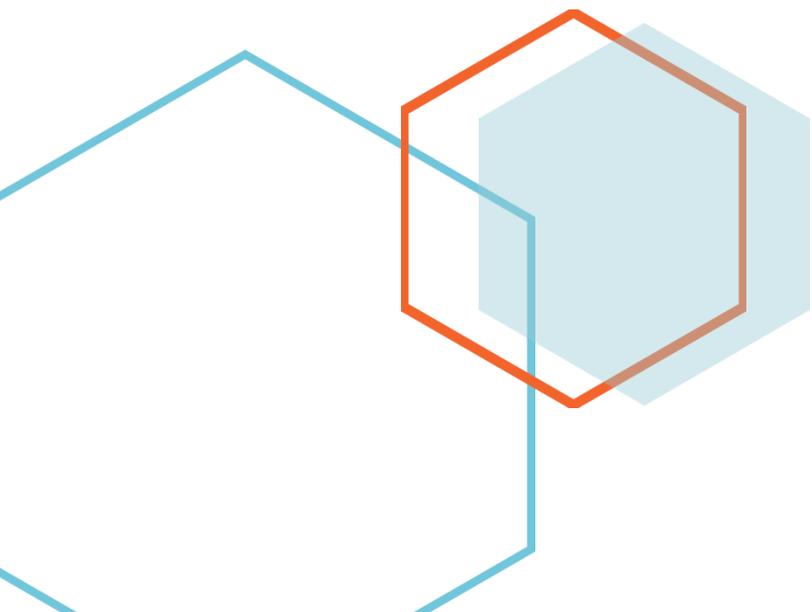




Regulatory Framework of the Oversight and Supervision Policy on the National Payments System

Central Bank Of Jordan
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List of Abbreviations

Abbreviation	Description
ACH	Automated Clearing House System
AML	Anti-Money laundering
BIS	Bank for International Settlements
CBJ	Central Bank of Jordan
CFT	Combating of Finance Terrorism
CPMI	Committee on Payments and Market Infrastructures
DEPO/x	Depository Solution
ECC	Electronic Check Clearing System
eFAWATEERcom	Electronic Bill Presentment and Payment System
FMI s	Financial Market Infrastructure
IOSCO	International Organization of Securities Commissions
JoMoPay	Jordan Mobile Payment System
JSC	Jordan Securities Commission
LVPS	Large Value Payment Systems
NPS	National Payment System
PS	Payment Systems
PCI-SSC	Payment Card Industry Security Standards Council
PCS	Payment Cards Systems
PFMI s	Principles for Financial Market Infrastructures
RPS	Retail Payment Systems
RTGS-JO	Real Time Gross Settlement System- Jordan
SDC	Securities Depository Center
SSS	Securities Settlement Systems



Terminology

The Electronic Payment and Money Transfer Bylaw	: The Electronic Payment and Money Transfer Bylaw No.(111) of 2017 issued pursuant to the provisions of articles (21) and (22) of the Electronic Transactions Law No.(15) of 2015.
Oversight and Supervision	: One of the CBJ’s functions that aims at ensuring the safety and efficiency of the national payments system through regulating, monitoring, and assessing the performance of the system, and inducing changes whenever necessary.
The National Payments System	: The electronic information system that allows for sending, receiving and processing of payment transactions and money transfer in any currency, in addition to clearing and settlement services, as well as issuing and managing payment instruments.
Financial Markets Infrastructures	: Payment and settlement systems that include a group of participants from financial institutions including the administrator and operator of the system, which are used for carrying out payment, money transfer, clearing, settlement, and registering payments, securities, derivatives or any other financial transactions.
Payment System	: A set of software or arrangements designated for electronic payment, transfer, clearing or settlement of money.
The Administrator and Operator of the Electronic Payment System	: The entity authorized as appropriate by the Central Bank to administer and operate the electronic payment systems.
Payment Services Provider	: The entity authorized as appropriate by the Central Bank to carry out any payment services in accordance with relevant legislations in force.
Payment Services	: Procedures related to the issuance and administration of any electronic payment or money transfer instruments stipulated in the electronic payment and money transfer bylaw.
Clearing System	: A set of procedures, whereby financial institutions provide and share data or documents (or both) related to money transfer or securities with other financial institutions in one place (the clearing house). These procedures often include a mechanism to calculate



	participants' bilateral and/or multilateral net positions with a view to facilitate the settlement of their obligations on net basis, or net of the net basis for bilateral positions.
Settlement System	: An electronic system used to settle the operations of money transfer or securities or clearing files extracted from the payment and clearing systems through debit /credit to the banks accounts identified on the system.
Systemically Important Payment Systems	: systems which could trigger or transmit systemic disruptions in the financial system because of the size or nature of individual payments which they handle or because of the aggregate value of the payments processed
Interoperability	: A set of arrangements, procedures and standards that allow participants in various electronic payment systems to conduct and settle payments between these systems providing that all systems connected to participants are working properly, this is also valid for payment services.
Efficiency	: Refers to the process of managing the resources required by the financial markets infrastructures to handle the jobs related to payment function quickly, safely and at reasonable cost.
Effectiveness	: Refers to the ability of financial markets infrastructures to achieve their desired costs, transaction time reduction and directness.
Credibility or Reliability	: The trustworthiness and dependability of data and information used in the administration process and decision making.
Safety	: Protection, confidentiality and provision of information resources.
Integrity	: Verifying that the information dealt with has not been affected by any unauthorized modifications. (Including; adding, removing, or changing information).



Foreword

The Central Bank of Jordan (CBJ) performs several duties to fulfill its objectives represented by; maintaining the monetary stability in the Kingdom, ensuring the convertibility of the Jordanian dinar, contributing to the achievement of banking and financial stability in the Kingdom, as well as promoting sustainable economic growth according to the general economic policies in the Kingdom. One of these duties is to regulate and develop the national payments system; in pursuit of providing safe and efficient payment, clearing, and settlement systems.

The key components of the financial system are financial markets, financial institutions, and main infrastructures that support markets operations, where efficient and robust infrastructures facilitate the processing of electronic payment and money transfer alongside clearing and settlement operations.

A national payment system (NPS) is the electronic information system that allows for sending, receiving and processing of payment transactions and money transfer in any currency, in addition to clearing and settlement services, as well as issuing and managing payment instruments. Having a safe and efficient national payments system is fundamental for the infrastructures of the financial system and its stability, It also facilitates the economic activities in the Jordanian market, and is considered a necessary element to carrying out transactions at lowest possible costs thus enhancing the national economic growth and development.

According to the Bank for International Settlements (BIS), oversight is “a central bank function whereby the objectives of efficiency, safety and soundness are promoted by monitoring existing and planned payment, clearing, settlement and related arrangements, assessing them against these objectives and, where necessary, inducing change. These arrangements include financial market infrastructures (FMIs) and other payment, clearing, settlement and reporting arrangements and activities, both within and across jurisdictions (encompassing systems and activities involving large value and retail payments, foreign exchange settlement, securities and derivatives clearing and settlement, multilateral netting and collateral management), as well as retail payment instruments or schemes”.



The CBJ's role in conducting the oversight and supervision on the national payments system according to effective laws, bylaws and regulations, is essential to ensure there is an efficient, effective and safe national payments system, as well as solid and integrated capital markets infrastructures which contribute to achieving and maintaining financial stability and financial inclusion in the Kingdom.

This document aims at demonstrating the regulatory framework of the oversight and supervision policy on the national payments system, in accordance with international best practices thereon, with a view to manifesting the objectives, tasks, scope, activities, tools, rules, and standards necessary to apply while carrying out the function of oversight and supervision on the national payments system. In this regard, it is also important to cooperate and coordinate with the organizational units within the CBJ and other related supervisory authorities locally and internationally. Further, considering this document as the cornerstone for the oversight and supervision on the national payments system function in setting out operational framework and rules related to the national payments system and all of its components, as well as setting plans, a manual, an approach for the oversight and supervision functions, and other aspects related to this function.

By publishing this document, the CBJ endeavors to enhance the disclosure and accountability principle of the CBJ's policy regarding the oversight and supervision on the national payments system, and to enable parties undertaking any payment services activities and the activities of administering and operating electronic payment systems and their users, and other related third parties; to understand and realize the CBJ's policies applied in this regard, and providing them with a strong incentive towards change.

Governor
Dr. Ziad Fariz



First: The Role of the CBJ towards the National Payments System

The CBJ plays four major roles toward payment, clearing, and settlement systems, which are the following:

- **A user role:** : the CBJ can be one of the participants of the payment, clearing, and settlement systems under its administration, or systems directed and operated by other parties. For example, the CBJ often uses the Securities Settlement Systems (SSS); for issuing government securities, such as treasury bills and bonds on behalf of the Ministry of Finance, in addition to providing and receiving its financial payments and transfers or on behalf of its clients from government institutions and the banking system as a whole, whether through the Real Time Gross Settlement System-Jordan (RTGS-JO), the Electronic Check Clearing system(ECC), or other systems.
- **An administrator and operator role :** the CBJ administers and operates some of electronic payment systems that provide payment, clearing, and settlement services, including the provision of the appropriate infrastructures for these systems. These systems include; the Real Time Gross Settlement System-Jordan (RTGS-JO) which involves retaining the accounts of participating members and providing the settlement services, the Automated Clearing House (ACH), the Electronic Check Clearing system (ECC), and the Jordan Mobile Payment (JoMoPay).
- **A stimulator for development and change role :** the CBJ plays a pivotal role in stimulating and supporting the development of electronic payment and money transfer initiatives in the public and private sectors, along with setting out the regulatory and legislative frameworks, sound market standards, and good practices that enhance and fulfill the requirements and arrangements of the payment systems, business models, participants and innovative products, means and channels of payment. Also to achieve transparency, efficiency, competitiveness, financial consumer protection and enhance financial inclusion. The CBJ also shall put in place the requirements and standards aiming to achieve full compatibility at the national payments systems and its components.
- **An overseer and supervisor:** the CBJ undertakes the responsibility of oversight and supervision on national payments system; in cooperation with deferent parties inside or outside CBJ with the aim of regulating, monitoring, assessing, and inducing change, whenever required, to the available and planned components of the national payments system, based on specific criteria in line with international best practices, to ensure safety, efficiency, effectiveness and business continuity of these components and their interoperability, hence contributing to the financial stability in the Kingdom.



Second: Oversight and Supervision Objectives

By conducting the oversight and supervision function on National Payments systems; the CBJ seeks to achieve the following objectives:

Regulating the Payments Sector in the kingdom

The CBJ sets the necessary rules to regulate the national payments sector, represented by appropriate regulatory and legislative frameworks for the electronic payment and money transfer services; to meet and reflect the requirements and arrangements of new and current payment systems, business models, participants, as well as the innovative payments products, instruments and channels, including the necessary legislations to ensure the efficiency and effectiveness of the oversight and supervision process.

Regulating the payments sector aims at processing the rapid developments in the sector, in addition to achieving transparency, efficiency, competitiveness, financial consumers' protection and enhancing financial inclusion in the kingdom. Moreover, it makes the companies practicing any of the activities related to the electronic payment and money transfer services subject to the regulation, oversight and supervision of the CBJ; as any entity carrying out such activities is required to obtain a license from the CBJ according to effective legislations, and to comply with these legislations at all times.

Setting an Efficient and Safe National Payments System

Achieving the highest level of safety and protection of the national payments system requires maintaining low levels of systemic and other types of risks, associated with the operations of electronic payment systems and the provision of different payment services. This is accomplished by the commitment of payment services providers, as well as administrators and operators of the electronic payment systems and other related parties to sound risk management policies, and conducting all measures, procedures and systems that identify, measure, monitor and manage the risks arising from carrying out payment services or electronic payment systems activities, in addition to providing incentives to the participants to enable them to manage and contain the risks, to review material risks imposed by these activities on other units and handle them regularly, to determine sources of risk that can prevent these activities from providing significant operations or services, and to prepare convenient plans for recovery and gradual slowdown in a systematic manner.

Contributing to Achieving Financial and Monetary Stability

Electronic payment systems play a crucial role in achieving and maintaining financial stability during times of various market pressures, such as severe liquidity shortage. They also act as a center for payment, clearing, settlement, and electronic money transfer activities, and substantially contribute to the reduction of costs incurred. Furthermore, well-functioning systems enhance the efficiency, transparency and safety of the financial system in the kingdom.



In this respect, the electronic payment systems eliminate the usage of paper-based transactions, and lead to expediting the execution of payment transactions and money trading, settlement finality, improving liquidity and settlement risks management, enhancing the efficiency of money management at banks, and stimulating the interbank market, thus contributing to achieving the financial stability in the kingdom, and increasing the confidence in the Jordanian financial system domestically and internationally.

From another side, the efficiency of monetary policy is depending on the existing of safe and developed electronic payment systems, thus these systems represent one of the means that promote monetary stability through facilitating the implementation of monetary policy directions and increasing the efficiency of its impact transmission channels. Electronic payment systems contribute in reducing financial risks produced by the developments in the financial technology, such as the establishment of new payment systems by financial institutions that take into account the speed, confidence and the appropriate cost in the transfer of funds in the economy, moreover, the development of electronic payment systems contributes to increase the speed of rotation of money, which effectively contributes to stimulating economic activity.

□ Contributing to Strengthening the Retail Payments Sector

The systems, instruments, and channels of retail payments basically aim at meeting the individuals and families daily needs of goods and services, including general services provided by various departments and governmental institutions, in addition to fulfilling the needs of micro, small and medium businesses.

For the sake of developing the retail payments' systems, instruments, and channels; it became necessary to provide supportive comprehensive infrastructures that ensure and facilitate the accessibility of financial and banking services through modern means of payment without imposing high costs or complexity.

Further, Adopting effective instruments and means for providing electronic payment and money transfer services for financially excluded areas. Moreover, encouraging the users, especially merchants and service providers, to accept various types of payment systems, instruments, and means to handle transactions; is a crucial aspect that should be considered within the financial literacy programs framework. In addition, there is no doubt, that having consolidated standards for payment systems, instruments, and means enhances the confidence and convenience of users when choosing the payment method that they want to use to accomplish their transactions at anytime and anywhere they go, including virtual means.



On a relevant note, the CBJ is considered the main regulator of the retail payment systems, instruments and means, as it is responsible for regulating, overseeing and supervising these systems, as well as setting out enabling and enhancing legislations, ensuring their integrity, and encouraging the service providers and operators to continuously develop these systems, which in turn enables them to achieve the desired targets. In addition, the CBJ plays the role of the administrator and operator of such systems, which increases the CBJ's responsibilities toward the users.

Managing Payments technology and Innovation

Payment system developments in the recent past have been rapid, overshadowing those of previous decades. As part of these developments, consumers have benefitted from innovations such as mobile device and Internet payments, which make electronic payments and remittances possible across jurisdictions. Innovation is the hall market of a modern economy. Owing to the interconnected nature of payment systems, innovations in this area must occur within the confines of the legal and regulatory framework.

New channels and access points such as mobile devices will allow people to avoid having to wait for service in long queues to pay bills. The ubiquity and interoperability of payment systems can lead to efficiencies that are passed on to end users in the form of lower fees. All of this directly impacts on the social well-being of all citizens and Jordan inhabitants. Ensuring seamless, instant, safe and cost effective payments requires modern payment instruments and systems that provide a foundation for economic activity for all citizens and Jordan inhabitants.

Third: Oversight and Supervision Functions

Through pursuing oversight and supervision; the CBJ endeavors to achieve the following tasks:

Safety & Efficiency

The CBJ monitors and assesses risk management frameworks and practices of electronic payment and money transfer services; to ensure the compliance of the companies carrying out those services with using efficient and appropriate methods for managing the risks they are exposed to, and that they have enough incentives and safeguards to confront such risks, taking into consideration the importance of team work among all participants in this field; as the risks that one participant might get exposed to are related to and affect the behavior of all participants, and



have an impact on the payment system as a whole. The CBJ also monitors, assesses, encourages innovation, and regulates the appropriate financial technology that is bound to reduce the cost of providing the aforementioned services, and enhance the development of interoperable services aiming at achieving compatibility among them, hence enhancing cooperation and competitiveness in the market.

Major potential risks to payment systems

- ▽ **CREDIT RISK:** the risk that a party within the system will be unable fully to meet its financial obligations within the system currently or at any time in the future
- ▽ **LIQUIDITY RISK:** the risk that a party within the system will have insufficient funds to meet financial obligations within the system as and when expected, although it may be able to do so at some time in the future;
- ▽ **LEGAL RISK:** the risk that a poor legal framework or legal uncertainties will cause or exacerbate credit.
- ▽ **FINANCIAL CRIME RISK:** the risk that a party will exploit the payments system to conduct money laundering or facilitate payments related to terrorist activities.
- ▽ **OPERATIONAL RISK:** the risk that operational factors such as technical malfunctions or operational mistakes will cause or exacerbate credit or liquidity risks
- ▽ **SYSTEMIC RISK:** in the context of payment systems this is the risk that the inability of one of the participants to meet its obligations, or a disruption in the system itself, could result in the inability of other system participants or of financial institutions in other parts of the financial system to meet their obligations as they become due. Such a failure could cause widespread liquidity or credit problems and, as a result, could threaten the stability of the system or of financial markets.

Equitable Services

The CBJ monitors and assesses the performance of electronic payment and money transfer services to ensure that they are carried out on a fair basis without any unjustified constraints, either on the access level or the pricing level, and that electronic payment and money transfer services are committed to preserving financial consumer rights, privacy, competitive, and disclosure of information.

The fair application of regulation to all participants offering similar services ensures a level playing field, which further boosts competition and innovation in the provision of payment services through the development of new products and services.



□ Reliability

By monitoring and assessing the performance of electronic payment and money transfer services, the CBJ seeks to ensure their availability, business continuity and integrity. It also aims to ensure the existence of appropriate and convenient warning systems to detect any vulnerabilities or distortions that electronic payment and money transfer services may get exposed to, especially those related to fraud and money laundering and financing terrorism in addition to the availability of examined and confirmed procedures to deal with emergencies; which allow for these services to operate smoothly at all points related to carrying out the transaction, and to be able to survive.

□ Trusted Services

Through attaining the efficiency and safety of electronic payment and money transfer services, in a way perceived as being safe, simple, fast, convenient easily accessible for everyone at any time, and acceptable to everyone without hesitation, this will make electronic payment and money transfer services trusted.

The NPS should be viewed as a collective infrastructure that acts in the long-term interests of Jordanian society, whose contributions can assist in boosting social and economic development and financial inclusion, thereby increasing the quality of life across all segments of society.

Fourth: Oversight and Supervision Regulatory Framework

CBJ seeks to enhance the efficiency and safety of the national payments system and its components through monitoring the performance of existing and planned payment and money transfer services, assessing them regularly, and inducing changes if necessary, In order to achieve this, the CBJ seeks to adopt the relevant international, regional and national standards when conducting the oversight and supervision function wherever possible.

These standards include those issued by the Bank for International Settlements (BIS), International Standards Organization (ISO), and best practices thereon, such as the payment cards industry standards issued by the Payment Card Industry Security Standards Council (PCI-SSC), as well as the relevant international standards for money transfers issued by the BIS, regionally accepted standards, laws, bylaws, regulations and circulars issued by the CBJ, in addition to the policies related to the national payments system approved by the CBJ's board of directors. Furthermore, the Principles for Financial Markets Infrastructures (PFMIs) and disclosure and as-



assessment methodology (PFMIs/BIS/IOSCO/CPMI:2012) shall represent the actual standards for assessing the financial markets infrastructures in the kingdom¹.

Within the oversight and supervision framework, the CBJ also pursues to achieve compatibility with the five responsibilities determined in the PFMIs, as demonstrated below:

- ◆ The financial markets infrastructures shall be subject to effective and convenient regulation, oversight and supervision by related authorities.
- ◆ The authorities shall be provided with the power to effectively conduct their responsibilities of regulating, overseeing and supervising financial markets infrastructures.
- ◆ Concerned authorities shall clearly define and disclose their regulating, supervising and overseeing policies regarding financial markets infrastructures.
- ◆ Concerned authorities must adopt PFMIs and implement them in a coordinated manner.
- ◆ Concerned authorities shall cooperate on the local and international levels to enhance the integrity and the efficiency of financial markets infrastructures.

Fifth: Scope of Oversight and Supervision

The CBJ determines the scope of oversight and supervision in accordance with the CBJ Law No. (23) of 1971 and its amendments, as well as Electronic Payment and Money Transfer Bylaw No. (111) of 2017 which was issued pursuant to the Electronic Transactions Law No. (15) of 2015. The scope of oversight and supervision shall encompass all components of the national payments system, and it can be changed according to any new systems channels or product will arise in the future, which are indicated as follows:

□ Electronic Payment Systems

In this context, the CBJ shall oversee and supervise all electronic payment systems (PS) whether owned, administered, or operated by the CBJ, or by any other party. Electronic payment systems are classified as follows:

- ▽ **Large-Value Payment Systems (LVPS):** including payment systems with large-value, and systemically important payments such as (RTGS-JO).

¹ The (PFMIs) are published through this link https://www.bis.org/cpmi/info_pfmi.htm



- ▽ **Retail Payment Systems (RPS):** represent payment systems with smaller values than large-value payments, such as:
 - ◆ Electronic Check Clearing System (ECC).
 - ◆ Jordan Mobile Payment System (JoMoPay).
 - ◆ Card payment systems.
 - ◆ Electronic Bill Presentment and Payment System (eFAWATEERcom).
 - ◆ Automated Clearing House System (ACH).

Securities Settlement Systems (SSS)

Which are systems specified for securities settlements, and are classified as follows:

- ▽ **Government securities settlement systems**, such as the electronic system for public debt management and open market operations (DEPO/x) administered and operated by the CBJ.
- ▽ **Securities settlement systems for companies**, such as the electronic system managed and operated by the Securities Depository Center (SDC). This system is overseen and supervised by the Jordan Securities Commission (JSC). Therefore, the CBJ shall cooperate and coordinate with the JSC for the oversight and supervision.

Payment Services providers

Within the scope of payment services; the payment services provider plays different key roles as stated below:

- ▽ A participant in the electronic payment systems; to provide the services of accepting payments electronically, directing and carrying out debit and credit electronic payments, including mobile payments, electronic cash deposits and withdrawals, and other services.
- ▽ An issuer and administrator of payment instruments.
- ▽ An issuer and administrator of e-money.
- ▽ A provider of electronic money transfer services, through an electronic payment system licensed or approved by the CBJ.

Third Parties

The third party is referred to as the entity outsourced by the administrator and the operator of the electronic payment system, or the payment services provider to fully or partially carry out any of the technical, technological, and financial tasks, which are licensed by the CBJ, in accordance with the effective legislations.



Payment Services and Electronic Payment Systems Conducted under ad hoc Laws

The CBJ shall verify the safety and efficiency of any payment systems administered or operated by any governmental department, official public institution, or public institution. The CBJ is entitled to request any data or information thereon, whenever deemed to have an impact on financial stability in the Kingdom, and shall consider the appropriate procedures thereto. In addition, the CBJ upon special regulations, shall put in place the technical and technological requirements for these institutions to carry out the activities of payment services and the administration and operation of the electronic payment systems they carry out according to their respective laws.

International Electronic Payment Systems Approved by the CBJ

This includes the worldwide broadly used systems which are approved by the CBJ and overseen and supervised in coordination with related international institutions according to the oversight principles of international cooperation. The CBJ shall set out special conditions and requirements regarding the adoption of these systems.

Sixth: Oversight and Supervision Activities

The CBJ shall carry out the oversight and supervision function through specific activities, demonstrated as follows:

Monitoring

The CBJ shall assess the compliance of entities involved in any electronic payment and money transfer services activities with the standards and requirements of performing such activities: through ongoing supervision, requiring information of these entities, analyzing these financial data related to all NPS components in order to ensure the soundness of their financial positions, monitor phenomena or trends which may request issuing recommendations or updating the related instructions, in addition to prepare periodic reports.

Sources of Information

To achieve an effective oversight and supervision; the CBJ initially need to have a good understanding of how electronic payment and money transfer services function, and how they relate to each other as part of the overall financial system. To obtain this understanding, it is necessary first to obtain relevant information which shall be available to the CBJ by the entities engaged in such activities through the means designated thereto.



□ Power to Obtain Information

The CBJ's power to obtain information is linked to the legislative frameworks whereby entities subject to the oversight and supervision of the CBJ are required to provide relevant information.

□ Nature of Information

To ensure efficient oversight process and evaluate compliance of the system with the minimum requirements, it is crucial to have detailed information on the relevant payment or clearing or settlements system, and payment activities related to, its policy, operations and processes, potential risks and future growth plans. Therefore, the primary goal of the monitoring is to collect necessary data. Monitoring particularly focuses on the directions that expose the financial stability to more threats. These directions mostly include management, IT systems and operations (particularly information security), financial risk management and outsourcing.

Data for monitoring purposes are obtained from the following sources:

- ❖ Publicly available information on the design, nature, and the performance of the payment service or the electronic payment system.
- ❖ Documents on the system. It includes procedures and rules of system operations and business continuity plan and other documents.
- ❖ System self-evaluation. It is the responsibility of the administrator and system operator to carry out the evaluation to ensure that they meet the established minimum requirements.
- ❖ External Audit reports. Particularly on the fields that are of vital significance for financial stability, and information security audit on a periodic basis.
- ❖ Data regarding compliance of payment services providers, administrator, and operator of electronic payment systems to regulations issued and related to their jobs.
- ❖ Regular or ad hoc reports on payment services or electronic payment system activities, including the volume and value of payments and transfers transactions, operating performance, and technical and technological functions.
- ❖ Financial positions of electronic payment and money transfer services companies, including balance sheets and profit and loss information.
- ❖ Minutes of meetings of the Board of Directors of electronic payment and money transfer services companies, or committees formulated upon the CBJ's decisions.
- ❖ Regular or ad hoc policies for payment services or the electronic payment system, including Anti Money Laundering and Combating the Financing of Terrorism policy, compliance policy, external audit, cyber risks resilience, access and participation in electronic payment systems, and others.
- ❖ Information obtained via on-site inspections.
- ❖ Surveys and studies.
- ❖ Expert opinion from advisors in accordance with the CBJ's guidelines.
- ❖ Information from other related authorities and regulators.
- ❖ Client feedback.



□ Assessment

The information and data obtained by the CBJ during the monitoring process are used to understand the whole set of payment, clearing and settlement arrangements, which in turn contributes to formulating and developing oversight policies and to adopting appropriate oversight and supervision standards. Based on the assessment of the risk and efficiency issues that arise; determining which electronic payment and money transfer services fall into the scope of these policies follows. By doing so, the CBJ aims to identify the shortcomings and to propose recommendations for proceeding with corrective actions, as well as providing a feedback that will serve as an input to review, develop and promote the objectives of financial stability and monetary policy.

On another front, the information obtained through the monitoring process is used to assess the compatibility and compliance of the electronic payment and money transfer services under the scope of the oversight and supervision, with approved policy requirements and standards; hence, investigating whether safety and efficiency standards are mirrored or not. The CBJ endeavors to strengthen ongoing compliance with these relevant standards and policies through conducting regular assessments of the national payments system's components in cooperation with other stakeholders, as follows:

- ▽ Conduct a partial or full regular self-assessment to ensure that the oversight and supervision principles and standards adopted by the CBJ are met and applied, in particular the PFMIIs.
- ▽ Carry out a regular assessment to ensure that the oversight and supervision principles and standards are adopted and complied with, and encourage entities under the oversight and supervision to apply and adhere to these principles and standards.

□ Inducing Change

Having the CBJ's assessment of the activities of electronic payment and money transfer services accomplished; recommendations are set out to determine whether these activities are consistent with relevant policies and standards, and are sufficiently secure and efficient, as well as whether any further actions are required. Several tools are available to the CBJ to induce change, including: moral suasion, public statements, contractual agreements, participation in the systems, coordination with other authorities, statutory power to require change, as well as issuing legislations and directives as CBJ has the right to enforce compliance and administrative sanctions to induce change through applying regulatory legislations and correspondent best practices.



Seventh: Oversight and Supervision Tools

The CBJ uses a set of tools to effectively and efficiently conduct oversight and supervision, as demonstrated below:

□ Legislative Framework

The CBJ develops and improves the appropriate legislative frameworks for the activities of electronic payment and money transfer services in the Kingdom; in a manner that fulfills and reflects the arrangements of the payment systems, business models, participants, and payment products and services according to international best practices thereon. This is to ensure the efficiency and effectiveness of the national payments system and the integrity of its components, as well as achieving transparency, efficiency, competitiveness, financial consumers' protection, and promoting financial inclusion. Through these frameworks, the CBJ shall put in place the procedures and requirements of electronic payment systems and the provision of payment services including electronic money transfer and issuance of e-money and trading requirements, as well as resolving disputes arising among the parties involved in the electronic money transfer, in addition to the technical and technological requirements of the electronic payment instruments, and steering entities carrying out those activities to comply with these requirements.

□ Regulatory Framework of the Oversight and Supervision Policy

The general framework of the oversight and supervision policy is another tool the CBJ relies on to conduct oversight and supervision, wherein the CBJ disseminates its oversight and supervision policy; reflecting its keenness on achieving the principle of transparency and accountability. In addition, disseminating this document has positive reflections on entities under the oversight and supervision, as stating the objectives of the oversight and supervision of the CBJ, and any specific requirements and criteria of the oversight and supervision policy towards certain types of electronic payment and money transfer services activities; shall positively encourage self-discipline in the payment sector. This is accomplished through making electronic payments systems' administrators, operators, and participants, as well as payment services providers, and other related third parties compatible with the design of the payments systems and services, the rules of operating, and the nature of associated operations. This pressures the systems' administrators and operators, and the payment services providers to induce change in case potential shortcomings are detected.



□ Licensing

Any company wishing to carry out any of electronic payment and money transfer services activities in the Kingdom is obliged to obtain a license from the CBJ in accordance with the conditions and requirements stipulated thereon pursuant to the provisions of article (3) of electronic payments and money transfer bylaw. As for existing companies that perform any of these activities, they are required to fulfill specified conditions and requirements within a time frame set by the CBJ pursuant to the provisions of article (54) of electronic payments and money transfer bylaw. The purpose of licensing is to legitimate electronic payment and money transfer services provided in the Jordanian market and to regulate them.

Pursuant to the provisions of articles (16), (19), (20) of the aforementioned bylaw, the payment service provider shall, under the license granted by the Central Bank, practice any of the following activities:

- ❖ Issuance and management of payment instruments excluding the debit
- ❖ Management of cash deposits and withdrawals electronically.
- ❖ Management and implementation of the credit/debit E-payment transactions including mobile telephone payment.
- ❖ Services of electronic collection of money.
- ❖ provide the services of issuing and managing electronic money
- ❖ provide services of money e-transfer
- ❖ Any other activities related to the payment service delivery as approved by the Central Bank upon ad hoc instructions issued for this purpose.

Administrator and operator of the E-payment System will practice the following upon approval granted thereto by the Central Bank upon the provisions of article (7) of the above bylaw:

- ❖ Management and operation of the E-payment System.
- ❖ Management and organization of the clearance or settlement operations among those who participate in the E-payment System.
- ❖ Any other activities related to the management and operation of the E-payment Systems approved by the Central bank upon an ad hoc instructions issued for this purpose.



Furthermore Any entity practice any of payment service providing or administrating and operating electronic payment systems by an ad hoc laws are excluded from granting Licensing from CBJ pursuant to provisions of article (3) of aforementioned bylaw, and CBJ has the right to issue an ad hoc orders include the minimum technical and technological conditions and requirements.

In the relevant matter, the foreign companies can deliver any of the payment services or managing and operating the E-payment systems via a branch thereof registered in compliance with the provisions of the Law of Companies after fulfilling the requirements and conditions established by the Central Bank upon ad hoc instructions issued to identify the procedures of granting licenses and cases of cancellation. In this case, the Company shall have the right to exercise its operations via the branch in the same way permitted for the Jordanian companies licensed upon the provisions herein. The Central Bank shall have the right to approve of any of the e-payment systems used internationally according to the conditions and requirements identified by the Central Bank for this purpose. The agencies that manage the system approved upon this paragraph can only deal with the agencies licensed by the Central Bank or those excluded from the enforcement of this bylaw.

□ Off-Site Oversight and Supervision

The CBJ shall on a regular basis collect and analyze data and information of the payments sector, identify their implications, and link them to statistical and economic indicators as they are pivotal and supportive tools for the oversight and supervision function. Through this function the CBJ aims at watching the growth and development of the payment sector, in addition to assessing and monitoring this sector, ensuring its integrity and efficiency, as well as addressing the effect of the boom of payment systems, instruments and means on the inclusive economic and social growth and on boosting financial inclusion in the Kingdom. This is achieved through enabling secure access to these systems and instruments, as well as using various components of the national payments system, namely; the infrastructure of electronic payment systems, the participants, as well as payments channels, tools, products, and services, in addition to tracking and analyzing the behavior of customers segments, and preferable payment methods offered to them.

Monitoring particularly focuses on the directions that expose the financial stability to more threats. These directions mostly include management, IT systems and operations (particularly information security), financial risk management and outsourcing, and that these data are obtained from various sources mentioned earlier.



□ On-Site Oversight and Supervision

The CBJ endeavors to conduct on-site oversight and supervision according to international best practices thereon; using effective and efficient oversight and supervisory systems based on a risk-based approach. This aims to examine the technical, technological, operational, and financial status of the administrators and operators of the electronic payment systems and payment services providers, identify the risks associated with their current and prospective activities, evaluate the degree of integrity and effectiveness of risks management systems, assess the soundness of their internal control systems, in addition to the compliance with effective legislative frameworks. Further, it aims at discussing the results of on-site oversight and supervision in a clear and timely manner with the management of electronic payment systems and payment services providers, guiding them to commit to address their shortcomings in a timely way, and monitor them and investigate whether they are proceeding with corrective action plans.

The oversight and supervision function is based on the risk assessment which is conducted through carrying out quantitative risk analysis by examining potential risks for the administrators and operators of the electronic payment systems and payment services providers including (legal risk, credit risk, liquidity risk, systemic risk, strategic risk, security risk, market risk, operational risk, general business risk, reputational risk, and other risks). In addition a qualitative risk analysis is conducted through examining risk management systems and assessing their effectiveness and quality; which aims to develop a risk matrix for each payment system/ payment service that includes the type of risks the administrator and operator of the system/ service provider are exposed to, its magnitude (high/ medium/ low), its trend (ascending, stable, descending), the risk management technique (strong, moderate, weak), and the ability of the administrator and operator of the system/ service provider to monitor these risks.

The CBJ carries out on-site oversight and supervision over all entities under its oversight and supervision, according to a regular plan that takes into consideration the status of each electronic payment system and each payment service, the risks associated with them, as well as the commitment of administrators and operators of the electronic payment systems and payment services providers to undertake corrective actions determined by the CBJ.

Furthermore, the CBJ applies three types of on-site oversight and supervision including: comprehensive oversight and supervision that covers all activities of entities regulated by the CBJ, qualitative oversight and supervision which includes high risk areas in entities subject to the CBJ's oversight and supervision, and limited oversight and supervision which encompasses ad



hoc errands. This is to ensure that entities under the oversight and supervision of the CBJ are in compliance with the CBJ's issued legislative frameworks.

The on-site oversight and supervision are divided into three main phases:

- ▽ **Pre-oversight and supervision phase** :this phase is considered one of the most significant stages, during which all data pertaining to the entity subject to the CBJ's oversight and supervision are examined to conclude a comprehensive overview, identify high risks, define the scope of inspection, set out the oversight and supervision plan, and to determine the requirements of the oversight and supervision. This phase is conducted through the cooperation and coordination between the on-site oversight and supervision team, and all divisions at the oversight and supervision of national payments system department.
- ▽ **On-site oversight and supervision phase**: during this phase, the technical, technological, operational and financial activities of the electronic payment systems' administrators and payment services providers are examined, alongside assessing the risks associated with their current and prospective activities. Further, the strategy of the system administrator/ service provider and arising risks, as well as their ability to address and manage these risks, internal control, and the extent to which they are complied with relevant legislative frameworks are also investigated.
- ▽ **Post-oversight and supervision phase** in this stage, the oversight and supervision report shall be prepared to include the most prominent results of the oversight and supervision and shall be discussed with the payment system administrator and operator/ the payment service provider. Moreover, a corrective action plan shall be set out to address the breaches and notes mentioned in the report, in addition to follow-up on the implementation of this plan and reevaluating it as well. This report shall be submitted to the executive management of the CBJ alongside suggested recommendations thereon.

Moreover, Oversight and supervision methodology on electronic payment services companies is determined based on specific standards take in consecration relative importance and degree of risks, for example, oversight and supervision operations are divide on payment systems within oversight and supervision manual and according to the risk level system may exposed to and its importance to systemically important or nationally important or socially important.



International Standards

To ensure an efficient, effective, secure administration and operation of the electronic payment systems; the CBJ is required to adopt relevant international standards, taking into consideration recent trends regarding comprehensive risk management frameworks, effective business continuity plans, stress testing, countering money laundering, financing of terrorism, proliferation of weapons, and other forms of illicit activities, in addition to adopting best practices for cyber and operational risks resilience and financial recovery.

Agreements, Contracts and Memorandums of Understanding

Agreements, contracts, and memorandums of understanding between the CBJ and other domestic and international oversight and supervisory authorities, public institutions and bodies engaged in the activities of electronic payment and money transfer services under special laws, as well as government-owned enterprises within their respective legislations; represent an effective tool that enhances the CBJ's ability to induce change. They are used to develop the requirements, conditions and standards to coordinate with these entities on setting the CBJ's role in assessing the compliance, and setting out the CBJ's rights to take the necessary measures at its discretion, regarding the administration and operation of the electronic payment systems or the provision of payment services including; the right to determine participants' access, to induce changes to the payment system as required, to review administrative structures and internal audit reports of the system, and to exclude any incompetent participants who may affect the safety, integrity and efficiency of the electronic payment system.

Moral Suasion

Discussions and meetings with entities carrying out any of electronic payment and money transfer services activities play a pivotal role in achieving the objectives of the oversight and supervision. To encourage inducing the change; the CBJ uses moral suasion through setting communication policies, convening meetings, and opening the dialogue with the entities under its oversight and supervision, and other stakeholders, as moral suasion is considered an incentive tool to present a clear and convincing case for change, relying fore mostly on the quality and strength of the assessment and the monitoring that the CBJ conducts on these entities.

Cooperation and Coordination with Other Authorities

The CBJ shall cooperate and coordinate with other supervisory authorities whose oversight and supervision scope overlap with the operations of administrating electronic payment systems and the provision of payment services. It aims to inducing change if necessary, and ensuring the



timely exchange of information, and to appropriately intervene in all payment systems and services issues.

Eighth: Cooperative and Coordinative Oversight and Supervision

Cooperation and coordination represent one of the most effective tools for conducting the oversight and supervision function. The CBJ is heading towards establishing mechanisms for cooperation and coordination, including for example, but are not limited to; signing of agreements, contracts, and memorandums of understanding, formulating task forces, convening regular meetings, and others. In this context, the CBJ aims at ensuring consistency and avoiding conflicts while implementing the policies and standards governing the work of the payment services companies and the administration and operation of the electronic payment systems in the Jordanian market. Further, the CBJ aims to reduce the costs incurred by entities under the oversight and supervision arising from complying with effective legislations, to avoid duplication in authorities in this regard.

The CBJ is also keen on providing the appropriate environment conducive to the institutionalization of coordination and cooperation with other supervisory authorities and bodies both domestically and globally, as seen appropriate. Furthermore, the oversight and supervision on national payments system department at the CBJ coordinates and cooperates with the organizational units within the CBJ, as well as the advisory or regulatory bodies concerned with the components of the national payments system in the Jordanian market such as the National Payments Council, or Arab Monetary Fund on the regional level.

□ Cooperation and Coordination among the Organizational Units within the CBJ

Achieving the CBJ's objectives of creating a secure and efficient national payments system requires full coordination among the various organizational units at the CBJ. This is accomplished through the internal cooperation between these units through, for example; sharing statistical and non-statistical information on electronic payment and money transfer services, and other payment products and services offered in the local market which need to be approved or licensed by the CBJ. The coordination process aims to ensure optimal utilization of available resources and to avoid duplication of work.

On another front, the coordination and cooperation among the organizational units that tackles the administration and operation of the payment and settlement systems at the CBJ such as the RTGS-Jo, the DEPO/x, and any other systems; to be closely overseen and supervised to mitigate



potential systemic risks they may get exposed to, and to ensure that they are in compliance with the legislations, policies and working procedures set by the CBJ thereon. This also requires cooperation and coordination with the Legal Counselor, the Risk Management Department, the Internal Audit Department, the Financial Consumer Protection Department, and any other related departments. The electronic payment systems administrated and operated by the CBJ also require close cooperation with the Information Technology Department given that it is responsible for managing the technical and technological environment of these systems.

Moreover, banks, money exchange companies, and microfinance companies are also permitted, by the legislations governing their business and the electronic payment and money transfer By-law, to carry out any of the electronic payment and money transfer services. Accordingly, the coordination and cooperation with the Banking Supervision Department, the Money Exchange Supervision Department, Microfinance Institutions and Credit Bureau Supervision Department, and other related departments, is also required given that the organizational units are responsible for regulating those sectors, in accordance with their respective mandates.

□ Cooperation and Coordination with International Authorities

Cooperation and coordination with the oversight and supervisory authorities and the competent authorities at the international level is a core element that is necessary and complementary to the CBJ's policy governing the oversight and supervision. It is an effective tool to address the increasing importance of adopting the electronic payment systems which are used globally and serving the Jordanian market as well. Accordingly, it is essential to realize that systems used worldwide and their interrelation with domestic electronic payment systems and payment services, create the need for effective cooperation between the CBJ and the central banks and international institutions responsible for the oversight and supervision of such systems. The coordination and cooperation in this regard also include the mutual adoption of generally accepted international supervision standards and guidelines, and exchanging information with those central banks and international institutions regarding the electronic payment systems' administrators used worldwide

□ Cooperation and Coordination with other Supervisory Authorities

Cooperation and coordination with other supervisory authorities within the Kingdom is a fundamental tool to ensure an effective and efficient supervision over the national payments system, given that the CBJ's oversight and supervisory responsibilities are closely linked to those of other supervisory bodies. In particular, it is recognized that each supervisory authority shall fulfill its organizational responsibilities and cooperate without prejudice to these responsibilities.



This creates the need for the CBJ to adopt agreements, contracts, and memorandums of understanding with other regulatory bodies governing the entities participating in providing payment services, and administrating and operating electronic payment systems, such as Telecommunications Regulatory Commission (TRC), which represent the oversight and supervision authority on communications network operators.

The CBJ shall sign agreements, contracts and memorandums of understanding with other supervisory authorities, whereby required coordination is in place to conduct tasks according to the responsibilities and jurisdictions of each party. The CBJ aims to exchange knowledge and expertise in the field of oversight and supervision, as well as exchange views on risk management methodologies and the appropriate supervision measures needed to be activated and latest updates. This includes assessment reports, statistical reports, crisis management measures, and other regulatory and operational requirements.

Ninth: Compliance

All companies that provide payment services or administer and operate electronic payment systems must comply with all legislations governing their business including; the CBJ law, electronic transactions law, electronic payments and money transfer Bylaw, and regulations issued thereunder specially the AML-CFT regulation. In case of breaches to these legislations, sanctions and penalties stipulated in relevant regulations shall be imposed on companies.

Tenth: Reporting on Oversight and Supervision Activities

The CBJ provides a summary about its oversight and supervision activities in its annual report on the national payments system in Jordan. The oversight and supervision reports are to be prepared periodically on a regular basis according to specific grounds, and shall be presented to the CBJ's management, based on the oversight and supervision tools used by the CBJ in conducting its oversight and supervision function, including information that may enhance the effective performance of the national payments system and its components. The CBJ also will occasionally disseminate general information to enhance public awareness regarding the developments in the indicators of the national payments system and its components via the CBJ's website and other suitable media channels.



Classification:

- ❖ Regulatory framework of oversight and supervision on national payment system policy, first edition, 2018, central bank of Jordan, oversight and supervision on the national payments system department, studies and policies division.
- ❖ This framework has been prepared pursuant to the provisions of the central bank of Jordan law no. (23) of 1971 and its amendments, the electronic transactions law no. (15) of 2015, electronic payment and money transfer bylaw no. (111) of 2017 and the financial market infrastructure standards (PFMIs) issued by the bank of settlements (BIS) in 2012.
- ❖ This document has been published on the official website of the central bank of Jordan. For further information, please contact the central bank of Jordan- oversight and supervision on the national payments system department, studies and policies division, at the following contact information
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