



Bank of Israel

Annual Report of the Activities of the Clearing House Committee

for the Year Ending December 31, 2009

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In accordance with Part A, Chapter 101, Section E of the clearing house rules, we hereby present to the members of the Banks' Clearing House a report on the activities of the Clearing House Committee for 2009.

The report refers to the period from January 1, 2009 to December 31, 2009.

A. General

1. The Clearing House Committee

The Banks' Clearing House (hereinafter: the clearing house) is administered by the Clearing House Committee, which consists of 14 members appointed by the Governor of the Bank of Israel or anyone authorized by him. Half of the members are Bank of Israel employees, and half are employees of the banking system. All members of the clearing house operate according to the "clearing house rules" (known by their previous name "the clearing house regulations"), which are determined by the Clearing House Committee. The Clearing House Committee convenes as required and publishes an annual report on its activity. The major function of the Clearing House Committee is to arrange the transfer of the payment instruments and the clearings between the banks.

A list of the members of the Clearing House Committee is presented in Appendix A to the report.

2. The Banks' Clearing House

The banks' clearing house consists of the paper-based clearing house (the checks and the manual instruments) and the automated clearing house - the Interbank Clearing House (known by its Hebrew acronym Masav).

The clearing house operates according to an agreement between its members—the banking corporations in Israel, the Israel Postal Bank and the Bank of Israel. Some members of the clearing house work directly with the clearing house, while others are represented in it by other banks. The banks operating in the Palestinian Authority are also members of the clearing house and are represented by three Israeli banking corporations.

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Financial and quantitative data on the paper-based clearing house and Masav are presented in Chapter C below.

2.a. The paper-based clearing house (checks) – Most of the instruments presented by the banks in the paper-based clearing house are checks, which are now only presented electronically. Non-magnetic instruments are also presented (manual instruments).

2.b. The Interbank Clearing House (Masav) – Masav is the body in which the automated interbank movements that are not paper or cash are cleared. Also, non-banking institutions directly transfer authorized credit and debit instructions to Masav.

3. Members of the Banks' Clearing House

The banks' clearing house consists of thirty-seven members.

3.a. In the electronic clearing of magnetic instruments, 8 banks have the status of participants and 28 the status of being represented, 16 of which are banks in the area of the Palestinian Authority.

3.b. Bank BNP Paribas is not a participant and is not represented in the electronic clearing of magnetic instruments.

3.c. 13 banks participate directly in the clearing of non-magnetic instruments, and 24 are represented there, 16 of which are banks in the area of the Palestinian Authority.

3.d. With the approval of the acting chairman of the Clearing House Committee, the representation of bank branches operating in the Gaza Strip was terminated by Bank Hapoalim on January 1, 2009, and by the Israel Discount Bank on January 10, 2009.

A list of members of the clearing house and the arrangement of representations is presented in Appendix B to the report.

4. Working days of the clearing house

4.a. The clearing house operates on every banking business day, as stipulated in the Banking Regulations (Service to Customer), 5752-1992.

4.b. The clearing house does not operate on Fridays and the days preceding public holidays (except for the days preceding Purim, the Day of Independence, and Tisha

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Be'Av), but does operate in the evening at the conclusion of the Sabbath or the public holiday.

4.c. The payment instruments are transferred at two sessions: the first—presentation and return of non-magnetic instruments; and the second—electronic presentation and return of magnetic instruments (checks).

4.d. Times of the sessions:

	Weekdays	Conclusion of Sabbath and Public Holidays
First session	22:30	22:30
Second session	01:00 (the following morning)	23:00

Comments:

- During the period in which summer time is in force, the second session on the conclusion of the Sabbath or the public holiday commences at midnight instead of 23:00.
- On the 15th of the month (or at the conclusion of the Sabbath or the public holiday starting on the 16th of the month), the second session commences at 2:00 (the following morning).

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B. Discussions of the Clearing House Committee in 2009

The Clearing House Committee held seven meetings in 2009.

The following were the major issues discussed in the meetings:

1. Check truncation draft bill.
2. Check imaging.
3. Manual payment instruments.
4. Updating and matching the appendices and the forms to the clearing house rules.
5. Standard for a uniform check.
6. Clearing the returns of credits through Masav.
7. Updating the Bank of Israel's reporting on the basis of beneficiary codes for collection vouchers in mechanized media.
8. Method of clearing collection vouchers.
9. Correcting the accounting between the banks on the basis of electronic clearing.
10. Extent of responsibility of a presenting bank.
11. Changing the row of the magnetic coding.
12. Changing the structure of recording in the reporting of the banks to Masav, and from Masav to the banks.
13. Representation of Bank Massad and Bank Otzar Ha'hayal by the First International Bank.
14. Path for backing up the transfer of files by means of cassettes.
15. Bringing forward the time of the second session on the day preceding the Day of Independence.

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The following decisions were made with regard to the major issues discussed in the meetings:

1. Check truncation draft bill

A draft bill, the Electronic Clearing of Checks, 5768-2008 (Check Truncation Law), was distributed to the banks two years ago, and consultations took place with the banks' representatives. The significance of the law is that the checks will remain in the hands of the presenting banks and will not be transferred to the paying banks; instead of this, files of photographs of the checks will be transferred to the paying banks. The photographs of the checks will be the obligatory messages from a legal and a business standpoint.

On the issue of the division of responsibility between the banks with regard to the customer, it is proposed in the draft bill that the paying bank should be fully responsible to the customer, because this is the bank the customer is familiar with. At the same time an arrangement is proposed between the banks according to which the presenting bank will be responsible vis-à-vis the paying bank in the event that the paying bank destroys a check of more than NIS 100 thousand, until the validity of the check terminates. With regard to checks of value up to NIS 100 thousand, the presenting bank will be responsible, as above, for a period of three months, following which the responsibility will pass to the paying bank.

The discussions on this matter took place in the steering committee dealing with check truncation, and not in the Clearing House Committee.

On completion of the discussions in the steering committee, the responsibility for continuing the legislative process on the memorandum was transferred to the Ministry of Justice. The Ministry of Justice requested the opinion of the Association of Banks on the memorandum. The Association of Banks supported the draft bill, and related to the streamlining of the clearing process in the era of check truncation. The Association did, however, request that the rules and regulations that would arise in the wake of the law should be determined simultaneously with the progress in legislating the law as a single legislative package.

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The Association of Banks' reaction was discussed in the steering committee dealing with check truncation, and the committee agreed on how to proceed with the legislative process.

A subcommittee of the Clearing House Committee was established in order to determine the principles for implementing the draft bill. See details in Section 2 below.

2. Check imaging

Check imaging is the photographing of checks presented at the presenting bank and their transfer to the paying bank. Check imaging is designed to assist banks in their daily processing by shortening the time window that has resulted from the extension of the business day. Until the Check Truncation Law is passed, imaging is not a satisfactory substitute for a check.

Meanwhile, the Clearing House Committee has decided that the banks should conduct trials of transferring photographs of checks between themselves: the presenting bank should submit a file of check photographs to the paying bank, in addition to the actual checks. For this purpose all the banks have set up sophisticated systems of high-quality photography of checks—front and rear. The banks have also established a sophisticated communications network for transferring the files of the check photographs between themselves. The trials are currently at a very advanced stage.

The final date for applying the imaging will be determined later (subject to the application of the Check Truncation Law).

The standards for the imaging and the working principles between the banks are being discussed by a subcommittee that will soon present its recommendations.

The major issues being dealt with by the committee include: rules for handling returns, dealing with errors and exceptions, rules for daily reporting of shortfalls and surpluses, rules for retrieving data if requested by the paying bank, responsibility and standards for the quality of the picture, and the method of saving the computerized check in the presenting bank.

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3. Manual instruments

In the first session of the clearing house, the presentations and the returns of the non-magnetic instruments are transferred manually between the banks: manual debits and credits, returns of manual debits and credits, credits of collection vouchers, payments for issues of securities etc.

In 2008 and 2009 much consultation accompanied the meetings of the Clearing House Committee, and several steps were taken to terminate the non-magnetic instrument transfers. At the same time, the Clearing House Committee decided at its meeting of July 16, 2009 to set up a subcommittee for finding a way to eliminate the manual clearing.

The following recommendations of the subcommittee were accepted by the Clearing House Committee:

- a. **Returns of credits**—On December 13, 2009 the banks commenced the clearing of returns of credits by means of a mechanized system through Masav (see Section 6 below).
- b. **Credits of provident funds**—The bank in which the employer's account is managed will execute the joint financial transfer to the provident fund through Masav, and the employer will submit a list to the provident fund according to which the fund will credit its members.
- c. **Interest liabilities between the banks**—The debits should be executed by an authorized debit in Masav or the debited bank should execute the action in the Zahav system—by debiting itself and crediting the bank in question.
- d. **Credits by means of collection vouchers**—It has been decided to move over to electronic clearing in 2010, and the issue is being dealt with by a subcommittee (see Section 8 below).

The following recommendations of the subcommittee have not been decided on by the Clearing House Committee:

- a. **Cash transfer**—Cases in which an occasional customer wishes to transfer cash to another bank. This action is not identified as a cash transfer, and some of the banks

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execute it by means of manual clearing. The suggested solution is to develop a mechanized feature in the banks and in Masav for executing these actions through Masav.

b. **Clearing debits on the basis of banknotes**—Debits on the basis of banknotes are currently transferred between the banks as a manual debit in the clearing house. The proposed solution is that these debits will be executed through Masav by means of a transition account and with the development of a special system for this in each bank.

c. **Debits for surplus checks and letters of indemnity**—In the event that a surplus check is sent by electronic clearing, the bank at which the check is presented debits the paying bank by means of a manual debit. Manual debits are executed between the banks for letters of indemnity on the basis of checks that have been lost. The proposed solution is that these debits will be executed by the banks by means of electronic clearing in conjunction with a special code/sign.

d. **Manual debits and credits**—Each bank will open a transition account to which these actions will be transferred through Masav.

e. **Payments on the basis of issues of securities**—Two alternatives have been proposed:

The first—the clearing will be executed by means of the Tel Aviv Stock Exchange clearing house. The issue coordinator will execute transactions outside the stock exchange by means of the stock-exchange member that represents him, with stock-exchange members that represent the purchasers. The stock-exchange members that represent the purchasers will authorize the transaction (according to instructions to be received from the purchasers). The TASE clearing house will instruct the Zahav system to debit the account of the stock-exchange members that represent the purchasers, and to credit the account of the stock-exchange member that represents the issue coordinator. Immediately following authorization from the Zahav system that the money has been cleared, the securities will be transferred from the account of the coordinating bank (which represents the issue coordinator) to the account of the banks representing the purchasers.

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If this alternative cannot be realized, the second alternative will be examined, namely that the banks will credit the issue coordinators by means of Masav or the Zahav system (depending on the amount).

The first alternative is currently being examined by the TASE, and the Clearing House Committee is waiting for its results. If this alternative is not accepted, the committee will adopt the second.

The subcommittee of the manual clearing house will reconvene at the beginning of 2010 in order to decide on an overall solution to all the outstanding issues. A solution proposed by the Clearing House Committee is to credit the transition account or accounts. If this solution is accepted, a date will be set for debit/credit between the banks in Masav, and the date of the physical transfer of the material between the banks.

4. Updating and matching the appendices and the forms to the clearing house rules

In September 2008 an update of the clearing house rules was published (previously known as the clearing house regulations), detailing the clearing of the manual instruments and the checks, as well as the Masav automated clearing.

The purpose of updating the clearing house rules was to match them to the decisions taken by the Clearing House Committee in the past that had not been updated accordingly. Furthermore, changes were introduced into the rules arising from the operation of the Zahav system at the end of July 2007, and the rules were matched to the means currently serving the banks. Thus, for example, because all checks are now cleared electronically, all the sections dealing with magnetic (non-electronic) clearing were cancelled.

Based on the above, the appendices, the forms, the standards and the specifications of the clearing house rules were updated in 2009.

All the updates were accepted by the Clearing House Committee and are published on the Bank of Israel's internet site.

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The major changes in the clearing house rules, the appendices, the forms, the standards and the specifications are presented in Appendix C of this report.

5. Standard for a uniform check

In 2009 a standard was determined for a uniform check. The Clearing House Committee accepted the recommendations of the subcommittee regarding the uniform check, except for the recommendation to add the IBAN on the check. At the same time the committee agreed to an additional printing of the magnetic data on the check in order to facilitate dealing with partly torn instruments, or in other cases in which the magnetic data are illegible.

The subcommittee will convene in 2010 to decide on the date of printing of the uniform checks according to the new standard, and to formulate directives for printing the checks.

6. Clearing returns of credits through Masav

Returns of erroneous credits that were received from the banks through Masav were previously executed manually, or by the bank that obtained the erroneous credit then crediting Masav. This method necessitated manual action to connect the credit and its return. Many discussions took place during 2008 and 2009 on mechanizing these returns. At the beginning of 2009 the banks commenced trials of operating systems for the mechanized return of credits through Masav. In coordination with the banks and Masav, on December 13, 2009 the mechanized clearing of returns of credits through Masav commenced.

7. Updating the Bank of Israel's reporting on beneficiary codes for collection vouchers in mechanized media

Customers interested in producing collection vouchers that can be paid at all the banks must first approach the bank in which their accounts are managed in order to obtain beneficiary codes for collection vouchers. Following this, the banks should approach the secretary of the Clearing House Committee who will allocate them beneficiary codes. Following the allocation, the Bank of Israel reports to all the banks on the allocations of the beneficiary codes.

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In the course of 2009, the Bank of Israel began reporting to the banks on the allocation of the beneficiary codes of the various collection vouchers (besides those of the contractors) through mechanized media. The reporting is done, as decided by the Clearing House Committee, on each Tuesday, and includes the new information that has accumulated since the previous reporting (hereinafter: the Delta). If a bank wishes to obtain a report on beneficiary codes that were allocated in the past, and not only the delta, it should refer to the secretary of the Clearing House Committee, and according to his instructions, the Bank of Israel will submit to this bank alone the data requested.

In addition to these beneficiary codes, the Bank of Israel issues to every bank that so requests, a range of beneficiary codes for collection vouchers designated for payment to contractors. On the first business day of each month, the Bank of Israel sends a file to all the banks detailing the new ranges that were allocated during the previous month.

Referrals from institutions regarding the transition to optical collection vouchers encountered opposition on the part of the banks' representatives on the Clearing House Committee. It was agreed that if a bank wishes to move over to optical collection, vouchers of this kind will only be collected in that bank, and will not be transferred as instruments between the banks.

8. Method of clearing collection vouchers

A subcommittee was established to discuss the method of clearing collection vouchers between the banks. The Clearing House Committee approved the following decisions of the subcommittee on this matter.

- a. Similar to checks, collection vouchers will be cleared electronically.
- b. A session of the clearing house will be devoted to receiving the electronic files. This session will take place at the same time as the session on the electronic clearing of the checks.
- c. The voucher will be transferred from the collecting bank to the credited Bank on the day of collecting the payment, together with the transfer of the checks.

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- d. The report of the shortfalls/surpluses of the vouchers will be submitted to the collecting bank, similar to the submission of the shortfalls/surpluses report of the checks. Only the customer, or in exceptional cases the bank, may demand the receipt of a missing voucher.
- e. The electronic clearing of the collection vouchers will commence in July 2010. Trials will be conducted in June 2010 to examine the banks' systems and the interbank systems for dealing with this issue.

The subcommittee will convene at the beginning of 2010 to deal with all the outstanding issues.

9. Correcting the accounting between the banks on the basis of electronic clearing

If it transpires that one of the banks recorded the incorrect amount of an instrument in one of the clearings, the bank will be required, in conjunction with the other bank, to correct the amount of the instruments it reported on. The Clearing House Committee decided that in the event of error exceeding NIS 10 million, it will be possible to correct the incorrect amount that the presenting bank recorded in the report to the clearing house's supervisor. The amount will be corrected by both the presenting bank and the paying bank approaching the clearing house's supervisor in writing up to 8:30 a.m. of the business day following the clearing day. The clearing house's supervisor will correct the report as requested by the two banks, as a result of which the report to the Zahav system will be corrected on the same morning.

In accordance with the above, Section B, 5 of Chapter 204 of the clearing house rules was updated. According to the amendment:

"If an error exceeding NIS 10 million is discovered subsequent to the transmission of the results to the participants, the presenting bank and the paying bank will have the option of requesting from the clearing house's supervisor, in writing, up to 8:30 a.m. of the business day following the clearing day, to correct the amount of the checks that the presenting bank recorded in its reporting to the clearing house's supervisor."

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10. Extent of responsibility of a presenting bank.

According to the clearing house rules regarding the banks' responsibility for the correctness of the amount of the debit in Chapter 211, Section G(2) (b):

"The responsibility for the correctness of the amount of the debit is as follows:

(1) Up to NIS 3,000—the presenting member of the clearing house is responsible for the correctness of the amount of the debit;

(2) Above NIS 3,000—the paying member of the clearing house is responsible for the correctness of the amount of the debit."

The Clearing House Committee decided to increase the presenting bank's responsibility to NIS 5,000. The clearing house rules were amended accordingly.

Furthermore, it was decided to examine the influence on the banks of raising the amount, and if necessary the issue will be discussed again in the Clearing House Committee. The change became valid on July 1, 2009.

11. Changing the row of the magnetic coding

At its meeting on April 23, 2009, the Clearing House Committee approved the request of one of the banks to change the row of the magnetic coding for checks drawn on its branches, a change designed for the bank's internal needs. The change is that the bank has to use the two digits to the right of the branch number for every combination of digits, as opposed to the 00 currently in use.

12. Changing the structure of recording in the reporting of the banks to Masav, and from Masav to the banks

The Supervisor of Banks submitted to the Association of Banks the draft amendment to the Prohibition on Money Laundering Order. An amendment was inserted in the draft that requires a change in the structure of the listing to and from Masav: When an Israeli bank receives a SWIFT from a bank abroad for transferring money to a customer in another bank via its customer (hereinafter: Mediating Bank), the bank that receives the money from the mediating bank transfers the money to the end customer through Masav or through the Zahav system. The end customer has to obtain in full all the details of the body transferring the money and initiating the instruction. A

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subcommittee was established to examine the implementation of the instruction in Masav.

13. Representation of Bank Massad and Bank Otzar Ha'hayal Bank by the First International Bank

In the wake of the purchase of Bank Massad and Bank Otzar Ha'hayal by the First International Bank, the representation of these banks will be transferred from Bank Hapoalim to the First International Bank. As decided in meetings of the Clearing House Committee, the First International Bank circulated a document to all the banks' clearing houses summarizing the changes in the representation of Bank Massad and preparing them for the paper-based clearing and the electronic clearing. The date for the change in representation of Bank Massad was fixed as February 5, 2010. The date of the change in representation of Bank Otzar Ha'hayal has not yet been determined.

14. Path for backing up the transfer of files by means of cassettes

Each day the electronic files of the checks are transferred through the safe. A backup path has been established for transferring the files with electronic clearing by means of cassettes. This method proved to be successful in a trial held on September 23, 2009.

15. Bringing forward the time of the second session on the day preceding the Day of Independence.

The Clearing House Committee decided to bring forward the time of the second session to 23:00 on the day preceding the Day of Independence.

Section A of Chapter 202 in the clearing house rules was updated accordingly: *"The times of the sessions on the day preceding the Day of Independence will be as follows:*

First session: Day preceding the Day of Independence at 22:30.

Second session: Day preceding the Day of Independence at 23:00."

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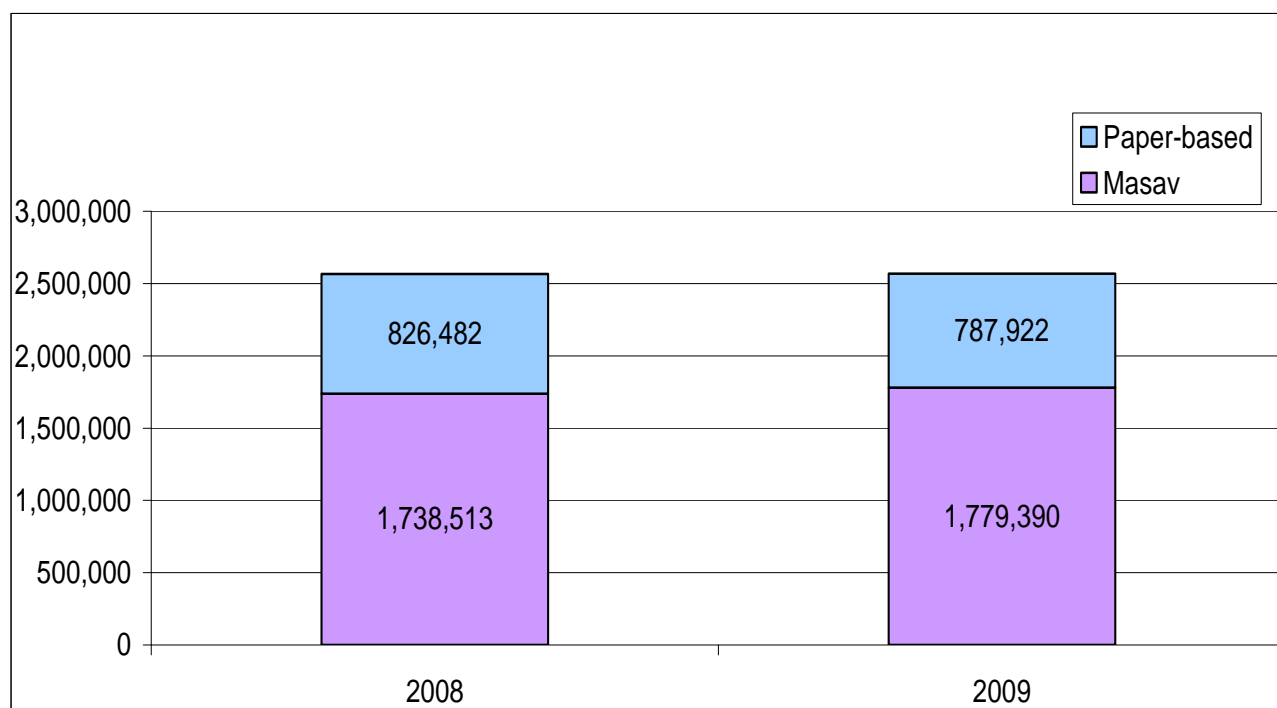
C. The Banks' Clearing House – Financial and Quantitative Data for 2009

As mentioned, the banks' clearing house comprises the paper-based clearing house (checks) and the automated clearing house (Masav). This report reviews the period from January 1, 2009 to December 31, 2009.

Table 1: Financial summary of the activities of the clearing houses (NIS million)

	2008	2009	Percentage growth/reduction in 2009
Paper-based	826,482	787,922	-4.7%
Masav	1,738,513	1,779,390	2.4%
Total	2,564,995	2,567,312	0.1%

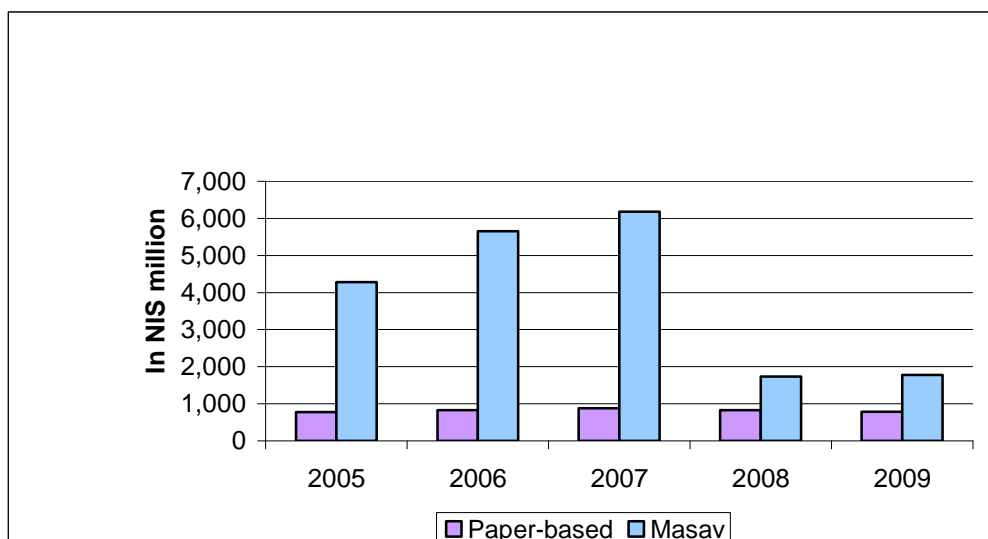
Figure 1: Financial summary of the activities of the clearing houses, 2009 versus 2008 (NIS million)



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In 2009 the activity of Masav grew by 2.4 percent, from NIS 1,738 billion to NIS 1,779 billion. The activity of the paper-based clearing house, on the other hand, decreased by 4.7 percent, from NIS 826 billion to NIS 788 billion.

Figure 2: Summary of the activity of the clearing houses in 2005-2009



In 2008 a significant decrease took place in the amounts transferred through Masav relative to previous years as a result of the establishment of a new payments system—the Zahav system (an acronym of Real Time Gross Settlement- R.T.G.S) in 2008. The decreasing trend was arrested in 2009, but still maintained its low level relative to previous years.

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C.1. The Interbank Clearing Center (Masav)

The Interbank Clearing Center (Masav) clears the automated interbank movements that are not paper or cash. Non-bank institutions also directly transfer credits and debits to Masav.

In 2009 Masav Ltd. continued to expand its activity. Among other things, in 2009 Masav established a system for the return of credits.

Table 2: Masav activity in 2009

	Movements		
	Number of movements	Amount	Average amount per movement
Period	(in thousands)	(in NIS million)	(in NIS)
January – 09	20,886	137,360	6,577
February – 09	21,258	143,905	6,769
March – 09	21,988	152,790	6,949
April – 09	20,994	138,024	6,575
May – 09	21,430	137,600	6,421
June – 09	21,766	147,380	6,771
July – 09	21,650	153,843	7,106
August – 09	22,224	146,158	6,577
September – 09	21,810	148,320	6,801
October – 09	21,729	141,462	6,510
November – 09	22,063	155,405	7,044
December – 09	22,826	177,143	7,760
Total 2009	260,624	1,779,390	6,827
Total 2008	254,213	1,738,513	6,839
Percentage change	2.5%	2.4%	-0.2%

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Figure 3: Masav activity in 2009

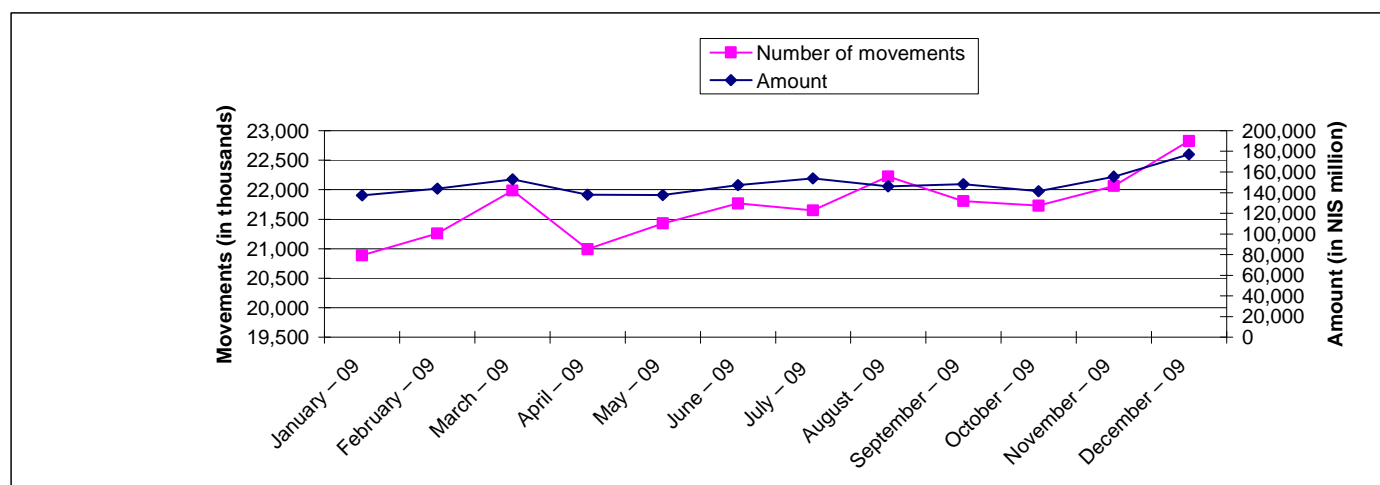


Table 3: Categories of Masav activity in 2009

Period	Movements of credits in) (thousands)	Amount of credits in NIS) (million)	Movements of debits (in thousands)	Amount of debits in NIS) (million)	Movements of return of debits (in thousands)	Amount of return of debits in NIS) (million)
January - 09	7,629	115,852	12,787	20,963	470	545
February - 09	7,845	123,189	12,974	20,265	439	451
March - 09	8,185	130,698	13,351	21,621	452	471
April - 09	7,910	117,116	12,647	20,421	436	487
May - 09	7,925	115,478	13,053	21,568	452	555
June - 09	8,112	124,149	13,218	22,748	435	482
July - 09	8,236	128,608	12,983	24,776	432	460
August - 09	8,487	122,234	13,295	23,512	442	412
September - 09	8,045	124,702	13,335	23,222	430	395
October - 09	8,042	117,456	13,194	23,565	493	441
November - 09	8,210	131,007	13,396	23,997	457	401
December - 09	8,853	152,133	13,517	24,577	457	433
Total 2009	97,479	1,502,622	157,750	271,235	5,395	5,533

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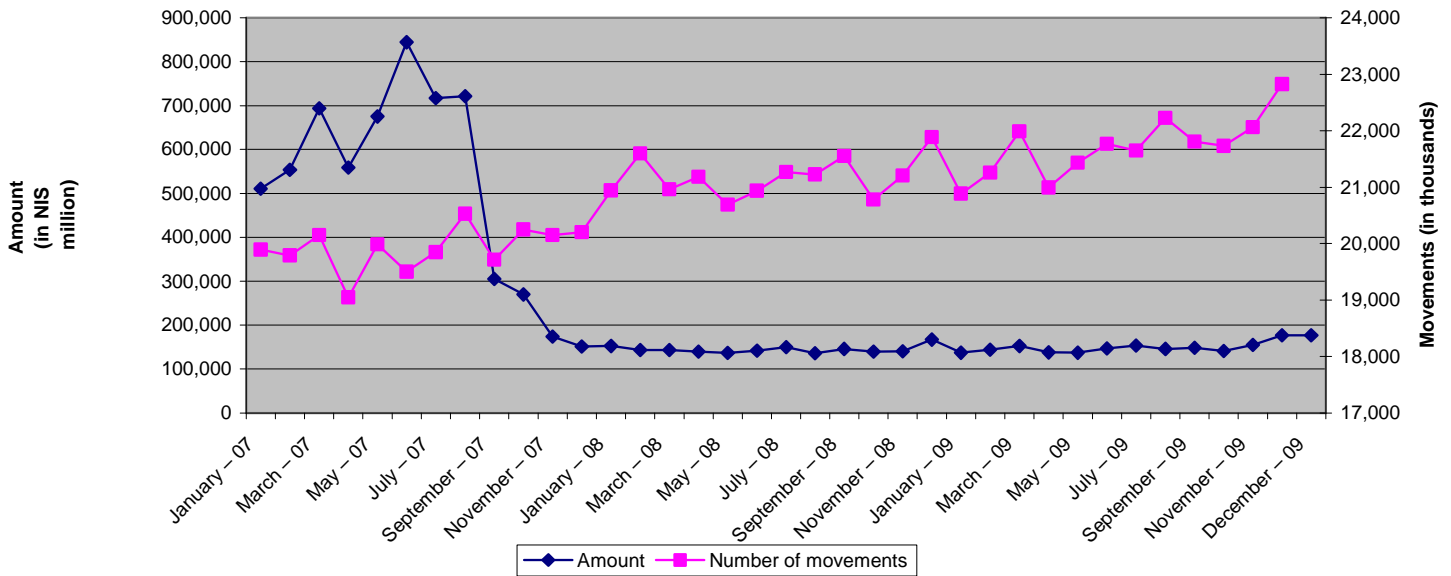
- a. 29,831 active institutions were registered in Masav in December 2009, as opposed to 28,351 in December 2008, a growth of 5.2 percent. The number of files that these institutions transferred during 2009 grew by 7.5 percent, from 1,007 million to 1,082 million.
- b. The number of movements that Masav transferred solely on debits and credits grew by 2.4 percent, from 249 million in 2008 to 255 million in 2009.
- c. The financial amount of the movements that were presented to the banks in 2009 was NIS 1,774 billion.
- d. In 2009 Masav executed 5.395 million mechanized returns of authorized debits for the banks, and expanded the returns service to about 205 institutions.
- e. In December 2009, 2,070 active employer codes were registered in the employers' deposit system for provident funds and study funds, as opposed to 1,836 active codes in December 2008, a growth of 12.7 percent. In 2009 these institutions transferred 14.63 million movements.
- f. The average amount of movement in Masav in 2009 was NIS 6,827, as opposed to NIS 6,839 in 2008.

Table 4: Masav data by components in 2007-2009

	2007		2008		2009		Growth in 2009	
	The amount (NIS billion)	The movements (in millions)	The amount (NIS billion)	The movements (in millions)	The amount (NIS billion)	The movements (in millions)	The amount (in percent)	The movements (in percent)
Credits	5,940.0	93.0	1,472.8	96.3	1,502.6	97.5	2.0	1.2
Debits	235.0	146.0	260.8	152.9	271.2	157.7	4.0	3.1
Return of debits	3.9	4.5	4.9	5.0	5.5	5.4	12.2	8.0
Total	6,178.9	243.5	1,738.5	254.2	1,779.3	260.6	2.3	2.5

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Figure 4: Masav activity in 2007-2009



An increasing trend was evident in 2009 over previous years, both in amounts of about 2.3 percent, and in movements of about 2.5 percent.

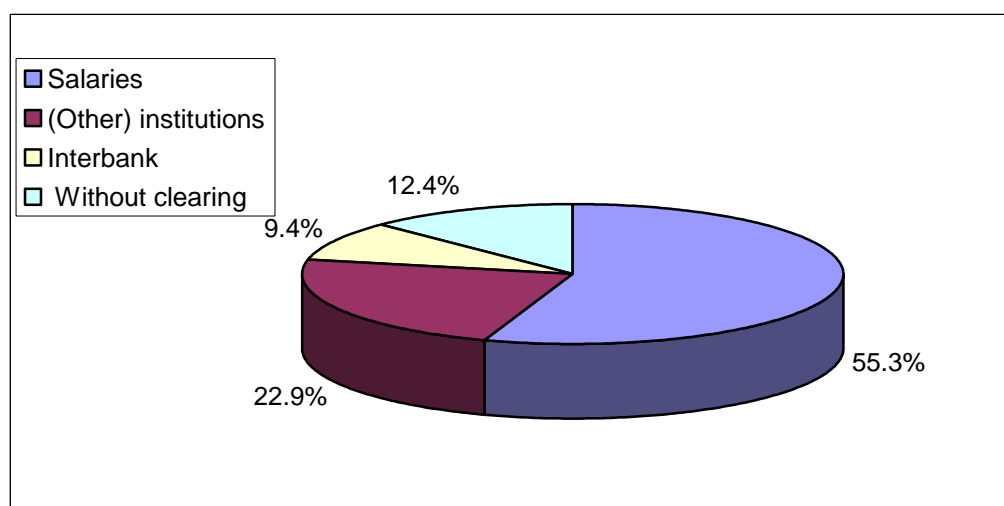
The greatest (percentage) change took place in returns of debits, a growth of 12.2 percent in amounts and a growth of 8 percent in movements. The volume of activity in the change, however, is lower than the total activity in Masav. The major effect on the growth of activity in Masav took place in the activity of credits, a growth of 2 percent in amounts, which constitutes a growth of about NIS 30 billion.

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Table 5: Credits by purpose in Masav in 2009

	Movements (in millions)	Amount (in NIS billion)	Movements (in percenta)	Amount in) (percentages)
Salaries	53.9	181.3	55.3%	12.1%
(Other) institutions	22.4	479.5	22.9%	31.9%
Interbank	9.1	518.4	9.4%	34.5%
Without clearing	12.1	323.4	12.4%	21.5%
Total credits	97.5	1,502.6	100%	100%

Figure 5: Credits by purpose in Masav in 2009 (by movements)



The major movements in Masav in 2009 were transfers of salaries, about 55.3 percent of the total activity of Masav. The financial volume, however, was extremely small, about 12.1 percent of Masav activity. On the other hand, while the volume of interbank movements was the lowest, about 9.4 percent of the total Masav movements, the financial volume was the highest, about 34.5 percent of overall Masav activity.

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C. 2. The paper-based clearing house (checks)

Most of the payment instruments presented by the banks at the paper-based clearing house are checks, which are now only presented electronically and constitute about 92.5 percent of the overall activity of the checks clearing house as indicated in Table 6 below. In addition to these, non-magnetic instruments, manual instruments, as well as returns of checks and manual instruments are presented, which constitute about 4.8 percent of the overall activity of the checks clearing house.

In 2009 the average amount per check was NIS 6,023, as opposed to NIS 5,900 in 2008.

Table 6: The paper-based clearing house between the banks by components in 2009 (in NIS million)

Period	Checks			Manual instruments			-Total paper based clearing house	Percentage of checks	Percentage of manual instruments
	Presentations	Returns	Total	debits	credits	Total			
January – 09	61,850	2,060	63,910	538	824	1,362	65,272	97.9%	2.1%
February – 09	55,657	1,802	57,459	665	795	1,460	58,919	97.5%	2.5%
March – 09	61,676	1,966	63,642	1,539	680	2,219	65,861	96.6%	3.4%
April – 09	53,493	1,686	55,179	1,351	552	1,903	57,082	96.7%	3.3%
May – 09	57,578	1,749	59,327	3,104	738	3,842	63,169	93.9%	6.1%
June – 09	61,077	2,007	63,084	2,887	604	3,491	66,575	94.8%	5.2%
July – 09	64,378	2,140	66,518	3,159	804	3,963	70,481	94.4%	5.6%
August – 09	62,445	1,838	64,283	4,248	888	5,136	69,419	92.6%	7.4%
September – 09	59,852	1,691	61,543	3,781	743	4,524	66,067	93.2%	6.8%
October – 09	60,729	1,911	62,640	2,118	707	2,825	65,465	95.7%	4.3%
November – 09	62,038	1,885	63,923	2,821	894	3,715	67,638	94.5%	5.5%
December – 09	66,539	1,760	68,299	2,877	798	3,675	71,974	94.9%	5.1%
Total 2009	727,312	22,495	749,807	29,088	9,027	38,115	787,922	95.2%	4.8%

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Figure 6: Activity of the paper-based clearing house in 2009

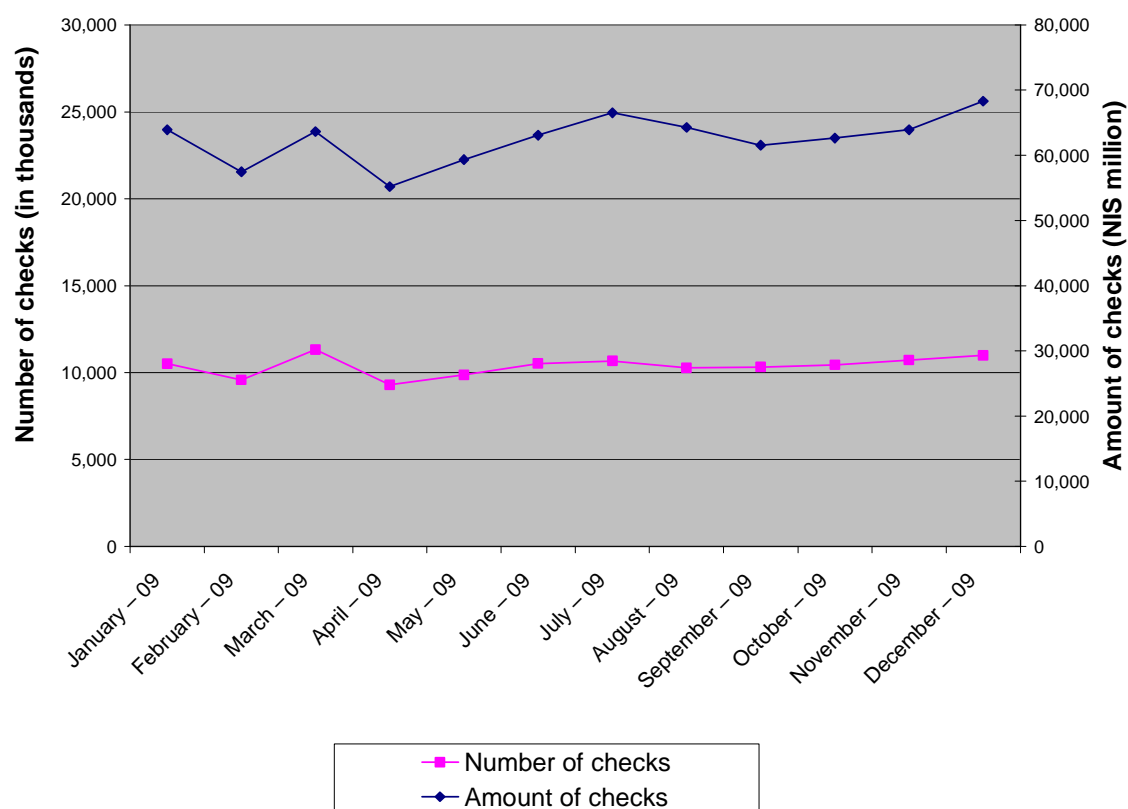


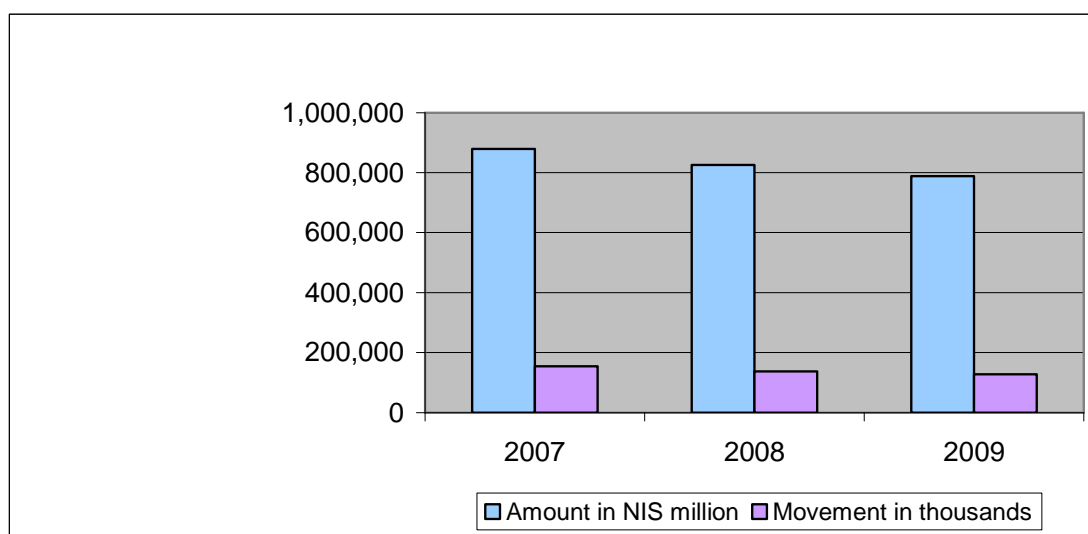
Table 7: The paper-based clearing house between the banks by components in 2007-2009

Type of instrument	2007		2008		2009		Growth/reduction in 2009	
	Amount (NIS million)	Movement (in thousands)	Amount (NIS million)	Movement (in thousands)	Amount (NIS million)	Movement (in thousands)	Amount (in percent)	Movement (in percent)
Manual debits	54,836	2,737	21,360	1,742	29,088	1,748	36.2	0.3
Manual credits	51,492	435	4,999	251	9,027	595	80.6	137.1
Total manual instruments	106,328	* 3,172	26,359	* 1,993	38,115	* 2,343	44.6	17.5
Checks presented	748,528	148,254	776,264	131,739	727,312	121,258	-6.3	-8.0
Checks returned	23,601	3,508	23,859	3,609	22,495	3,249	-5.7	-10.0
Total checks	772,129	151,762	800,123	135,348	749,807	124,507	-6.3	-8.0
Total	878,457	154,934	826,482	137,341	787,922	126,850	-4.7	-7.6

* The number of movements of instruments are estimations based on reports for a single day in the month.

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Figure 7: Activity of the paper-based clearing house in 2007-2009



2009 saw a decrease of about 6.3 percent in the amount of the checks, and about 8 percent in the movement of the checks. As opposed to this, a growth of 44.6 percent was recorded in the amount of the manual instruments, and about 17.5 percent in the movement of the manual instruments. Overall there was a decrease in activity of the check clearing house.

Table 8: Data on the amounts of presentation and return of checks in 2009

	Checks drawn		Checks returned		Total checks		Percentage of returns	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
	(in thousands)	(in NIS million)	(in thousands)	(in NIS million)	(in thousands)	(in NIS million)	In-%	In-%
January – 09	10,200	61,850	312	2,060	10,512	63,910	3.0	3.2
February – 09	9,315	55,657	265	1,802	9,580	57,459	2.8	3.1
March – 09	11,019	61,676	298	1,966	11,317	63,642	2.6	3.1
April – 09	9,037	53,493	255	1,686	9,292	55,179	2.7	3.1
May – 09	9,626	57,578	244	1,749	9,870	59,327	2.5	3
June – 09	10,246	61,077	272	2,007	10,518	63,084	2.6	3.2
July – 09	10,406	64,378	266	2,140	10,672	66,518	2.5	3.2
August – 09	10,011	62,445	259	1,838	10,270	64,283	2.5	2.9
September – 09	10,073	59,852	247	1,691	10,320	61,543	2.4	2.8
October – 09	10,147	60,729	297	1,911	10,444	62,640	2.8	3.1
November – 09	10,445	62,038	269	1,885	10,714	63,923	2.5	3
December – 09	10,733	66,539	265	1,760	10,998	68,299	2.4	2.6
Total 2009	121,258	727,312	3,249	22,495	124,507	749,807	2.6	3.0

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D. Significant Events in the Banks' Clearing House

Month	Event
January 2002	Clearing the results of cash withdrawals from ATMs through Masav.
August 2003	The order prohibiting money laundering is enacted.
July 2005	Separating the accounting between customers and the banks at the T-day value, and between the banks themselves at the T+1-day value.
August 2005	The Prohibition of Financing Terrorism Law is enacted.
November 2005	The electronic clearing of checks becomes obligatory.
December 2005	Beginning of the transmission of the results of the clearing of checks from the banks to the Bank of Israel.
February 2006	Extending the business day to 18:30, and changing the times of clearing accordingly.
July 2007	Start of operation of imaging and photographing of checks between the banks.
July 2007	Reform in the payments and clearing system; inauguration of the Zahav (Real Time Gross Settlement-R.T.G.S) system in the Bank of Israel.
July 2007	Postponing the accounting on the basis of the interbank clearing to the following business day, without changing the value day; the implication is that the customers will be credited/debited at the T-day value, and the banks—at the T+1-day value.
July 2007	Cancellation of the recording of actions at a retroactive value, so that the banks' balances will be final.
July 2007	Merger of the clearing house sessions for presentations and returns of credits, and of the clearing house sessions for presentations and returns of debits.

**Annual Report of the Activities of the Clearing House Committee for the Year
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Month	Event
October 2007	Restricting the transfer through Masav to NIS 3 million; beyond this sum, the transfer is only through the Zahav system (R.T.G.S).
May 2008	The method of allocating ranges of beneficiary codes for contractors' projects commenced operation, as a result of the arrangement of payment of the accompanying accounts only.
June 2008	Notifications given in accord with the clearing house rules are transferred to the banks' clearing houses by email only and not by paper.
September 2008	Updating and matching of the "clearing house regulations" to the "clearing house rules", and placing them on the Bank of Israel's internet site.
January 2009	Terminating representation of the bank branches operating in the Gaza Strip.
July 2009	Updating the appendices, the standards and the specifications of the clearing house rules, and placing them on the Bank of Israel's internet site.
July 2009	Mechanized reporting from the Bank of Israel to the banks on the beneficiary codes in use.
December 2009	Mechanized return of credits through Masav by the credit returns system.

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E. Beneficiary Codes for Use with Collection Vouchers for the Banks' Customers

Customers who are interested in producing collection vouchers in all the banks for payment of their accounts, should initially approach the bank in which their account is managed in order to obtain beneficiary codes for the collection vouchers. Following this, the banks will approach the secretary of the Clearing House Committee who will allocate them beneficiary codes. After the allocation, the Bank of Israel will report to all the banks on the allocations of the beneficiary codes.

In 2009 as requested by the banks, the Bank of Israel allocated 134 codes for magnetic collection vouchers, as opposed to 128 codes in the previous year, 109 of which were for the private sector and 25 for local authorities.

F. The Body for Resolving Disagreements Between the Banks

The body for resolving disagreements between the members of the clearing house-"the clarifiers' panel"-continues to operate in accord with Chapter 207 of the clearing house rules. The body is coordinated by Attorney Tal Nadav, and his deputy, Attorney Ran Vangerko, to whom the chairman of the Clearing House Committee delegated his authority in accord with Section C of Chapter 207 of the clearing house rules.

The Clearing House Committee accepted the recommendation of the committee of jurors for changing the clearing house rules -regarding non-publication of the names of the customers in the decisions of the clarifiers' panel, except for cases in which the names or some of them are relevant for the panel's decision. In situations in which the publication is required, as decided by the chairman of the Clearing House Committee, this will be done only after consultation with the parties to the disagreement.

In the matter of the clarifiers' panel, the legal adviser of the Association of Banks, Attorney Tal Nadav, disagreed with the decision of the clearing house committee, because, in his view, it should be the chairman of the clarifiers' panel who approves the need for publishing the names of the customers.

Attorney Tal Nadav's comments will be discussed by the committee of jurors.

The list of clarifiers is presented in Appendix D to the report.

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APPENDICES

**Annual Report of the Activities of the Clearing House Committee for the Year
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Appendix A

**Members of the Clearing House Committee and Their Deputies who were
Appointed for Two Years from January 1, 2009 to December 31, 2010**

	Members	Deputies of the Members
<u>Bank of Israel representatives</u>		
Chairman		
Acting Chairperson	Chaim Dershan	Arieh Levi
	Ronit Tzities	Noa Sheshinsky-Lavi****
	Sasha Shaposhnik*	Oren Hadajis*
	Na'ama Ozeri**	Shaul Perel
	Anat Shabbat*	Amitai Lapidot**
	Elad Yaakobi****	Dror Nagar-Halevi***
<u>Representatives of the banks</u>		
Israel Discount Bank Ltd.	Shlomo Avidan	Yitzhak Contanta
Israel Poastal Bank	Yitzhak Florentin	Ofer Zioni
Bank Hapoalim Ltd.	Shmuel Alon	Chaim Avraham
The First International Bank of Israel Ltd.	Dalia Lavon**	Moti Shaul
Bank Leumi Le-Israel Ltd.	David Segev	Yehoshua Levi
Mizrahi-Tefahot Bank Ltd.	Meir Nissim	Moshe Romi
Citibank N.A.	Tamar Shechter	Oren Avraham

* Appointed from March 22, 2009.

** Appointed from April 23, 2009

*** Appointed from June 25, 2009

**** Appointed from January 4, 2010

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Appendix B

Members of the Clearing House and the Arrangement of Representations

Bank Code	Name of Bank	The Representing Bank in the Clearing of Non-Magnetic Instruments	The Representing Bank in the Clearing of Electronic Instruments	The Representing Bank in the Clearing Through Masav
4	Bank Yahav for Government Employees Ltd.	Poalim	Poalim	Poalim
9	Israel Postal Bank	+	+	+
10	Bank Leumi Le-Israel Ltd.	+	+	+
11	Israel Discount Bank Ltd.	+	+	+
12	Bank Hapoalim Ltd.	+	+	+
13	Union Bank of Israel Ltd.	Leumi	Leumi	Leumi
14	Bank Otsar Ha-hayal Ltd.	Poalim	Poalim	Poalim
17	Mercantile Discount Bank Ltd.	+	Discount	Discount
20	Mizrahi-Tefahot Bank Ltd.	+	+	+
22	Citibank N.A.	+	+	+
23	HSBC Bank plc	+	Leumi	+
25	BNP Paribas Plc	+	-	+
26	UBank Ltd.	International	International	International
31	The First International Bank of Israel Ltd.	+	+	+
34	Arab Israel Bank Ltd.	Leumi	Leumi	Leumi
39	State Bank of India	+	Leumi	+
46	Bank Massad Ltd.	Poalim	Poalim	Poalim
52	Bank Poalei Agudat Israel Ltd.	International	International	International
54	Bank of Jerusalem Ltd.	Leumi	Leumi	+
68	Dexia Israel Bank Ltd.	+	Discount	+
99	Bank of Israel	+	+	+

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Appendix B (contd.)

**Banks in the Area of the Palestinian Authority
that are Members of the Clearing House***

Bank Code	Name of Bank	The Representing Bank in the Clearing of Non-Magnetic Instruments	The Representing Bank in the Clearing of Electronic Instruments	The Representing Bank in the Clearing Through Masav
37	Bank of Jordan	Poalim	Poalim	Poalim
38	Commercial Bank of Palestine	Poalim	Poalim	Poalim
43	Jordan National Bank	Mercantile Discount	Discount	Discount
49	Arab Bank plc	Discount	Discount	Discount
66	Cairo-Amman Bank	Discount	Discount	Discount
67	Arab Land Bank	Poalim	Poalim	Poalim
71	Jordan Gulf Bank	Poalim	Poalim	Poalim
73	Arab Islamic Bank	Poalim	Poalim	Poalim
74	HSBC Bank Middle East	Poalim	Poalim	Poalim
76	Palestine Investment Bank	Poalim	Poalim	Poalim
81	Palestine Islamic Bank**	Discount	Discount	Discount
82	Al-Quds Bank for Development and Investment	Discount	Discount	Discount
83	Union Bank for Savings and Investment	Discount	Discount	Discount
84	The Housing Bank	Discount	Discount	Discount
89	Bank of Palestine	Poalim	Poalim	Poalim
93	Jordan Kuwait Bank	Discount	Discount	Discount

* The representation of the bank branches operating in the Gaza Strip by Bank Hapoalim was terminated on January 1, 2009, and by Bank Discount on January 10, 2009.

** The representation of the bank by Bank Discount was terminated on February 24, 2009 and reinstated on June 10, 2009

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**Appendix C
The Changes in the Clearing House Rules, in Appendices
and in Standards in 2009**

Chapter	Subject
202	Bringing forward the times of the second session on the day preceding the Day of Independence
204	Correcting the accounting between the banks on the basis of electronic clearing
211	Extent of responsibility of the presenting bank
301	Clearing instruments
302	List of members of the clearing house and the system of representations
303	Distant locations—for late returns
304	Branches whose day of rest does not fall on the Sabbath
305	Reasons for return
306	Uniform wording for a letter of indemnity
307	List of the banks participating in the clearing of checks in foreign currency
308	List of branches with Diamond Dealers Accounts
309	Wording for a demand for money for foreign currency checks
310	The stamps
311	Wording of a letter of indemnity regarding a defective foreign currency check
401	Presentation and return of non-magnetic debits
402	Presentation and return of non-magnetic credits
404	Presentation of magnetized collection credits
410	Report of presentations and returns of non-magnetized debits
411	Report of presentations and returns of non-magnetized credits
412	Report of presentation of magnetic instruments in electronic clearing
413	Report of return of magnetic instruments in electronic clearing
416	Statistical report on manual clearing instruments for a single day in the month
421	Report on settling accounts with the representing body—presentations and returns

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Chapter	Subject
429	Form for the return of a surplus foreign currency check
501	The uniform check
502	Electronic clearing—presenting checks between the banks
503	Electronic clearing—returning checks between the banks
504	Presenting credits to other banks through Masav
505	Returns of debits from the banks to Masav
506	Credits and debits that were cleared through Masav and transferred from Masav to banks
507	File of shortfalls and surpluses transferred to other banks
508	Specifications for magnetic collection credits

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**Appendix D
The Clarifiers for Resolving disagreements among the members
of the Clearing House**

Bank	Name of Clarifier		Attorney
Union Bank of Israel Ltd.	Aliza	Rozanes	*
Israel Discount Bank Ltd.	Yitzhak	Contanta	
	Alona	Hazan	*
	Nissim	Madjar	*
	Meir	Lindzen	
	David	Peleg	*
Israel Postal Bank	Boaz	Rozinsky	*
	Yitzhak	Florentin	
Mizrahi-Tefahot Bank Ltd.	Shlomo	Katz	*
	Ofer	Mor	
	Meir	Nissim	
	Moshe	Romi	
Bank Hapoalim Ltd.	Shmuel	Alon	
	Efrat	Shahar	*
	Gidon	Dor	*
	Ephraim	Shwartz	
Bank Leumi Le-Israel Ltd.	Roni	Bernholtz	*
	Yehuda	Avni	
	Asher	Sarussi	
	David	Segev	
The First International Bank of Israel Ltd.	Dan	Sofer	
	Dan	Karni	*
	Mordechai	Shaul	
UBank Ltd.	Gal	Steiger	
Mercantile Discount Bank Ltd.	Alex	Grinspan	*
	Leah	Davidov	
	Yoav	Mintz	*
Clarifiers who are not employees of the members of the clearing house	Yigal	Shapira	*
Coordinator of the clarifiers' panel	Tal	Nadav	*

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Appendix E

**The Subcommittees that Operated in 2009 as Part
of the Clearing House Committee**

1. Subcommittee for check imaging for the purpose of the Check Truncation Law.
2. Subcommittee dealing with the communication of check photograph files for the purpose of check imaging.
3. Subcommittee for the termination of manual clearing.
4. Subcommittee dealing with the method of clearing of collection vouchers between the banks.
5. Subcommittee dealing with the standard of the uniform check.
6. Subcommittee for changing the structure of the recording from the banks to Masav and from Masav to the banks.