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## **Directive 8—Efficiency and Effectiveness of a Controlled Payment System and a Designated Controlled Payment System**

### **1. Introduction**

In accordance with Section 8 of the Payment Systems Law, 5668-2008 (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 21 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 be efficient and effective in meeting the requirements of its participants and the markets it serves.

This Directive lays down rules with which controlled payment systems and designated controlled payment systems shall comply in order to act efficiently and effectively while also maintaining appropriate standards of safety.

### **2. Definitions**

“Payment system”, “controlled system”,  
“designated controlled system,” “payment-  
system operator”-

As defined in the Payment Systems  
Law;

“Payment-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;
“User”-	An entity that operates in the system and is not a participant therein;
“System rules”-	The rules by which the payment system operates;
“Efficiency”	The ability of the payment system to discharge its functions with maximum utilization of resources in its possession (including staff, time, technological resources, financial resources, etc.);
“Effectiveness”	The attainment of the targets and goals of the payment system.

### **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. Maintaining efficiency in the activity of a payment system**

A payment-system operator shall operate the payment system efficiently. The operator shall examine whether the payment system is acting efficiently at least once every two years or after material changes, relating to a range of aspects that include the following, *inter alia*:

- 4.1 the purview of activity and the manner in which activity is performed;
- 4.2 the requisite resources;
- 4.3 clearing and settlement arrangements;
- 4.4 operational structure;
- 4.5 products/outcomes that are settled or for which settlement files are produced;
- 4.6 technologies used and testing for the existence of technological arrangements that are flexible enough to respond to changing requirements and new technologies;
- 4.7 use of procedures and standards such as those pertaining to communication;
- 4.8 practices and needs of the system, the participants in the system, their customers, and other relevant parties (such as other payment systems and service providers),<sup>1</sup> including performance of a review of payment-system compliance with the requirements of its participants and the markets that it serves<sup>2</sup>;
- 4.9 cost control—the existence of mechanisms for review of direct and indirect costs and pricing structure<sup>3</sup>;
- 4.10 the extent of publication and use of tenders or bid invitations to choose service providers.

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<sup>1</sup> For a payment system to be practical, it needs to take into account the structure, history, and conventions of the domestic market, reflect the existing and future costs of the requisite resources for its activity, and reflect evolving technologies. For the purpose of designing a system aptly suited to its participants' needs, an understanding of local customs and technologies is needed.

<sup>2</sup> One of the mechanisms that may be helpful in attaining this goal is the performance of periodic satisfaction surveys among participants and other relevant institutions in the market.

<sup>3</sup> The costs and pricing review may include an assessment of the productivity of operational processes and an of the relative benefits of the processing methods against their respective costs. Possible example are an examination of the number of transactions that can be processed in a given period of time and measurement of per-transaction processing cost.



## **5. Maintaining the effectiveness of payment-system activity**

- 5.1 A payment system operator shall operate the payment system effectively. To determine whether the payment system is operating effectively, its operator shall set clear, measurable, and attainable targets and goals, including:
- 5.1.1 minimum targets for level of service (e.g., time needed to process a transaction, an availability target, and a recovery target);
  - 5.1.2 advancement of public needs and innovation (e.g., development of new services and upgrading of existing services);
  - 5.1.3 reliable and timely meeting of obligations by the payment system;
  - 5.1.4 adequate risk management (e.g., level of financial resources that the payment system must retain);
  - 5.1.5 compliance of the payment system with relevant safety standards;
- 5.2 periodic survey and measurement of the compliance of the payment system with established goals and targets at least once per year or after material changes.

## **6. Information reported and frequency of reportage**

- 6.1 A payment-system operator shall present Oversight with the findings of the examination to be carried out for the purpose of ascertaining that the payment system is efficient and effective, with reference to the range of aspects specified in Sections 4 and 5 above, half a year after this Directive goes into effect and by September 1 of every year afterwards in reference to effectiveness, and by September 1 every two years afterwards in reference to efficiency.

## **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 receipt of the information by the contact persons referenced in Subsection 7.2 by telephone from the contact person, confirming receipt of the information.
- 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 The information to be presented under this Directive shall be forwarded 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 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 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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