



## ISRAEL SECURITIES AUTHORITY

June 2017

### **Implementation of the Principles for Financial Market Infrastructures in the Stock Exchange Clearing Houses**

#### **1. General**

The acknowledgment of the risks involved in Financial Market Infra structures (FMIs) that facilitate clearing and settlement prompted the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO) to formulate, in the report of a special committee on payments and settlements<sup>1</sup> a document that presents a set of international principles and standards (hereinafter – “core principles”) for FMIs that play a critical role on the financial system.<sup>2</sup> For this purpose, a central securities settlement system, a central depository system and a system operating as a central counterparty (CCP) are considered financial market infrastructures. The committee’s report was published in April 2012 and includes 24 core principles. The core principles set standards on a variety of subjects, including the legal basis, organizational requirements and corporate management, risk management, collateral, credit risk, market risk, liquidity risk, and operational risk. The document also set areas of responsibilities of the supervisory Authorities in applying the core principles and also the supervisory Authorities responsibility to act for the adoption of their consistent implementation.

#### **2. Authority supervision**

Chapter H of the Securities Law, 5728-1968 (hereinafter the “Law”), determines the Authority’s duties and its powers for the purposes of supervision and control of clearing houses as defined in the Law. As part of the Authority’s supervision of clearing house activities, section 50C of the Law states that the Authority will exercise control over a clearing house to ascertain its stability and efficiency. For this purpose, it was determined that the Authority would examine, among other things, the system’s credibility, its accessibility, the completeness, reliability and security of the information in it, and the existence and content of rules regulating the finality of the instructions and operations received and conducted by it. It also states that the Authority will examine the propriety at the rules of the clearing house and the fulfilment of its responsibility to meet the conditions and requirements applying to it under the provisions of the Law, including the following:

- 1) The implementation of rules to ascertain the stability, efficiency and sound operation of the clearing house, including with regard to continuing membership in the clearing house of anyone approved by it as a member against whom liquidation proceedings are being conducted, and the means for enforcing those rules.
- 2) Operation of the clearing house so as to ensure its stability, efficiency and sound operation.

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<sup>1</sup> CPSS – Committee on payment & settlement systems

<sup>2</sup> PFMI – Principles for Financial Market Infrastructures.



## ISRAEL SECURITIES AUTHORITY

- 3) The existence of means of managing risks that might occur or do occur in the clearing house, to prevent and limit them.
- 4) The existence of emergency backup arrangements in the clearing house. As part of its duties supervising the Tel Aviv Stock Exchange Clearing House and the Maof Clearing House Ltd. (hereinafter according to context: the “**Stock Exchange Clearing House**”, the “**Maof Clearing House**”, and the “**Stock Exchange Clearing Houses**”), The Securities Authority decided to adopt the core principles and apply them to the Stock Exchange Clearing House with the aim of ensuring their stability and efficiency.

### **3. The Authority’s actions to implement laws and rules consistent with the core principles**

#### **3.1 Order ensuring the proper functioning of the Stock Exchange Clearing Houses**

In December 2015, the Authority plenum approved an order to ensure the proper functioning of the Stock Exchange Clearing Houses under section 50C(b) of the Securities Law. The order regulates the activities of the Stock Exchange Clearing House and the Maof Clearing House according to the standards in the core principles. The order includes, among other things, rules on corporate governance, settlement arrangements, risk management, collateral, management of a clearing house member’s failure, clearing house membership requirements, information and disclosure, equity, liquidity and insurance requirements.

#### **3.2 The Securities Law (Amendment No. 61), 5777-2017 – the finality of settlement**

On March 20, 2017, an amendment to the Securities Law on the finality of settlement passed its second and third readings in the parliament. The purpose of the amendment is to improve and determine in law the protection of the finality of settlement in the Stock Exchange Clearing Houses. The amendment is designed to improve the protection of the finality of settlement both on a day to day basis and in a situation in which a clearing house member is involved in default proceedings. Thus the amendment seeks to ensure the continued sound functioning of the clearing houses and trading on the Stock Exchange.

#### **3.3 The Securities Law (Amendment No. 63), 5777-2017 – change in the Stock Exchange structure**

On March 20, 2017, an amendment to the Securities Law on a change in the Stock Exchange structure passed its second and third readings in the parliament. In the amendment to the Law, arrangements were determined for clearing houses similar to those determined for a Stock Exchange with regard to licensing, holding and control permits, and corporate governance directives.

#### **3.4 Examining the Stock Exchange Clearing Houses’ compliance with the core principles**

Since 2015, the Authority has been conducting an examination of the Stock Exchange Clearing Houses’ compliance with the core principles. This examination is conducted according to the methodology proposed in the core principles document.<sup>3</sup>

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<sup>3</sup> <http://www.bis.org/cpmi/publ/d106.pdf>



## ISRAEL SECURITIES AUTHORITY

The assessment of each of the Clearing House's compliance with the core principles relies on the activities conducted by each Clearing House to fill gaps identified with each of the core principles in preparation for their implementation. The Authority intends to continue to examine, on an ongoing basis, the Stock Exchange Clearing Houses' compliance with the core principles.

#### **4. The Authority's declaration**

Consequently, the Securities Authority is announcing that it applies to the Maof Clearing House and the Stock Exchange Clearing House, on an ongoing basis, domestic rules and regulations that are consistent with core principles.