



Directive 1—Application of PFMI Principles to Payment Systems

1. Introduction

In April 2012, the BIS¹ published its report on Principles for Financial Market Infrastructures, hereinafter: “the New Principles” or “the PFMI.”² The report lays down twenty-four international principles that shall apply to all financial infrastructures, including payment systems, central securities depositories, securities settlement systems, central counterparties, and trade repositories. The principles merged, broadened, and reinforced the previous principles.³

The new principles establish standards and requirements in various fields and relate, *inter alia*, to interconnections and interdependencies of payment systems that may lead to wide dispersion of risks

In December 2012, the BIS (Bank for International Settlements) and the Technical Committee of the International Organization of Securities Commissions (IOSCO)⁴ published a report that established a framework for disclosure of the New Principles (“the Disclosure Framework”) and a methodology for the assessment of financial market infrastructures’ compliance with the New Principles and with the authorities in their purviews (“Disclosure Framework and Assessment Methodology”) (hereinafter: assessment methodology”).⁵ The purpose of these reports is to promote compliance with the principles and purviews

¹ The New Principles document was written by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO).

² <http://www.bis.org/publ/cps101a.pdf>

³ There were three sets of standards for financial-market infrastructures—Core Principles for Systemically Important Payment Systems (CPSIPS), Recommendations for Securities Settlement (RSSS), and Recommendations for Central Counterparties (RCCP).

⁴ On September 1, 2014 the CPSS was renamed the CPMI (Committee on Payments and Market Infrastructures).

<http://www.bis.org/press/p140901.htm>

⁵ <http://www.bis.org/publ/cps106.pdf>



specified in the Principles for Financial Market Infrastructures report—the New Principles—published in April 2012.

The Bank of Israel, as the overseer of payment systems in Israel, reviewed the BIS’s Principles for Financial Market Infrastructures published and decided to adopt and apply them in Israel.

The purpose of this Directive is to clarify the implications of applying the PFMI principles to payment systems that have been declared “controlled payment systems” or “designated controlled payment systems” under the Payment Systems Law, 5768-2008, and to determine what the operator of such a system is expected to do in order to ensure the efficiency and stability of payment systems in Israel.

2. Definitions

“Payment system” and “controlled payment system” -	As defined in the Payment Systems Law;
“Payment system operator,” or “system operator” -	Operator of a controlled payment system or other 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;
“Principles for Financial Market Infrastructures” -	PFMI—international principles published by the BIS



“Disclosure Framework and Assessment Methodology” -

BIS -

concerning supervision of
financial infrastructures;
A report concerning the
Principles for Financial Market
Infrastructures, setting forth a
disclosure framework for
financial market
infrastructures and a
methodology for the
assessment of compliance of
financial market
infrastructures with the
Principles;
Bank for International
Settlements;

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. Requirements of system operator

4.1 A system operator shall appoint an official, who is sufficiently familiar with payment systems, to be responsible for applying the process of adopting and applying the Principles in the system. Said officer shall be the address for such aspects of system activity as pertain to the PFMI principles.



4.2 A system operator shall act to assimilate and apply the Principles in the system of, *mutatis mutandis* for the domestic market and the payment systems.

4.3 A system operator shall perform a self-assessment in accordance with the assessment methodology.⁶ The assessment methodology includes several considerations by which compliance of the system with each principle shall be examined. Accordingly, the system operator shall gather the requisite information for the review of each applicable main consideration, draw conclusions as to the system's compliance with each principle, rank said compliance in accordance with the ranking specified in the methodology, and produce a self-assessment report on the system.

4.4 In accordance with the outcomes of said self-assessment, the system operator shall formulate a plan including measures to mitigate such discrepancies and/or inconsistencies as have been identified (hereinafter: "the mitigation plan") in order to ensure system compliance with the PFMI, and shall establish schedules for their application.

4.5 The system operator shall construct a disclosure framework for the payment system in accordance with the disclosure template presented in Annex A of the "Disclosure Framework for FMIs" chapter in the Disclosure Framework and Assessment Methodology document.⁷

5. Reported information

5.1 A payment system operator shall submit the self-assessment report to Payment Systems Oversight. Said report shall include the self-assessment performed, discrepancies and/or inconsistencies detected, and the risks associated with said discrepancies and their impact on the system.

⁶ The Supervisor of Payment Systems shall use the Disclosure Framework and Assessment Methodology document as a basis for review of the compliance of controlled systems with the twenty-four principles.

⁷ <http://www.bis.org/publ/cpss106.pdf>



- 5.2 A payment system operator shall present the mitigation plan to Payment Systems Oversight. Said report shall include a specification of actions taken and planned actions that are designed to align policy, rules, procedures, and working processes with the Principles.
- 5.3 A system operator shall present Payment Systems Oversight with a report about the disclosure framework. Said report shall include Annex A of the disclosure framework.

6. Frequency of reportage

- 6.1 Once per year, the payment system operator shall present Payment Systems Oversight with the requisite information concerning the findings of the self-assessment no later than seven calendar days after they are approved by the relevant competent player.
- 6.2 Once per quarter, the payment system operator shall present Payment Systems Oversight with a detailed report on the status of application of the mitigation plan.
- 6.3 The system operator shall present Payment Systems Oversight with the disclosure framework once every two years. Insofar as material changes take place in the system or its surroundings, the system operator shall revise the disclosure framework accordingly and present the adjusted framework no later than seven calendar days after they are approved by the relevant competent player.

7. Forwarding of information to the Bank of Israel

- 7.1 The 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 Payment Systems Oversight at the Bank of Israel. Payment Systems Oversight may allow the information to be forwarded in other ways.
- 7.2 The information in this Directive shall be forwarded by the system operator to the contact persons that Payment Systems Oversight at the Bank of Israel has appointed for this purpose.



7.3 A system operator who forwards information under this Directive shall ascertain receipt of the information by the contact persons as set forth in Subsection 7.2 by telephone or by electronic mail from the contact person, confirming receipt of the information.

7.4 Reports to Payment Systems Oversight shall be presented in the form of a digital document and not in handwriting.

7.5 Reports shall be presented by the deadlines established for each report. Insofar as a payment system operator believes that a given report will not be presented by the specified deadline, he or she shall present Payment Systems Oversight, by electronic mail, with a written request to postpone the deadline for the presentation of the report. Said request shall include, *inter alia*, the actions taken up to said request for postponement, the reasons for requesting the postponement, and the requested target date for the presentation of the report in question. A report presentation for which postponement is not approved by Payment Systems Oversight shall be presented by the deadline established for said report.

8. Promulgation and update of Directive

Date of promulgation	Essence of update
November 20, 2016	Promulgation of directive
December 24, 2018	Update

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