



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



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List of Abbreviations

Abbreviation	Description in English
ACH	Automated Clearing House System
AML	Anti-Money laundering
BIS	Bank for International Settlements
CBJ	Central Bank of Jordan
CFT	Combating of Financing Terrorism
CPMI	Committee on Payments and Market Infrastructures
DEPO/x	Depository Solution
JSC	Jordan Securities Commission
ECC	Electronic Check Clearing System
eFAWATEERcom	Electronic Bill Presentment and Payment System



FMI s	Financial Markets Infrastructure
IOSCO	International Organization of Securities Commissions
JoMoPay	Jordan Mobile Payment System
LVPS	Large Value Payment Systems
NPS	National Payment System
PS	Payment Systems
PCI-SSC	Payment Card Industry Security Standards Council
PCS	Payment Cards System
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

Concepts and 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	and	One of the Central Bank of Jordan’s functions that aims at ensuring the safety and efficiency of the national payment 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.

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



The Administrator and Operator of the Electronic Payment System	The entity duly authorized 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 provide any payment services in accordance with relevant legislations in force.
Payment Services	Procedures related to the issuance and management 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	The ability of financial market infrastructures to achieve their desired costs, reduce transaction time, and properly direct the transaction mechanism
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.



Introduction

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 it 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 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. Adel Al Sharkas



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 pursuant to its law, has the right to manage and operate any of the electronic payment systems, whether designed for payment, clearing, transfer, or settlement, including providing the appropriate infrastructure for them. Examples of such systems include the Real-Time Gross Settlement system - Jordan (RTGS-JO), which has been the cornerstone of the payments infrastructure in the Kingdom since its inception in 2002. It is a central electronic system that operates on an immediate, gross, final, and continuous basis for executing credit transfer orders. It also provides a settlement point for the payment, clearing, and transfer systems operating in the Kingdom through the central accounts of the banks participating in the system, as well as the Public Debt Management and Open Market Operations System (Depo/X).
- **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 new 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 interoperability at the national payments systems and its components.
- **An overseer and supervisor:** the CBJ undertakes the responsibility of oversight and supervision on electronic payment and money transfer companies; with the aim of regulating, monitoring, assessing, and inducing change, whenever required, to the available and planned components of the national payments system, in cooperation with relevant parties inside or outside CBJ, 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 the national payment system; 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. In addition, 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 governmental departments and 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.

□ Managing Payments technology and Innovation

Financial technology (Fintech) has increasingly had a significant impact on the financial industry worldwide, including in Jordan. Fintech can improve the efficiency, innovation, and value of financial services, contributing to the resilience and prosperity of customers and micro, small, and medium-sized enterprises in Jordan. This, in turn, supports Jordan's key goals of enabling economic growth and generating employment opportunities.

Additionally, fintech can enhance innovation and entrepreneurship, helping to accelerate the digital transformation in the financial sector, including the electronic payment and money transfer sector. This transformation is not limited to digitizing payment and transfer transactions but also involves harnessing the



potential of technology, data analytics, artificial intelligence, and blockchain technology to provide predictive insights, increase security, and streamline operations.

Fintech also leads to significant economic efficiencies that can enhance the role of the electronic payment and money transfer sector in supporting economic outputs on a broad scale. Fintech introduces competition to current payment service providers (PSPs), encouraging market-level innovation, and provides the technology and ideas necessary to facilitate innovative developments.

The presence of a vibrant and thriving local fintech ecosystem, supported by an enabling regulatory environment, will also encourage more foreign investments in startups in Jordan. Additionally, fintech can play an important role in enhancing financial stability within a legislative environment that balances supporting innovation and maintaining the integrity of the financial sector.

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 that payment systems may be exposed to

- ▽ **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

- ▽ **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



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.

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 national payment system 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 assessment methodology (PFMIs/BIS/IOSCO/CPMI:2012) shall represent the actual standards for assessing the financial markets infrastructures in the kingdom⁽¹⁾

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.

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



To promote the principle of public disclosure regarding the Central Bank of Jordan's policy on the national payments system, the Central Bank of Jordan has announced its policy on licensing electronic payment systems in the Hashemite Kingdom of Jordan, as published on the bank's website, as follows:

1. Adopting the Central Bank of Jordan's policy based on tenders for developing, operating, managing, or renewing central electronic payment systems.
2. Ensuring the availability and technical and technological interoperability at the infrastructure level to support financial stability, economic efficiency, and digitization.
3. Adopting the Central Bank of Jordan's policy based on licensing or accrediting non-centralized payment systems and licensing payment service providers to connect to or operate on electronic payment systems according to licensing requests received by the Central Bank of Jordan.

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 payment tools and the advent of any innovations will arise in the future, which are indicated as follows:

As part of the national payment system, electronic payment systems and government securities settlement systems are considered infrastructures based on the definition listed in the Principles for Financial Market Infrastructures (PFMIs). In compliance with these principles, the Central Bank of Jordan has reviewed the operating systems in the Kingdom and classified them based on systemic importance, and published them on the Central Bank's website in accordance with the disclosure framework and evaluation methodology of these principles, which mandates the regular evaluation of each infrastructure of systemic importance. It should be noted that developments in payment systems will be continuously monitored, and an annual review will be conducted to determine whether they should be considered of high systemic importance.

□ 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): These are payment systems characterized by high-value and high-importance payments. An example is the Real-Time Gross Settlement system - Jordan (RTGS-JO), which is owned, operated, and managed by the Central Bank of Jordan.

Retail Payment Systems (RPS): Retail payments consist of payment and transfer operations exchanged between members of the electronic payment system, which typically involve a large number of low-value transactions. Debit and credit transactions for each participating member are accumulated and netted to determine the net financial positions of the members. The final amount is then settled through the RTGS-JO system after netting the financial positions of the members. An example of this is:

- ◆ Electronic Check Clearing System (ECC).
- ◆ Electronic Bill Presentment and Payment System (eFAWATEERcom).
- ◆ Automated Clearing House System (ACH).
- ◆ Instant payment system (CliQ).
- ◆ Jordan Mobile Payment System (JoMoPay).
- ◆ Systems for processing and authorizing card payment transactions through point-of-sale terminals and ATMs.

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 accredited 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 pursuant to 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 accredited by the CBJ

International electronic payment systems approved by the Central Bank are systems that have received authorization from the Central Bank of Jordan, allowing the owner of the international electronic payment system to interact with payment service providers to offer electronic payment and money transfer services, in accordance with the provisions of the governing legislations and the instructions issued pursuant to them.

The CBJ is responsible for approving international electronic payment systems that offer their services in the Jordanian market, including electronic payments or electronic money transfers through their clients from financial and banking institutions (banks, exchange companies, electronic payment and money transfer companies) subject to the oversight and supervision of the CBJ or entities that provide payment services or manage and operate payment systems pursuant special laws, based on the provisions of the applicable legislations.



The Central Bank supervises and monitors these systems in coordination with relevant international entities and in accordance with the principles of international supervisory cooperation. The Central Bank has the authority to set specific conditions and requirements for the approval and operation of these systems in the Jordanian market.

It is worth noting that there are two types of international electronic payment systems providing services in the Jordanian market: one type is concerned with managing, processing, clearing, and settling payment and transfer transactions executed through electronic payment instruments, and the other type deals with processing, clearing, and settling electronic money transfer transactions.

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 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, 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 related to the system, including operations rules and procedures of the system or providing the service and business continuity plan and other documents.
- ❖ System self-evaluation. It is the responsibility of the system's administrator and operator to carry out; to ensure that they meet the specified minimum requirements.
- ❖ External Audit reports. Particularly on the operations 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 the nature of their businesses.
- ❖ 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, judging the extent of compliance with the safety and efficiency standards or lack thereof. 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 principles of financial market infrastructures (PFMIs).
- ▽ 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. 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 execution of the credit/debit E-payment transactions including mobile payment.**
- ❖ **Electronic money acquiring services.**
- ❖ **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**

Under the provisions of Article (17) of the above-mentioned bylaw, the manager and operator of the electronic payment system, under the license granted by the Central Bank, are allowed to engage in any of the following activities:

- ❖ **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.**

Under the provisions of Article (3) of the above-mentioned system, any entity engaged in payment services or the management and operation of electronic payment systems under special laws is exempt from obtaining a license from the Central Bank. However, the Central Bank retains the right to issue special orders to these entities, including the minimum necessary technical and operational requirements.

In a related matter, the same article above permits foreign companies to engage in any payment services or the management and operation of electronic payment systems through a branch registered according to the provisions of the Companies Law, after meeting the conditions and requirements specified by the Central Bank through special instructions that outline the procedures for granting and revoking licenses. In this case, the company is entitled to operate through the branch in the same manner as Jordanian companies licensed



under the provisions of the aforementioned system. Additionally, the Central Bank has the right to accredit any internationally used electronic payment systems according to the conditions and requirements it specifies, and to restrict those approved systems to only deal with entities licensed by the Central Bank or exempt from the provisions of the aforementioned system.

□ **Off-Site Oversight and Supervision**

The Central Bank undertakes the function of collecting and analyzing statistical data and information related to the payments sector regularly or as needed. This data is then interpreted and linked to statistical and economic indicators as essential and supportive tools for supervisory and oversight functions. Through this function, the Central Bank aims to achieve the following objectives:

- 1- Verifying the compliance of electronic payment and money transfer companies licensed pursuant to the provisions of Electronic Payment and Transfer Bylaw to the relevant regulations.
- 2- Monitoring the growth, development, evaluation, and tracking of the payments sector to ensure its stability and efficiency.
- 3- Evaluating the impact of growth in payment systems, means, and tools on comprehensive economic and social development and achieving financial inclusion in the Kingdom. This involves ensuring safe access to and use of 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.
- 4- Tracking and analyzing the behavior of customers segments, and preferable payment methods offered to them, and analyze market trends.

The Central Bank also analyzes the financial status of licensed electronic payment and money transfer companies according to the provisions of bylaw mentioned above. This analysis includes the income statement, the balance sheet, the cash flow statement, and any explanatory notes that may affect the companies' performance and risk assessment, such as liquidity risks, as it is reflected on the national payments system.

As previously mentioned, 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, and adhere to the related approved inspection methodology. This aims to examine the technical, technological, and operational 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 with the management of electronic payment systems and payment services providers, in a clear and timely manner, 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 CBJ carries out on-site oversight and supervision over all entities under its oversight and supervision, according to an annual plan that takes into consideration the size and risk of the entities under the Central Bank's supervision - those within the scope of the Oversight and Supervision on the National Payment systems Department - and the nature of the systems they manage or the services they provide, as well as the commitment of administrators and operators of the electronic payment systems and payment services providers to undertake by the corrective actions determined by the Central Bank.

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 consideration relative importance and degree of risks, based on the approved inspection methodologies.

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.

□ 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.

Additionally, banks are permitted, in accordance with the provisions of the Banking Law, to manage and operate electronic payment systems provided they apply for a license in accordance with the provisions of the Electronic Payment and Money Transfer bylaw. Exchange companies, while observing the provisions of the Money Exchange Law, are allowed to engage in any payment service activities except for electronic money transfers—since they are already licensed to perform this activity under the provisions of the Money Exchange Law—or to manage and operate electronic payment systems, provided they apply for a license in accordance with the Electronic Payment and Money Transfer bylaw. This requires coordination and cooperation with the Banking Supervision Department, the Money Exchange Supervision Department, and other relevant departments, as they are the organizational units responsible for regulating these sectors, each according to its specialization.

□ 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.

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