within the framework of the proportion mandated in each section.
- 7.5.6 Directors shall be able to understand and learn the background material for meetings and participate actively in discussions.

8. Chair of the Board of Directors

- 8.1 The Board of Directors shall be headed by a chair.
- 8.2 The chair of the Board of Directors must have suitable experience, abilities, and personal qualities to discharge his or her duties.
- 8.3 The chair of the Board of Directors is responsible for the sound functioning of the Board and for the discharge of the obligations that are assigned to the Board of Directors.
- 8.4 All obligations that apply to a director shall apply to the chair of the Board of Directors.
- 8.5 The chair of the Board of Directors shall promote free discussion that allows different views to be expressed and shall ensure that decisions are appropriately based on information.
- 8.6 In the absence of the chair of the Board of Directors, one of the directors shall serve in his or her stead.
- 8.7 A controlling principal or relative of a controlling principal shall not serve as chair of the Board of Directors or of any board committee.
- 8.8 No person shall chair the Board of Directors unless he or she participates in board meetings regularly.

9. Fitness for service as director

- 9.1 The director of a payment-service operator shall be an individual who is a resident of Israel.
- 9.2 Every director shall have qualifications commensurate with his or her position, particularly: education, knowledge, experience and expertise in one or more of the following fields: financial services, money, economic or business activity, law, finance,



accounting, risk management, regulatory compliance, IT, information security, cyber, or some other field that Oversight has approved.

- 9.3 A person whose business or ongoing business affairs create, or are liable to create, a permanent conflict of interest between him or her and the payment system, in accordance with the policy laid down by the Board of Directors, shall not serve as a director.
- 9.4 A person who served as a director of another payment-system operator shall not be appointed as a director until a year has passed from the end of his or her term of service as a director except with the consent of the Board of Directors of which he or she was a member or with the consent of Oversight after consultation with the chair of the Board of Directors or the Board of Directors of which he or she was a member.

10. Delegation of powers to Board of Directors committees

- 10.1 The Board of Directors of a payment-system operator may avail itself of board committees that specialize in specific matters and operate in accordance with the provisions of this Directive. Within the framework of said delegation of powers:
- 10.1.1 The Board of Directors shall discuss and decide in which matters it will delegate its authority to one of its committees.
- 10.1.2 The Board of Directors shall not delegate authority to a Board committee unless the extent of said authority is clearly defined and shall does invest the board committee with residual power unless all directors give their consent thereto after examining the implications of said delegation of authority.
- 10.1.3 The decision to establish a committee shall be made by the Board of Directors plenum and the Board of Directors shall determine the committee's composition, powers, and duties, and shall approve its procedures.
- 10.1.4 Decisions made by committees shall be reported in writing to the Board of Directors plenum afterwards, with the background material presented to the committee attached.



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- 10.1.5 If one of the directors so demands, the Board of Directors plenum shall hold a further discussion of the committee's decision within a period of time that the Board of Directors shall determine.
- 10.2 In the following matters, the Board of Directors may not delegate its authority to committees but may establish a committee for recommendation purposes only:
- 10.2.1 general strategic objectives;
 - 10.2.2 the risk-management framework, with the exception of risks that are not material or components of the risk-management framework that are not key;
 - 10.2.3 determining the total budget of the payment-system operator, with the exception of regular monitoring of its implementation in accordance with the budget plan;
 - 10.2.4 reports on the payment-service operator's business condition;
 - 10.2.5 material deviations from limits set within the policy framework that it has established;
 - 10.2.6 discussions of a material audit report;
 - 10.2.7 approving the payment-system operator's annual and quarterly statements;
 - 10.2.8 discussing CPA notices about failure to correct deficiencies and about the continued existence of the payment-system operator as a going concern;
 - 10.2.9 appointing, dismissing, and assessing the performance of the Chief Executive Officer;
 - 10.2.10 approving the payment-system operator's remuneration policy;
 - 10.2.11 approving contractual arrangements between the payment-system operator and senior officers in respect of their remuneration.

11. Board of directors committees

11.1 Appointment of committees

- 11.1.1 The Board of Directors of a payment-system operator shall appoint the following committees: audit committee, remuneration committee, risk-management committee, and IT and technological-innovation committee.



11.1.2 In addition to the committees specified above, the Board of Directors shall appoint additional committees as required on the basis of the characteristics of the payment system and shall determine their responsibilities.

11.2 Composition of committees

11.2.1 A Board of Directors committee shall be composed of directors only.

11.2.2 The number of members of the committee shall be no smaller than three and no greater than seven.

11.2.3 At least one-third of the directors on each committee shall be external directors, but external directors shall account for a majority of members in the following committees:

11.2.3.1 audit committee;

11.2.3.2 remuneration committee;

11.2.3.3 transactions with related parties committee (if established).

11.2.4 Each committee shall be headed by a committee chair.

11.3 When it assigns directors to the various committees, the Board of Directors shall bear in mind the directors' qualifications and experience and shall make reference to the topic in which the committee specializes.

11.4 The Board of Directors shall establish a policy on term limit of committee chairs and shall consider the need for rotation among members of various committees.

11.5 Audit committee

11.5.1 Composition and working methods of the audit committee:

11.5.1.1 The chair of the audit committee shall be an external director and all external directors shall be members of said committee and account for a majority of its members.

11.5.1.2 At least two directors on the audit committee shall have accounting and financial expertise.



11.5.1.3 The legal quorum for meetings and decisions of the audit committee is a majority of its members, provided a majority of them are external directors.

11.5.1.4 An audit committee chair who, despite a request from the internal auditor, has not convened a meeting of the committee to discuss a topic that the internal auditor wishes to discuss in his demand within a reasonable time from the time of the request, as set forth in Section 116(b) of the Companies Law, shall document the reasons given for not convening said meeting and shall bring said reasons to the knowledge of the Board of Directors.

11.5.1.5 At least once a year, the audit committee shall hold a meeting with all of the following officers in attendance, as well as the committee members, and with the relevant officers only:

- 11.5.1.5.1 internal auditor;
- 11.5.1.5.2 CPA-auditor;
- 11.5.1.5.3 Chief Compliance Officer;
- 11.5.1.5.4 legal advisor;
- 11.5.1.5.5 chief accountant;
- 11.5.1.5.6 chief risk officer.

11.5.2 Duties of the audit committee

11.5.2.1 dealing with internal- and external-audit reports, including discussion of audit-report findings that are presented to it; making decisions as to the findings; and ascertaining that the findings will be discussed within a reasonable period of time after the auditors present them.

11.5.2.1.1 Internal-audit reports: the chair of the audit committee, in consultation with the internal auditor, shall determine which of the material internal-audit reports shall be presented to the audit committee in their entirety. The committee is entitled to determine that it shall be shown an abridged version of the internal auditor's other audit reports or the complete reports, as it sees fit.



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- 11.5.2.1.2 External-audit reports: the committee shall discuss audit reports from Oversight, other authorities, and the CPA-auditor. For audit reports from Oversight, the discussion shall take place within a period that shall not exceed forty-five days from the day on which the system operator receives the report.
- 11.5.2.2 forwarding material audit reports, in consultation with the chair of the Board of Directors, to the Board of Directors plenum for discussion.
- 11.5.2.3 ascertaining that management has taken proper actions at the requisite time to correct the deficiencies noted in the audit reports;
- 11.5.2.4 discussing, once per half-year, the internal auditor's report, including demands emerging from external-audit reports of which treatment has not been completed and the state of said treatment. In cases of delay in treatment, the committee shall discuss the reasons for the delay and the schedule for the completion of treatment.
- 11.5.2.5 overseeing the internal-audit function of the payment-system operator, including presenting the remuneration committee with recommendations concerning the internal auditor's wage, other remuneration, and promotion;
- 11.5.2.6 discussing and recommending to the Board of Directors the approval of the internal-audit function's work plan, including the extent and frequency of audits;
- 11.5.2.7 monitoring implementation of the internal-audit function's work plan;
- 11.5.2.8 The audit committee is entitled to task the internal-audit function, with reasonable prior notice, to carry out special checks in addition to the checks established in the function's work plan;
- 11.5.2.9 overseeing the work of the payment-system operator's CPA-auditor, including:
- 11.5.2.9.1 discussing the possibility of replacing the CPA-auditor on a periodic basis as the committee shall determine;



11.5.2.9.2 presenting its stance to the General Assembly of a payment-system operator that has placed the termination or non-renewal of the CPA-auditor's term of service on its agenda;

11.5.2.9.3 recommending to the General Assembly or the Board of Directors of the payment-system operator the remuneration of the CPA-auditor, insofar as the operator's statutes determine that said remuneration should be approved by the assembly.

11.5.2.10 reviewing the annual and quarterly public statements, discussing them, and recommending that the Board of Directors approve them;

11.5.2.11 examining the effectiveness of the payment-system operator's key internal controls, with help from the internal-audit function. For this purpose, the audit committee shall establish procedures that will regulate, *inter alia*:

11.5.2.11.1 the way complaints about matters pertaining to the financial statements, their internal controls, and auditing are received and dealt with;

11.5.2.11.2 anonymous and confidential reporting, including by staff of the payment-system operator, of concerns associated with the financial statements or auditing that are contested.

11.5.2.12 discussing transactions with related parties if and when the transactions with related parties committee has not been established or has not discussed said transactions.

11.6 Transactions with related parties committee

11.6.1 The Board of Directors may appoint a transactions with related parties committee;

11.6.2 The instructions and restrictions that apply to the audit committee shall also apply, respectively, to the transactions with related parties committee. The audit committee may also serve as a transactions with related parties committee.



11.7 Remuneration committee

- 11.7.1 A majority of members of this committee shall be external directors; its chair shall be an external director; and all external directors shall be members of it and shall account for a majority of its members.
- 11.7.2 An audit committee that meets the foregoing conditions as to the composition of the remuneration committee may also serve as the remuneration committee.
- 11.7.3 The legal quorum for meetings and decisions of the remuneration committee is a majority of its members, provided that a majority of them are external directors.
- 11.7.4 Decisions at meetings of the remuneration committee shall be made in the presence of members of the committee only and of officers whose attendance is allowed under the Companies Law and the terms established therein.

11.8 IT and technological innovation committee

- 11.8.1 At least two members of the committee shall have knowledge and proven experience in the field of IT.
- 11.8.2 The committee shall maintain relations with the IT manager, the information-security manager, the cyber-defense manager, and chief innovation officer in ongoing matters on the agenda.
- 11.8.3 A risk-management committee that meets the aforementioned conditions for the composition of an IT and technological-innovation committee may also serve as an IT and technological-innovation committee.
- 11.8.4 The committee shall discuss and make recommendations to the Board of Directors about approval of the following:
 - 11.8.4.1 IT strategy, policy, and management, including information security and cyber, the system operator's technological infrastructures, management and use of databases, technological innovation for support of business



innovation, and adaptation of these to the strategy and overall policy of the system operator and market needs.

- 11.8.4.2 how the system operator performs groundwork for the future world of payments and how the challenges of technological innovation are dealt with at the business level;
 - 11.8.4.3 technological-risk management policy, including information-security, cyber, and innovation risks;
 - 11.8.4.4 a disaster-recovery plan and the extent of its correspondence with the framework principles of business-continuity management;
 - 11.8.4.5 annual IT and technological-innovation targets and work plan;
 - 11.8.4.6 appropriate resource allocation for realization of the system operator's planned activity in the IT and technological-innovation field;
- 11.8.5 Insofar as the Board of Directors needs to discuss material matters associated with IT and technological innovation, the committee shall hold a preliminary discussion and forward its recommendations to the Board of Directors plenum.
- 11.8.6 At least once per year, the committee shall hold a meeting in the presence of the committee members and the chief technology officer only.

12. Meetings of Board of Directors and Board of Directors committees

12.1 The instructions concerning meetings of the Board of Directors shall also apply to Board of Directors committees unless it is stated explicitly that the instruction applies only to the Board of Directors plenum.

12.2 Frequency of meetings

12.2.1 The Board of Directors of a payment-system operator shall meet in plenum at least once every two months.



12.3 Attendance at meetings

- 12.3.1 Every director shall take part in at least two-thirds of meetings of the Board of Directors plenum in the course of each calendar year and shall not be absent from all plenum meetings held over a period of three consecutive months.
- 12.3.2 A director who is absent from meetings beyond the permissible extent of absence given in this Section shall resign his or her position no later than the date of the first Board of Directors meeting after the aberration (hereinafter: “date of termination of service”). If said director does not resign, his or her term of service shall expire on the date of termination of service.
- 12.3.3 A director may participate in a meeting of a board committee of which he or she is not a member per approval of the chair of the relevant committee, provided his or her participation will not be permanent.

12.4 Notices and background material for meetings

- 12.4.1 Notice of a Board of Directors meeting shall be sent to all directors within a reasonable time before the date of the meeting and shall note the date of the meeting, its place, and a clear breakdown of all topics on the agenda.
- 12.4.2 Written background material comprising, *inter alia*, implications and repercussions, including financial implications where relevant, shall be attached to said notice of Board of Directors meeting. Said material will enable members to make meaningful reference to the matters discussed at the meeting.
- 12.4.3 The background material shall be kept at the system operator’s offices together with the minutes of the meeting where the matters to which it relates are discussed.
- 12.4.4 In exceptional cases only, the Board of Directors may, with the consent of all directors, convene a meeting without notice as specified in the previous sections, provided the exceptional circumstances for convening the Board of Directors without said notice shall be specified in the minutes of said meeting.



12.5 Legal quorum and voting

- 12.5.1 The legal forum for meetings and decisions of the Board of Directors is a majority of directors, provided the ratio of external directors to internal directors is as established in the Directive.
- 12.5.2 Wherever a committee is composed of only three directors, its legal quorum shall be all of its members.
- 12.5.3 When the Board of Directors votes, each director will cast one vote only. The contents of this Section shall not preclude giving the chair of the Board of Directors an additional vote in the case of a tie, as stated in Section 107 of the Companies Law.

12.6 Director with a personal interest

- 12.6.1 A director who has a direct or indirect personal interest in an existing or proposed transaction of the system operator that is presented to the Board of Directors for discussion, or in a decision about to be made by the Board of Directors, shall declare said personal interest without delay and no later than the Board of Directors meeting where said transaction is first discussed.
- 12.6.2 A director who absents himself or herself from a discussion due to a personal interest shall not be included in the count of a legal quorum for said discussion.
- 12.6.3 A director who has a personal interest shall not receive information from the system operator about said interest from the date of his or her statement, shall not attend any discussion pertaining to his or her interest, and shall not vote on any decision relating to said interest.
- 12.6.4 The Board of Directors shall lay down guidelines for cases in which a director has a personal interest, giving specific examples such as type of proximity and said director's connection with the transaction and its essence, and shall establish behavioral procedures in each case.
- 12.6.5 The contents of this Section shall also apply to an officer who is not a director, *mutatis mutandis*.



12.7 Minutes of Board of Directors and board committee meetings

- 12.7.1 The chair shall be responsible for the recording of minutes of discussions at the meeting. For the purpose of drawing up the minutes, the chair shall ascertain that the Board of Directors meetings are recorded and transcribed.
- 12.7.2 The minutes shall reflect the matters discussed at the meeting and shall specify:
- 12.7.2.1 main remarks in the name of those who stated them, as reflected at the meeting;
 - 12.7.2.2 the wording of resolutions adopted at the meeting;
 - 12.7.2.3 the stage at which each participant entered and left during the meeting.
- 12.7.3 The Board of Directors shall lay down guidelines for approval of the minutes, provided the following are upheld:
- 12.7.3.1 The minutes shall be presented to the Board of Directors for approval at the next Board of Directors / board committee meeting or sixty days from the date of the meeting to which they relate, whichever is later.
 - 12.7.3.2 Within a week of said meeting, the chair shall distribute to the Board of Directors and relevant players a draft document itemizing the resolutions adopted at the meeting.

12.8 Participation of the internal auditor

- 12.8.1 The Board of Directors plenum shall invite the internal auditor to the following meetings:
- 12.8.1.1 those where a topic within the purview of the internal-audit function will be discussed;
 - 12.8.1.2 those where audit reports of the CPA-auditor will be discussed;
 - 12.8.1.3 those where audit reports of an oversight authority will be discussed.
- 12.8.2 The internal auditor shall be notified as to the holding of every meeting of the audit committee and shall be entitled to attend them.



12.9 Holding meetings via communication media

12.9.1 The Board of Directors shall lay down procedures by which meetings may be held via communication media.

12.10 Making decisions without convening

12.10.1 As a rule, the Board of Directors of a payment-system operator shall adopt resolutions after convening in some manner.

12.10.2 This notwithstanding, a Board of Directors that, according to its statutes, is entitled to adopt resolutions without actually convening if all directors eligible for participation in the discussion and voting on the matter up for resolution so agree, may not adopt said resolution except in special cases and after presenting a detailed account of the special circumstances in the minutes of the resolution.

13. Meetings in absence of management

13.1 At least once per year, the Board of Directors shall hold a meeting without members of management in attendance, at which the following matters shall be discussed:

13.1.1 evaluation of the Chief Executive Officer's performance and officers' functioning;

13.1.2 evaluation of the quality of information received from management at Board of Directors meetings, including the scope, type, and frequency of said information;

13.1.3 officers' wages and remuneration;

13.1.4 evaluation of the audit and control functions and the effectiveness of the payment system's controls;

13.1.5 other matters associated with relations between management and the Board of Directors or that, in the estimation of the Board of Directors, should be debated without members of management in attendance.

14. Means of monitoring implementation of decisions

14.1 The Board of Directors shall ascertain the existence of adequate means of implementing its decisions and monitoring their implementation.



14.2 The Board of Directors shall ascertain the existence of written procedures for the treatment of the various topics in accordance with its guidelines. Said procedures shall determine:

- 14.2.1 the competent body to deal with each matter;
- 14.2.2 the way each matter shall be treated;
- 14.2.3 accountability to the Board of Directors in matters for which treatment has been reassigned to some other person or entity at the payment system.

15. Instructions for efficient Board of Directors functioning

15.1 The Board of Directors shall approve working procedures that will concretize its responsibilities and duties as derived from this Directive, from any statute, or from any other relevant instruction. Said procedures shall include, *inter alia*, the structure and committees of the Board of Directors, the Board of 'Directors working processes, and measures adopted to ascertain adequate coverage of, and allocation of time to, material topics.

15.2 Every director shall:

- 15.2.1 understand and carry out his or her duties, including his or her oversight role in understanding the risk profile of the payment system;
- 15.2.2 exercise due discretion in dealing with the payment system's affairs;
- 15.2.3 ask questions and insist that management explain comprehensively and directly the way he or she can properly assess the performance of the payment system and the functioning of its management;
- 15.2.4 understand the regulatory environment in which the payment system operates and the role of corporate governance;
- 15.2.5 devote adequate time and energy to discharging his or her responsibilities.

15.3 A director shall not approach an employee of the payment system in any matter associated with payment-system business outside the framework of meetings of the Board of Directors or its committees, except in the following cases:



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- 15.3.1 a business initiative in which the director has no personal interest, provided his or her inquiry be addressed to the Chief Executive Officer and shall be documented;
- 15.3.2 referral of potential customers or participants to the payment system, provided said approach be made to the Chief Executive Officer, provided the Board of Directors not discuss details of the transactions with said potential customers, and provided the director in question not take part in such discussions;
- 15.3.3 a request by the chair of the Board of Directors or any board committee for clarification of a matter directly associated with a discussion by the Board of Directors plenum or by any board committee; said request shall be documented and a copy thereof shall be forwarded at once to the chair of the Board of Directors and the Chief Executive Officer;
- 15.3.4 an inquiry from the chair of the Board of Directors or from the chair of any board committee about the manner in which documents for presentation to the Board of Directors or to any of its committees shall be drawn up ahead of the meeting or in any matter derived from the force of his or her position as chair;
- 15.3.5 an inquiry concerning general business matters and obtaining of professional explanations, including in the field of risk management and control, provided such inquiries be reported to the Chief Executive Officer and be documented;
- 15.3.6 Approaches from the chair of the Board of Directors to the Chief Executive Officer need not be documented.
- 15.4 A director shall neither hold an executive position with the payment system nor participate in the ongoing management of the payment system.
- 15.5 A director shall not attend discussions of management and its committees, with the exception of attending a discussion that deals with the comprehensive strategy of the payment system.
- 15.6 The Board of Directors shall establish and apply an annual plan for the ongoing professional training of directors. Said training plan shall:



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- 15.6.1 be adjusted to, and updated commensurate with, the development, strategy, complexity, and changing needs of the payment system;
 - 15.6.2 address itself to professional matters and those associated with the duties of the Board of Directors and corporate governance;
 - 15.6.3 bear in mind the needs of Board of Directors as a body and of each director as an individual, including new directors.
- 15.7 Once every two years, the Board of Directors shall carry out a self-evaluation process that will vet the effectiveness and efficiency of the Board of Directors' work, including the structure of the board, the composition of its committees, and its working processes, and shall detect weaknesses in its work.
- 15.7.1 The performance of the Board of Directors shall be reviewed within this frame.
 - 15.7.2 The Board of Directors shall appoint someone on its behalf to centralize the process and analyze the findings (an outside player, the company secretary, a Board of Directors committee, etc.).
 - 15.7.3 The Board of Directors shall discuss the findings of said process and evaluation and shall introduce changes as required.

16. Information reported and frequency of reportage

16.1 Annual reportage

- 16.1.1 Once per year and by the end of March, shortly after the presentation of the financial statements for the preceding year, a report shall be presented to Oversight including:
 - 16.1.1.1 a list of the directors including their names, duties, and qualifications, and of members of the various Board of Directors committees; this list shall be disclosed to the public as well;
 - 16.1.1.2 the frequency of discussions laid down for each topic for which it is responsible;



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- 16.1.1.3 the dates of meetings of the Board of Directors and its committees in the past year, including the number of meetings of the Board of Directors plenum and of each of its committees;
- 16.1.1.4 a description of the main occupation of each director and the names of the other corporations in which he or she serves as a director or as an officer.
- 16.1.2 After the Board of Directors approves the introduction of a material new product and area of activity, Oversight shall be presented with a report no later than fourteen days after said approval is given.
- 16.1.3 After an equity issue is approved, including options and convertible securities, Oversight shall be with a report no later than seven days after said approval is given.
- 16.1.4 Shortly after a decision on establishing a Board of Directors committee as specified in the Directive is made, Oversight shall be presented with a report about said decision and the composition and powers of the committee.
- 16.1.5 Whenever a conflict-of-interest event at the payment-system operator is detected, it shall be reported to Oversight within three days, including a detailed account of the treatment of the event and its implications.
- 16.1.6 Additional details as Oversight shall establish from time to time.
- 16.2 Reporting an aberrant event**
- 16.2.1 Oversight shall be presented with a report shortly after the occurrence of one or more of the following events, including the following relevant details:
- 16.2.1.1 Whenever the Board of Directors or its committees is recomposed, including due to death, resignation, or dismissal of a director:
- 16.2.1.1.1 the chair of the Board of Directors shall report the change and the reasons for said director's dismissal or resignation;
- 16.2.1.1.2 the Board of Directors shall report the reasons for said director's resignation or dismissal.



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- 16.2.1.2 Aberrant events reported to the Board of Directors that constitute overstepping of or deviation from the Oversight Directives or the provisions of any statute, or that cause material detriment to creditors, participants, or shareholders of the payment system;
 - 16.2.1.3 approval of action under Section 255 of the Companies Law;
 - 16.2.1.4 approval of a transaction by the payment system in which the elements of Section 270(1) of the Companies Law are present and that constitutes an exceptional transaction as expressed in Section 272 of the Companies Law;
 - 16.2.1.5 approval of a transaction under Sections 274–275 of the Companies Law;
 - 16.2.1.6 convening a Board of Directors meeting per demand of a director, as set forth in Section 257 of the Companies Law;
 - 16.3.1.7 If a Board of Directors meeting at the request of the internal auditor is not convened, this shall be reported to Oversight along with an explanation of the reasons for said non-convening of meeting.
 - 16.2.1.8 Adoption of resolutions without convening the Board of Directors, with a detailed account of the special circumstances that brought on said adoption of resolutions.
 - 16.2.1.9 Any other material event.
- 16.2.2 Reports under this section shall be in writing, made available for the perusal of all directors, and kept at the payment system's offices.
 - 16.2.3 Reports under this Section shall be forwarded to Oversight as promptly as possible and within seven days after the occurrence of the event at the very latest.

17. Payment-system operator that is a reporting corporation

- 17.1 A payment-service operator that is a reporting corporation may report about reports that it performed within the framework of its reportage under the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and that are compulsory under this Directive, with reference made to the report performed.



18. Forwarding of information to the Bank of Israel

- 18.1 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.
- 18.2 The information under this Directive shall be forwarded by the system operator to the contact persons whom Oversight shall appoint for this purpose.
- 18.3 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.
- 18.4 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.
- 18.5 Information under this Directive shall be presented to Oversight in digital form and not in handwriting.
- 18.6 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.



10. Promulgation and update of Directive

Date of promulgation	Essence of update
November 1, 2019	Promulgation of Directive
June 8, 2020	Update
April 3, 2024	Update

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