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EUROPEAN COMMITTEE ON CRIME PROBLEMS
(CDPC)

COMMITTEE OF EXPERTS
ON THE EVALUATION OF ANTI-MONEY LAUNDERING MEASURES
AND THE FINANCING OF TERRORISM
(MONEYVAL)

THIRD ROUND DETAILED ASSESSMENT REPORT ON ISRAEL[1]

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

SUMMARY

Memorandum
Prepared by the Secretariat
Directorate General of Human Rights and Legal Affairs (DG-HL)

[1] Adopted by MONEYVAL at its 27th plenary meeting (7-11 July 2008).

EXECUTIVE SUMMARY

1. Background Information

1. This report provides a summary of the AML/CFT measures in place in Israel as at the date of this first on-site visit by MONEYVAL from 4th to 12th November 2007, or immediately thereafter. It describes and analyses the measures in place and provides recommendations on how certain aspects of the system could be strengthened. It also sets out Israel's level of compliance with the FATF 40 + 9 Recommendations.

2. The overall threat to the state of Israel from organised criminal activity and related money laundering is considerable. The Israeli authorities consider that the major proceeds-generating offences associated with organised crime to be illicit drugs, illegal gambling, extortion, fraud and human trafficking. The level of money laundering in Israel by individuals living abroad or by organised crime groups operating from outside Israel is difficult to quantify, but the Israeli authorities consider that their financial institutions to be vulnerable to international money laundering from individuals and transnational groups from the countries of the ex-Soviet Union, the United States of America and Europe. The authorities are equally conscious of the potential risks of illicit assets entering the Israeli financial system as an inadvertent result of open immigration policies. In addition, the ways in which money is laundered in Israel are constantly developing in response to local legislative and law enforcement initiatives. Today domestic money laundering is increasingly undertaken through ostensibly legal enterprises with requisite invoicing and audited statements, while transnational criminals are known to use multinational layering schemes and complex corporate structures, frequently involving off-shore centres.

3. The Prohibition on Money Laundering Law (PMLL) was enacted in August 2000. The PMLL creates money laundering offences and specific forfeiture provisions and empowers the Minister of Justice to establish an FIU, which became operational in February 2002. The Proper Conduct of Banking Business Directive, No. 411 (hereafter "Directive 411") issued in 2002 requires banking corporations to include in their procedures rules for defining high risk customer accounts with regard to the prohibition on money laundering and the financing of terror, and requires corporations to operate appropriate intensified systems for monitoring these customers' accounts and to follow up on high-risk accounts. More recently, the Israeli Government has articulated policy guidelines for AML enforcement in Government Decision N° 4618 of 1 January 2006, which explicitly prioritises the attack on illicit proceeds as a primary objective in combating serious and organised criminal activity.

4. The threat of terrorism has also been considerable in Israel since its independence. In response, the country has developed an extensive network of government authorities, a body of domestic legislation, a range of practical policies as well as an intense commitment to combat terrorism in all its forms. At the time of the on-site visit, the main recent legislative instrument was the Prohibition of Terrorist Financing Law 2005, which became effective on 1 August 2005 and is largely based on the International Convention for the Suppression of the Financing of Terrorism (1999) ratified by Israel on 19 December 2002.

5. The evaluators found overall a working AML/CFT system though gaps were identified, several of which had already been identified by the Israeli authorities. A notable gap is that DNFBP are not currently within the scope of the legislation. This needs urgent attention. There are problems in respect of what sometimes can be significant financial

thresholds, which unduly restrict AML/CFT requirements in both the preventive and repressive regimes. Israel's separate and complex legislative approach on the preventive side, though permitting flexibility to the system, sometimes results in an inconsistent application of standards across the financial sector.

6. Nevertheless there have been numerous investigations, prosecutions and convictions for both money laundering and financing of terrorism. More work is needed to enhance the effectiveness of the confiscation regime in some areas as outlined beneath, and the regime for giving effect to SRIII still needs to be more embedded in practice.

2. Legal Systems and Related Institutional Measures

7. Israel has put in place legislative provisions to criminalise money laundering which are largely in accordance with international standards and expectations. However, failure to include piracy and environmental crimes in the First Schedule of the PMLL is not in conformity with FATF Recommendation 1. Moreover, the value threshold in section 4 PMLL should be removed. Of greater concern was the inclusion within section 4 PMLL of wording intended to ensure that the concept of "wilful blindness" does not apply in this context. Though not inconsistent with existing international standards, this "carve-out" limits the full potential of section 4 in practice.

8. The most recent legislative enactment governing the criminalsation of the financing of terrorism is the Prohibition on Terrorist Financing Law (2005) (PTFL). Taken together with earlier legislative provisions Israel has adequately covered terrorist financing as required by SRII, and there have been numerous relevant convictions. The PTFL also has a significant extraterritorial reach, as well as encompassing financing of an individual terrorist.

9. Israel has put in place a modern and robust system for the confiscation of criminal proceeds in respect of a limited number of important areas, including money laundering, Drug Trafficking and organised crime. However there is a need to extend modern legislation on confiscation and provisional measures to the full range of predicate offences, as the relevant Criminal Procedure Ordinance provisions are less obviously focused on the confiscation of criminal proceeds as reflected in the international standards (e.g. in relation to value confiscation and indirect proceeds).

10. Israel has for many years focused in practice on the freezing and subsequent confiscation of funds used for the financing of terrorism. PTFL, which is central to current efforts, was enacted mainly to better enable Israel to give effect to its obligations under Chapter VII of the UN Charter in this sphere. However, the somewhat indirect manner in which the legislative drafters approached this matter has resulted in a situation in which the law overlaps with the requirements and the spirit of the UN Resolutions rather than replicating them in a more exact and technical fashion. Regulations under S.2 PTFL with regard to communicating declarations by the Ministerial Committee only came into effect within 2 months of the onsite visit, and the effectiveness of implementation could not be judged. There is a clear need for comprehensive and focused guidance to financial institutions as to their obligations under the Security Council Resolutions.

11. The FIU for Israel is the Money Laundering and Terrorism Financing Prohibition Authority ("IMPA"). The agency has a dual function: firstly as a database supporting the police and security services at their request; secondly as an analytical unit processing disclosures with a view to their dissemination to the competent authorities. Conceptually IMPA is, though important, not a central player in the whole of the Israeli AML/CFT system. IMPA, within its legal confines, performs its assignment in a well

organised and professional manner resulting in a quality output. It has developed a relationship of trust with the reporting entities. It has dedicated staff and a performing informatics system. IMPA's efficiency as an analytical unit is affected by incomplete direct access to relevant law enforcement and administrative information. The information provided by the Israeli authorities as a result of the reports it has received from financial institutions shows a broad upward curve of disseminations from IMPA to law enforcement between 2002-2007. The degree to which information reports from IMPA over the years is said to have contributed to law enforcement activity appears to have been variable. In the last two years 17 information reports provided by IMPA led to significant progress in police investigation. IMPA undoubtedly has the expertise in house to play a more substantial role and become a real driving force in the AML/CFT system. Because of the rule of post transaction reporting IMPA's role remains predominantly reactive, which may lead to relevant information reaching the Police in an untimely way. IMPA should try to speed up reporting to and from the FIU. It is particularly important that reports from the FIU are quickly received by the Police where asset restraint and recovery is still possible.

12. Israeli law enforcement are well organised and have the appropriate resources and powers to conduct effective investigations. It is unfortunate that the FIU reports are not more fully exploited by the IP, and effectiveness could be enhanced if opportunities for more fully exploiting FIU intelligence were considered.

13. The legal and organisational framework of the border control is comprehensive (though not all bearer negotiable instruments are covered), with the Customs adequately targeting asset detection and supporting the AML/CFT law enforcement effort. The threshold declaration regime is too high under the immigrant rules pursuant to the law of Return.

3. Preventive Measures – financial institutions

14. The obligations on financial institutions derive from chapter 3 of the PMLL. Section 7 (a) provides for a machinery for Orders to be made imposing obligations on banking corporations. Section 7 (b) provides a similar statutory mechanism for making Orders to impose obligations of customer identification, record keeping and submission of unusual activity reports (UARS) on the financial institutions listed in the Third Schedule. The relevant implementing provisions cover banking corporations, members of the stock exchange (the Tel Aviv Stock Exchange is the only stock exchange operating in Israel), portfolio managers, insurers and insurance agents, provident funds and companies managing provident funds, the postal bank and money service business. The FATF requirements are covered in the 7 Orders (which are "Regulations" for the purposes of the Methodology) and other measures. The legislative architecture, as noted above, creates a complex legal structure. Specifically the different Orders have to be amended every time there is a need to bring other financial activities under the scope of CDD measures. The examiners advise that this legislative approach to CDD requirements should be revisited. Moreover the applicable thresholds in the relevant Orders need bringing into compliance with FATF standards or formulated in a more coherent manner.

15. Customer identification requirements are governed by the PMLL and the seven Orders (supplemented by Directive 411, which for the purposes of the Methodology is "other enforceable means"). Together they require that financial institutions shall not open an account or enter into a contract without fulfilling identification obligations. Essentially the Banking Order as amended by Directive 411 provides comprehensive coverage of customer due diligence and enhanced diligence but there are gaps in the remaining Orders, such as inconsistent thresholds or beneficial ownership requirements

due to the separate legislative approach of separate Orders. The definition of benefeciary in the PMLL broadly coincides with the FATF definition of beneficial owner. In the Banking Order there is an exemption from registering a beneficiary if an account which an attorney, a rabbinical pleader, or an accountant wishes to open for his clients, where the balance in the account at the end of every business day does not exceed NIS 300,000 (~69,000$), and no transaction exceeds NIS 100,000 (~23,000$). This exemption raises concerns, particularly as an account of this type may be opened with a number of different and currently unregulated professionals.

16. Verification of the beneficial owner is not an obligation in Law or Regulation, as the Methodology requires, though there may be some level of effective implementation in practice of the verification obligation by the banks. Nevertheless the evaluators were concerned that the separate concepts of identification and verification in higher risk situations are not completely understood and reflected in practice. Moreover requirements for ongoing due diligence are not generally in place other than for banking corporations (covered in 'other enforceable means') where the standards of ongoing due diligence seems to be at an acceptable level. There are no requirements in place for enhanced due diligence other than for banking corporations. The limited Israeli definition of Politically Exposed Person (PEP) is applicable only to banks.

17. The extent to which the existing regulations are effectively implemented in the various sectors differ; the guidance given by the different supervisors, the number of unusual transaction reports provided to IMPA, the number of investigations commenced or concluded and the sanctions applied so far seem to show less effective implementation of the standards by the Postal Bank, Insurance sector, Provident Funds and Money Service Businesses.

18. Section 7 of the Bank Order requires banking corporations to retain the identification certificates or photocopies thereof for at least seven years after the account is closed or a transaction has been carried out. There is no obligation to keep other documents reflecting other details of the transaction carried out by the client nor are there specific guidelines or other enforceable requirement mandating banking corporations to keep all documents which record the details of all transactions carried out by the client in the course of an established business relationship. The other Orders carry similar obligations regarding the retention of identification documents, most for a period of seven years. However, there is not a general requirement to keep documents longer than 5 years if requested by a competent authority for banks or any other financial institution. Several of the Orders have financial thresholds for the retention of documents, which should be removed. Furthermore, there is no guidance providing details of the types of transaction document to be kept (credit/debit slips, cheques, reports, client correspondence).

19. The Directive 411 also governs wire transfers for banking corporations. Every cross-border transfer of cash, securities or other financial assets must include the name of the account holder and the number of the account and the name and account number of the payee. There is no such obligation for domestic wire transfers. Section 27 (b) of Directive 411 requires banking corporations to operate a computerized database of money transfers from and to high-risk countries. The Israel Authorities may wish to consider similar requirements for all wire transfers as a tool to maintain information on the originators of wire transfers. In addition, under the Postal Order, the Postal bank is allowed to carry out a transaction without identifying the party performing the transaction and recording the name and identity number of that party if the value of the transaction is less than NIS 50,000. Moreover, there is no requirement for all financial institutions requiring them to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information,

although it is obligatory for banks and stock exchange members to report these cases as unusual transaction reports. There is also no requirement that all incoming or outgoing cross-border wire transfers (including those below USD/Euros 1,000) contain full and accurate originator information.

20. There is a general obligation imposed on banking corporations and other financial institutions under Section 7 PMLL to report (to IMPA) as specified in the Orders made pursuant to PMLL for transaction reporting. The various Orders relevant to the financial sector contain broadly similar obligations which can be characterised as unusual transaction reporting, which was defined in 2004 guidance to mean reporting where there is reason to believe that there is a connection to money laundering. It should be noted that the existence of various different thresholds in some of the Orders sends the wrong signals in respect of unusual transaction reporting and should be removed. Proposed amendments will delete these thresholds. The Israeli Authorities advised that attempted unusual transactions were in practice covered in Article 9 of the Banking Order, however the examiners recommend that for the avoidance of doubt this obligation should be made explicit.

21. As regards the effectiveness of the UTR reporting regime by financial institutions, it was noted that in 2006 almost 92 % of the reports came from banks and the numbers from the other parts of the financial sector are low and still more outreach to these parts of the financial sector would be beneficial.

22. With regard to SRIV, the Prohibition on Money Laundering (The Banking Corporations' Requirement regarding Identification Reporting and Record-keeping for the Prevention of Money Laundering and the Financing of Terrorism) Order 2001 as amended on 8th November 2006 is now specifically issued both under the PMLL and PTFL. S.9 of the Order is the mandatory unusual transaction reporting obligation to the competent authority (IMPA) for the banks. The reporting regime on unusual transactions and the 2004 guidance referred to above now applies *mutatis mutandi* to terrorist financing. S.10 (a) and (b), which the Israeli authorities advised should be read together, essentially create an additional terrorist financing reporting obligation to the police. S.10 (b), which states that one who is obligated under s.7 PMLL may submit reports to IMPA, caused the evaluators particular uncertainty. The Israeli authorities advised that the legislative intention was that s.10 (b) should in no way override the s.48 reporting obligation to the FIU. Nonetheless, it is very confusing and s.10(b) PTFL should be revisited.

23. The FIU had received unusual transaction reports relating to FT in each of the years 2004-2008.

24. Competence for supervision of compliance with AML/CFT requirements does not lie with a single authority in Israel. The respective authorities responsible for prudential supervision and licensing of the financial institutions are responsible for AML/CFT compliance supervision as a part of prudential supervision. As well as the powers to supervise for AML matters, in place since 2002, the power to supervise CFT issues for all regulators was introduced in the PTFL and therefore AML/CFT specific inspections have been fully in place in Israel in all parts of the financial sector since 2005. However, insufficiently comprehensive guidance has been given on CFT issues to the financial sector. All supervisory authorities have the necessary powers to require relevant documents. The supervisory authorities have generally adequate legal structures to prevent criminals from controlling financial institutions. As far as the licensing procedures in the financial market are concerned, these are broadly in line with the relevant European Union legislation and FATF Recommendations, as are the arrangements for supervision on AML for banking corporations, portfolio managers,

insurers and stock exchange members. However, the inadequacy of staffing numbers in the Ministry of Finance and Ministry of Communication and the lack of adequate and relevant training for them, as well as frequent use of outsourcing, means that this area of AML/CFT supervision is very weak. While the evaluators took note that the IMPA is represented on all sanctioning committees, there is no mechanism for ensuring that an appropriate and sufficient level of supervision is consistently implemented across the whole financial sector. Guidance also needs to be consistent and coordinated across the financial sector. A range of financial sanctions have been imposed on financial institutions by the relevant Sanctions Committees as a result of AML/CFT supervisory action.

25. Regarding the field of Money Service Businesses, the PMLL establishes definitions, registration procedures, and powers of inspection and enforcement. The general deficiencies in the CDD regime outlined above materially affect the compliance of the MVT service operators with the FATF Recommendations overall (including deficiencies related to existing thresholds, enhanced due diligence, information on the purpose and intended nature of the business relationship and ongoing due diligence).

4. Preventive Measures – Designated Non-Financial Businesses and Professions

26. The Israeli authorities recognise that their system of preventive measures has yet to be extended to DNFBP. Consequently, there are no customer due diligence requirements placed upon real estate agents, dealers in precious metals or stones, lawyers, notaries, other independent legal professionals and accountants or trust and company service providers. Given the large number of professionals acting in Israel, it is important that progress is made on this rapidly.

27. Furthermore, as there are no relevant AML/CFT requirements, there is no relevant supervision or monitoring. Dealers in precious stones are currently subject to a framework of internal procedures on a self-regulatory basis though this does not cover monitoring on AML/CFT issues in the absence of legal obligations in this area.

5. Legal Persons and Arrangements & Non-Profit Organisations

28. In Israel there are two principal forms of incorporation: corporations and "amutot". The Companies Law has applied to corporations since 1999 and the Law of Non-Profit Organisations has applied since 1980 to amutot which generally covers the concept of associations. In accordance with the Israeli law which applies to corporate entities generally a central database exists for each of the various types of corporate entity which is overseen by the Registrar of Corporate Entities. However, information on the Companies Register relates only to legal ownership and control (as opposed to beneficial ownership) and is not verified and is not necessarily reliable. It appears therefore from the information received that Israeli law does not require transparency concerning beneficial ownership and control of legal persons at the Registry. The problem of transparency is exacerbated by the matter of bearer shares. No mitigating measures appear to have been taken to ensure that legal persons able to issue bearer shares are not misused for money laundering.

29. Concerning the beneficial ownership of private and foreign trusts, Israel basically relies on the investigatory powers of law enforcement to obtain or have access to information as well as access to information available on the register in relation to public trusts. Currently there is little information available on the beneficial owners of private or foreign trusts and no legal requirements on trust service providers to obtain, verify and retain records of the trusts they create, including beneficial ownership details.

30. The two principal types of non-profit bodies are the amutot (associations) and public welfare/benefit corporations. It is clear that the risks associated with the non-profit sector are being monitored; in discussions with the Security Services it was apparent that they pay particular attention to abuses of non-profit organisations for the purposes of terrorist financing. The regulator promptly shares information with law enforcement and vice-versa. Yet, the adequacy of the law overall in this area remains as yet to be reviewed and no specific outreach programme to raise awareness has commenced.

6. National and International Co-operation

31. All national agencies active in the AML/CFT areas cooperate with each other within their legal authority, in the form of exchange of information, joint investigations and other coordination activity. They are well organised ensuring structural coordination between diverse areas of expertise. One example is the recent creation and operation of a joint intelligence body bringing together permanent professionals of the IP, the Tax Authority and IMPA (the Intelligence Fusion Centre). The AML/CFT effort is also subject to regular review and evaluation, which has led to several initiatives in order to improve the fight against serious and organised crime.

32. Israel is a party to the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the UN International Convention against Transnational Organised Crime, and the UN International Convention for the Suppression of the Financing of Terrorism. In each sphere implementing legislation is in place. Israeli participation in the treaty regime has positioned Israel to play an important and constructive role in the provision of international co-operation in the AML/CFT sphere and more generally. However there remain concerns about the effectiveness of the implementation of some of the preventive standards in the UN International Convention for the Suppression of the Financing of Terrorism, including identification of the beneficial owner and obligations on other professions involved in financial transactions.

33. Israel has in place a well developed, modern and comprehensive system for the provision of international assistance in criminal matters and it is evident that this is being utilised with some frequency in practice in an AML/CFT context. While the system as a whole seemed to be operating effectively that relating to confiscation assistance appeared to have attracted little or no practice to date.

34. Action needs to be taken to extend the range of offences in respect of which confiscation international assistance can be provided so as to bring about full formal compliance with Recommendation 38. The laws of Israel also permit extradition for money laundering, the financing of terrorism and other terrorism related activities in compliance with Recommendation 37, 39 and SR.V.

35. Finally, Art. 30(f) of the PMLL provides for mutual assistance and exchange of information between IMPA and its foreign counterparts. The law enforcement authorities are capable and willing to provide international co-operation and information exchange at intelligence level, *i.e.* outside the mutual legal assistance and extradition context. This form of assistance is a matter of daily practice. All requests are broadly complied with for intelligence purposes. Coercive and actual investigative measures are excluded, as they require the MLA procedure. The same goes for IMPA, which has a dynamic and constructive approach towards FIU to FIU co-operation and is very active on the international scene. The internal restraints in respect of IMPA's access to supplementary information naturally spill over into the international domain, limiting its capacity to give full assistance to its counterparts, particularly in respect of law enforcement information. This should be addressed together with the review of

IMPA's domestic powers of enquiry. Co-operation between Israeli supervisory authorities with their foreign counterparts is developing through bilateral and multilateral agreements.

7. Resources and statistics

36. Not all authorities keep fully comprehensive statistics, particularly on judicial mutual legal assistance, and on administrative international cooperation. Most relevant authorities have sufficient staff, with the exception of supervisory authorities in the Ministry of Finance and the Ministry of Communications.

TABLE 1. RATINGS OF COMPLIANCE WITH FATF RECOMMENDATIONS

Forty Recommendations	Rating	Summary of factors underlying rating[2]
Legal systems		
1.Money laundering offence	**Largely compliant**	• Piracy and environmental crimes not predicate offences. • Threshold approach in section 4 needs to be removed.
2. Money laundering offence Mental element and corporate liability	**Compliant**	
3. Confiscation and provisional measures	**Partially compliant**	• Need to extend modern legislation on confiscation and provisional measures to the full range of relevant predicate offences. • Effectiveness concerns in respect of confiscation in areas not covered by modern legislation.
Preventive measures		
4. Secrecy laws consistent with the Recommendations	**Compliant**	
5. Customer due diligence	**Partially compliant**	• Requirement in respect of numbered accounts are presently covered by Directive 411 but need to be in law or regulation. • The issuing of a credit or debit card has been covered by Directive 411 since 2002. Only since 12 June 2007 it was covered in the Banking Order (law and regulation issue). • Investment-related insurance activities so far have not been covered by any regulation. • The Postal Bank has –if no CTR report is required- no obligation to take CDD measures below the applicable thresholds that vary from NIS 50.000 to NIS 1.000.000 depending on the type of transaction. • As the activities of the Insurers and Insurance Agents (for which the threshold of NIS 20,000 is applicable) seems not to be occasional, the threshold is not in line with the Methodology. • Although CDD measures for occasional wire transfers are also caught under article 2 (f) and (g) of the several

[2] These factors are only required to be set out when the rating is less than Compliant.

		Orders, the Orders do not specify the lower limit of USD 1,000 except for some specified countries mentioned in the Order. For the banking sector it is also covered below the threshold. • Currently, there is no requirement in law or regulation in place that requires financial institutions to pursue due diligence if it has doubts about the veracity or adequacy of previously obtained customer identification data, except for portfolio managers. • The Insurer and Insurance Agent Order and the Provident Fund Order contain designated thresholds above the FATF limits for verification of NIS 20,000. • Verification of beneficial owners or holders of controlling interests is not an obligation in law or regulation. • The evaluators are concerned that the separate concepts of identification and verification in higher risk situations are not fully reflected in practice. • No sufficiently explicit obligation for financial institutions to obtain information on the purpose and intended nature of the business relationship. • Requirements for ongoing due diligence not in place for the financial institutions other than banking corporations, for which they are in other enforceable means, but not in law or regulation. • No requirements in place for enhanced due diligence other than banking corporations. • The Banking Order has an exemption regarding registering a beneficiary if an account which an attorney, a rabbinical pleader, or an accountant wishes to open for his clients. Although the risk is minimised by the existing thresholds, the exemption raises concerns, particularly as more than one such account may be held with a number of currently unregulated professionals. • Less effective implementation of R.5 by the Postal Bank, Insurance sector, Provident Funds and Money Service Businesses.
6. Politically exposed persons	**Partially compliant**	• The limited Israeli definition of a PEP is applicable only to banking corporations. • Family members and close associates of PEPs are not covered. • Establishing business relationships with PEPs by banking corporations not fully covered (limited only to account opening). • Senior management approval for establishing business relationships with PEPs only partly covered in respect of banking corporations. • No provisions for banking corporations (or any other part of the financial sector) to seek senior management approval where a customer is subsequently found to be a PEP or becomes a PEP.

7. Correspondent banking	**Largely compliant**	• Although high risk situations are covered for other situations no requirement for obtaining approval from senior management for new correspondent relationships. • As far as banking corporations are concerned essential criteria 7.4 and 7.5 are not covered.
8. New technologies and non face-to-face business	**Largely compliant**	• Israel has not implemented adequate measures for the non-banking sector.
9. Third parties and introducers	**N/A**	
10. Record keeping	**Partially compliant**	• Established thresholds for retaining of the documents should be removed. • No requirement to keep all the documents recording the details of all transactions carried out by the client in the course of an established business relationship. • No general requirement in Law or Regulation to keep documentation longer than 5 years if requested by a competent authority. • Decree on Post Bank not in Law or Regulation
11. Unusual transactions	**Partially compliant**	• While there are requirements in place for banking corporations for ongoing due diligence, there are no such requirements for the others (portfolio managers, stock exchange members, insurance companies, provident funds, money service businesses and the Post Bank). • The requirements in place for banking corporations imply examination of purpose and intent. The other Orders do not have sections that require active examination • Most Orders (other than the Banking Order) only contain sections that require financial institutions to preserve the document of instruction for performance of the transaction reported to the competent authority for a term of at least seven years. This does not cover the obligation of criterion 11.3 (to keep the findings of the examination available for competent authorities for at least five years) completely, for sectors other than banking.
12. DNFBP – R.5, 6, 8-11	**Non compliant**	• Currently there are no CDD obligations for real estate agents, dealers in precious metals and stones, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants.
13. Suspicious transaction reporting	**Largely compliant**	• Some thresholds in some of the Orders may send the wrong signals that only transactions above particular thresholds should be reported. • Low number of reports from non-bank financial institutions. • Concerns on the overall effectiveness in relation to the timeliness of the reporting system.
14. Protection and no Tipping off	**Largely compliant**	• Tipping off only covered with regard to the existence or non-existence of the report for all financial institutions

		but not to all related information outside of banking corporations.
15. Internal controls, compliance and audit	**Partially compliant**	No general enforceable requirements to: • establish and maintain internal procedures, policies and controls to prevent money laundering and to communicate them to employees in non-banking sector; • designate compliance officers at management level in the non-banking financial sector; • ensure compliance officers in the non-banking financial sector have timely access to information; • maintain an adequately resourced and independent audit function to test compliance with AML/CFT procedures, policies and controls in the non-banking financial sector; • establish ongoing employee training outside banking corporations; • put in place screening procedures; • ensure high standards when hiring employees.
16. DNFBP – R.13-15 & 21	**Non compliant**	• Currently there are no reporting obligations upon real estate agents, dealers in precious metals, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants. (Recommendation 13). • The associated requirements in Recommendations 14, 15 and 21 are not applied to DNFBP.
17. Sanctions	**Compliant**	
18. Shell banks	**Largely compliant**	• Measures to prevent the establishment of shell banks are not sufficiently explicit. • There is no specific enforceable obligation that requires financial institutions to satisfy themselves that respondent financial institutions in a foreign country do not permit their accounts to be used by shell banks.
19. Other forms of reporting	**Compliant**	
20. Other DNFBP and secure transaction techniques	**Partially compliant**	While some steps have been taken under Criterion 20.2, no steps have been taken so far to consider coverage of DNFBP beyond those defined by FATF
21. Special attention for higher risk countries	**Partially compliant**	• Only banking corporations are covered. • No clear requirement to examine as far as possible the background and purpose of transactions with such countries with no economic or visible lawful purpose • There are no specific requirements for financial institutions to set forth their findings in writing and to keep the findings available to assist competent authorities. • Limited range of counter-measures available
22. Foreign branches and subsidiaries	**Partially compliant**	• No general obligation for all financial institutions which ensures their branches and subsidiaries observe AML/CFT measures consistent with home

		requirements and the FATF Recommendations to the extent that host country laws and regulations permits; • There is no requirement to pay particular attention to situations where branches and subsidiaries are based in countries that do not or insufficiently apply FATF Recommendations; • Provision should be made that where minimum AML/CFT requirements of the home and host countries differ, branches and subsidiaries in host countries should be required to apply the higher standard to the extent that local (i.e. host country) laws and regulations permit; • No general obligation to inform the home country supervisor when a foreign branch or subsidiary is unable to observe appropriate AML/CFT measures.
23. Regulation, supervision and monitoring	**Partially compliant**	• The reliance upon outsourcing of supervision of AML/CFT in the Ministry of Finance and Ministry of Communication is a source of concern. • No mechanism for ensuring that an appropriate and sufficient level of supervision is consistently implemented across the whole financial sector • Insufficient evidence of effective supervision in MSBs and the Postal bank.
24. DNFBP - Regulation, supervision and monitoring	**Non compliant**	• Currently there are no AML/CFT obligations on relevant DNFBP and therefore no systems for monitoring compliance with AML/CFT obligations for real estate agents, dealers in precious metals, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants. • While dealers in precious stones are currently subject to a framework of internal procedures on a self regulatory basis (this does not cover AML/CFT).
25. Guidelines and Feedback	**Partially compliant**	• Insufficient guidelines on CFT issues provided to the financial sector. • Insufficient guidance on PMLL issued to the Postal Bank, the insurance and provident funds sector and the money service businesses. • Such guidance as is issued is uncoordinated across the financial sector. • More case specific feedback required. • No guidelines for DNFBP
Institutional and other measures		
26. The FIU	**Largely compliant**	• IMPA's efficiency as an analytical unit is affected by the incomplete direct access to relevant law enforcement and administrative information. • Timeliness of the IMPA reports needs improvement
27. Law enforcement	**Largely**	• Effectiveness could be enhanced if opportunities for

authorities	**compliant**	more fully exploiting FIU intelligence were considered and acted upon as appropriate
28. Powers of competent authorities	**Compliant**	
29. Supervisors	**Compliant**	
30. Resources, integrity and training	**Largely compliant**	• Insufficient supervisory staff in the Ministry of Finance and Ministry of Communications and lack of adequate training for Ministry of Finance and Ministry of Communications supervisors.
31. National co-operation	**Compliant**	
32. Statistics	**Largely compliant**	• IMPA statistics on requests and dissemination differ from the Police. • No fully comprehensive statistics on judicial mutual legal assistance. • Incomplete statistics on administrative international co-operation (Recommendation 40).
33. Legal persons – beneficial owners	**Partially compliant**	• Information on the Companies Register relates only to legal ownership and control (as opposed to beneficial ownership) and is not verified and is not necessarily reliable.. • Weaknesses described in respect of verification of beneficial ownership information in R 5 are relevant in the context of the investigative route • Unclear how many companies are on bearer shares and no specific measures have been taken to ensure that legal persons which are able to issue bearer shares are not misused for money laundering and that the principles set out in criteria 33.1 and 33.2 apply equally to legal persons that use bearer shares.
34. Legal arrangements – beneficial owners	**Partially compliant**	• Currently there is little information available on the beneficial owners of private or foreign trusts. • No legal requirements on trust service providers to obtain, verify and retain records of the trusts they create, including beneficial ownership details.
International Co-operation		
35. Conventions	**Largely compliant**	• Concerns about effectiveness of implementation of some of the preventive standards in UN International Convention for the Suppression of the Financing of Terrorism (eg. identification of the beneficial owner). • No preventive obligations on other professions involved in financial transactions as required by the UN International Convention for the Suppression of the Financing of Terrorism.
36. Mutual legal assistance (MLA)	**Compliant**	

37. Dual criminality	**Compliant**	
38. MLA on confiscation and freezing	**Largely compliant**	• Limited range of offences contained in Schedule 2 of the 1998 Law. • Concerns over effectiveness.
39. Extradition	**Compliant**	
40. Other forms of co-operation	**Largely compliant**	• Access to law enforcement information restricted.
Nine Special Recommendations		
SR.I Implement UN instruments	**Largely compliant**	• Lack of full formal compliance with Security Council Resolution 1267 (1999). • Effectiveness concerns given recent promulgation of the PTFL Regulations.
SR.II Criminalise terrorist financing	**Compliant**	
SR.III Freeze and confiscate terrorist assets	**Partially compliant**	• Technical shortcomings in giving effect to S/C Res. 1267 (1999) and 1452 (2002) • Effectiveness concerns given the recent promulgation of the PTFL Regulations • Need for comprehensive and focused guidance to financial institutions as to their obligations under Security Council Resolutions.
SR.IV Suspicious transaction reporting	**Largely compliant**	• S.10 (b) PTFL needs revisiting to avoid any confusion as to the mandatory nature of STR reporting on FT to the FIU, as provided for in s.48 PTFL. • Attempted transactions not explicitly covered; • Some thresholds in some of the Orders.
SR.V International co-operation	**Largely compliant**	• Access to law enforcement information restricted.
SR.VI AML requirements for money/value transfer services	**Partially Compliant**	• There are deficiencies identified earlier in this report in respect of CDD and RC 15, 21 which materially affect the compliance of the MVT service operators with the FATF Recommendations overall.
SR.VII	**Partially Compliant**	• No "full" originator information required to accompany cross-border wire transfers for the Postal Bank and other relevant non-banking institutions. • The Postal Bank's lower threshold of NIS 50,000 is too high to exempt cross-border transfers from the requirements of SR.VII. • No requirement on each intermediary and beneficiary financial institution in the payment chain to ensure that all originator information that accompanies a wire transfer is transmitted with the transfer. • No requirement to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information.
SR.VIII	**Largely compliant**	Though important steps are being taken: • No evidence that the adequacy of the law on Non-Profit

		Organisations overall had been formally reviewed. • No specific outreach programme to raise awareness had commenced. • Unclear whether detailed domestic and international transaction records are kept. • Threshold for identification of significant donors needs reviewing. • Gateways for international information sharing need clarifying.
SR.IX Cross Border declaration and disclosure	**Largely compliant**	• Not all bearer negotiable instruments covered. • The threshold declaration regime is too high under the immigrant rules.