



Directive 11—System Participation Arrangements in the Event of Tiered Participation

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, including formulation of fair requirements for connection to the system by those wishing to participate in it.

In accordance with Principle 19 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 (FMI) should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

This Directive regulates the requirement, incumbent on controlled payment systems and designated controlled payment systems, to identify, monitor, and manage the risks to system participation arrangements in the event of tiered participation and the measures the system should take to mitigate said risks.



2. Definitions

“Payment system”, “controlled system”, “designated controlled system”, “payment- system operator”-	As defined in the Payment Systems Law;
“Payment-system operator” or “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;
“System rules”-	The rules by which the payment system operates;
“Terms of access”-	Threshold terms that define fitness to participate in the system;
“Connection requirements”-	Technological, operational, legal, and business-related requirements that relate to the ability of a participant and/or a user to use the services of the 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.



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- 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. Collection and evaluation of information

- 4.1 A payment-system operator shall verify that the rules, procedures, and agreements of the payment system with its participants will allow it to collect requisite information about their activity for the purpose of identifying, monitoring, and managing material risks flowing from tiered participation arrangements.
- 4.2 Said collection of information shall take place directly by the payment-system operator or by means of the participants.
- 4.3 Said information shall allow the payment-system operator to obtain information about the following, at the very least:
- 4.3.1 the identity of participants who engage in tiered participation;
 - 4.3.2 the share (quantity and sum) of these participants' activity in the total activity of the participant on whom they rely in order to operate in the system and in the total activity of all participants in the system.

5. Requirements for participants who engage in tiered participation

- 5.1 A system operator shall lay down requirements for these participants as to the way they shall manage their relations with participants who rely on their services insofar as said requirements are relevant for the stable and efficient operation of the payment system. Said requirements shall include the following, inter alia:
- 5.1.1 reportage of malfunctions and failures;
 - 5.1.2 identification and monitoring of various risks. such as credit and liquidity risks.



6. Participation by means other than tiered participation

- 6.1 A system operator shall establish risk-based thresholds and terms that, when met, shall rule out tiered participation (as long as compliance with the terms of access and requirements of connection to the system is present)—for example, in a situation where a participant is responsible for a substantial share of transactions processed by the payment system or for a significantly large share of the total activity of a participant that relies on its services.

7. Regular risk surveys

- 7.1 A system operator shall carry out a regular survey of risks to which the payment system may be exposed as a result of tiered participation arrangements and shall take measures to mitigate these risks.
- 7.2 The system operator shall verify that the total level of risk flowing from these participation arrangements does not deviate from the risk-management framework and is congruent with the risk-management policy that has been established for the payment system.
- 7.3 The system operator shall formulate a policy on surveying and updating the payment-system rules and procedures with reference to the totality of aspects flowing from these participation arrangements in the payment system.

8. Information reported and frequency of reportage

- 8.1 Once per year and by March 1 of each year, the system operator shall forward to Oversight a condensed report on tiered participants' activity in the system. Said report shall include:
- 8.1.1 the participants' identity and data relating to their activity as specified in this Directive.



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- 8.1.2 the requirements that tiered participants must satisfy;
 - 8.1.3 risks identified in the various participation arrangements and measures taken to mitigate them;
 - 8.1.4 the thresholds that have been established to encourage non-tiered participation, the participants who meet these thresholds, and the actions taken by the payment system for this purpose.
- 8.2 After any revision is made, the system operator shall forward the information specified in Section 8.1 above to Oversight in a clean copy and a “Track Changes” copy a month before the revision goes into effect. Insofar as the payment system needs adjustments due to said revisions, said report shall include the requisite adjustments and relevant schedules for their implementation.

9. Forwarding information to the Bank of Israel

- 9.1 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.
- 9.2 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.
- 9.3 A system operator who forwards information under this Directive shall ascertain the receipt of the information by the contact persons referenced in Subsection 9.2 by telephone or by electronic mail from the contact person, confirming receipt of the information.
- 9.4 Reportage to Oversight shall be presented in the form of a digital document and not in handwriting.
- 9.5 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.



9.6 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, and the requested target date for the presentation of the report in question. A report presentation for which revision 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
November 3, 2019	Promulgation of directive

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