



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

MONEYVAL(2009)22

# Israel

## Progress report<sup>1</sup>

23 September 2009

<sup>1</sup> First 3<sup>rd</sup> Round Written Progress Report Submitted to MONEYVAL

Israel is an active observer to MONEYVAL. This progress report was adopted at MONEYVAL's 30<sup>th</sup> Plenary meeting (Strasbourg, 21-24 September 2009). For further information on the examination and adoption of this report, please refer to the Meeting Report (ref. MONEYVAL(2009)36) at <http://www.coe.int/moneyval>

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## ***1. General overview of the current situation and the developments since the last evaluation relevant in the AML/CFT field***

Since the adoption of the assessment report at the MONEYVAL 27<sup>th</sup> plenary meeting, on 9 July 2008, significant developments have taken place in Israel in connection with the prevention of money laundering and the fight against terrorist financing (AML/CFT).

The regime in Israel for combating money laundering and terrorist financing is constantly being examined, reviewed and updated, in order to provide answers to new problems and to the growing sophistication of criminals.

The implementation of MONEYVAL's recommendations on AML/CFT matters has also initiated extensive legislative modifications.

During 2007-2009, additional measures were taken to combat money laundering and terrorist financing and important accomplishments have been achieved. In particular, the following should be noted:

### **A. Legal**

- On 12 July 2009 the draft bill for the Prohibition of Money Laundering Law (Amendment No. 7 published on 11 July 2007 and has passed the first reading in the Knesset) was brought again before the Ministerial Committee for Legislation and Law Enforcement for their approval of continuity of the legislation process. After the recent approval of that Committee, the Bill was brought again before the Knesset Plenary, which also approved the continuity of the legislation process. Once the continuity has been approved by the Knesset, the Bill was sent to the Constitution, Law and Justice Committee of the Knesset, in order to go through second and third readings, as part of the formal legislation process. The bill needed to undergo this additional procedure due to the election of a new Knesset after the elections (the 18th Knesset). During the past year, the Ministry of Justice examined along with other relevant authorities, the MONEYVAL 's recommendations, and on 12 August 2009 the Minister of justice submitted to the approval of the Constitution, Law and Justice Committee of the Knesset an amendment to the International Legal Assistance Law 1998 that includes additional predicate offences to this law. This amendment will enable the enforcement of foreign forfeiture orders in Israel according to requests of another state on one hand, and the enforcement of forfeiture orders according to requests on behalf of the state of Israel on the other hand. This amendment will improve the international cooperation in respect of effectiveness in providing mutual legal assistance by foreign countries related to freezing, seizure and confiscation of instruments and proceeds of crime, in accordance with Recommendation 38.
- Furthermore, on 31 August 2009 the Minister of Justice signed the order that includes piracy and environmental crimes as predicate offences. The order awaits for approval in the Knesset Committee - The Constitution, Law and Justice Committee.
- In addition, on 24 September 2009 a draft bill for the Prohibition of Money Laundering Law (Amendment No. 8) was published. The draft bill includes the following amendments:
  - (a) The threshold under Article 4 was reduced to approximately \$10,000, the differentiation of assets was removed and the "willful blindness" exemption was removed.
  - (b) Including all negotiable instruments for cross-border declaration.
  - (c) Removing section 10(b) to the Prohibition of Financing Terror Law (hereinafter – the PFTL) and replace it with a provision which clarifies that the obligation to

report to the IP does not substitute the obligation to report to the Israeli Money Laundering and Financing Terror Prohibition Authority (hereinafter – IMPA) in accordance with section 7 to the PMLL.

- A draft amendment concerning the application of AML/CFT obligations on DNFBP's has been formulated in the ministry of justice and will be brought soon before the attorney general for consideration.
- A Governmental Bill on confiscation is being drafted - The Ministry of Justice established a working group and appointed an outsourcing professional skilled lawyer (Adv. Dror Shtrum) to formulate a governmental bill on confiscation (inspired by the principles of the UK's Proceeds of Crime Act 2002 additionally to civil recovery provisions). An initial draft bill was recently published among relevant authorities for their reply, and extensive discussions in this matter are being held.

## **B. Financial**

- During 2009 an AML/CFT Regulators Forum was established. The Forum constitutes representatives of the supervisors, IMPA, and as needed, of the Israeli Police (hereinafter – the IP) and of the prosecution authorities. The first meeting took place on 20 January 2009 and the second meeting on 26 July 2009. The Forum meetings intend to ensure that AML/CFT issues are consistently implemented across the whole financial sector.
- The AML/CFT orders concerning banking corporations, portfolio managers, stock exchange members, insurers and insurance agents, provident funds and companies managing a provident fund, providers of currency services and the postal bank, are being amended to cover MONEYVAL 's recommendations (hereinafter – the amended orders)<sup>1</sup>. During July 2009, the amended postal bank order was signed by the Minister of Communication and is scheduled to be approved in the next month in the Knesset Committee - The Constitution, Law and Justice Committee. The amended portfolio managers' order and the stock exchange members order are fully drafted and will be submitted soon for consultation to the Minister of Justice and the Minister of Public Security. The amended orders for banking corporations, insurers and insurance agents, provident funds and companies managing a provident fund and providers of currency services are drafted and are currently being discussed among relevant authorities.
- Supervisors continue conducting inspections and sanctions committees to ensure full compliance of financial institutions with the AML/CFT regime.

## **C. Law enforcement**

- The Israeli enforcement and prosecution authorities have further enhanced their proactive approach, achieving outstanding progress in the investigation and prosecution of money laundering and terrorist financing offences.
- Israeli law enforcement authorities seized and confiscated substantial amounts in suspected criminal assets and property connected with money laundering and terrorist financing offenses.
- IMPA and the Israeli Tax Authority (the Customs) cooperated in law enforcement operations concerning cross border transactions.
- In 2008, Israel finished implementing all but one mandate of Cabinet Decision 4618, passed on 1 January 2006. Yet to be established is an academy for interdisciplinary enforcement studies; however, an interagency “fusion center” and the interagency task forces for pursuing financial crimes are now fully operational, as specified herein force:

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<sup>1</sup> The amended orders are subject to the approval of the Constitution, Law and Justice Committee of the Knesset.

**The task forces:** Each task force is an investigative unit, operating against a defined crime organizations or a defined criminal phenomenon. It was determined, that 6 task forces will be established, combining representatives of the Israeli police, tax authority and the prosecution aided by IMPA. So far, 5 Task forces have been established and are fully operational.

In order to determine the functions, work process and establishing of the task force, the tax authority, IP and IMPA set "work conduct- task force" procedures.

The task force functions include, inter alia, mapping and evidence collection regarding criminal organizations' structure and membership, underlying criminal activity, illicit assets, as well as money laundering mechanisms. Task Force operations are directed at forfeiting the economic infrastructure of the criminal organization and prosecuting leading members- utilizing predicate and fiscal statutes, the money laundering prohibition law, the anti-organized crime law. Where task forces find financial institutions to be in breach of their obligations under the PMLL and AML/CFT, the information is passed on to the relevant regulators for administrative enforcement action.

**The "fusion center":** The fusion center is staffed by 4 police officers, 3 Tax Authority agents and 2 researchers from IMPA; each worker in the fusion center has on-site access to his parent agencies databases. The Israel Securities and Exchange Authority also maintain databases in the fusion center and, as needed (and no less than once a week), participates in fusion center activity.

The mission of the fusion center is to generate an integrated analytical product regarding criminal enterprises, by means of cross-referencing and assimilating all pertinent information maintained by the participant agencies, employing the variant expertise offered by each agency.

The fusion center operates in accordance with manual work-plan, and each product is reviewed and approved for dissemination.

During the last year IMPA has revised its priority regarding the financial institutions' reports, channeling its resources into two main goals: improving and ensuring the quality of the Unusual Activity Reports (hereinafter – UARs) reported by the large scale sectors on one hand, and increasing the quantity of UARs reported by the other sectors, on the other hand. In these respects, IMPA has taken significant measures in order to improve level of reporting, the quality of UARs, the effectiveness in relation to the timeliness of the reporting system and awareness-raising. Following are several of these measures:

**1. Correspondence regarding the quality of the financial institutions reports to IMPA:** In order to improve the quality of reports to IMPA, letters were sent to inform financial institutions, of flaws, shortage, and other elements reflected from their reports, which influence the quality of IMPA's database. In certain cases the letter includes IMPA's recommendation to the supervisor to consider further action such as inspections and sanction committees.

**2. Training events and feedback meetings among the reporting institutions:** Advanced studies, conferences, training session and feedback meetings, are some of the tools used to educate and increase the awareness in respect of AML/CFT, among the financial institutions and the supervisors. The events are mostly initiated by IMPA and

are corporately conducted with the supervisor. IMPA's employees experience shows that these meetings, which are based on personal work relationships, are efficient.

**3. Additional training activity:** Additional training activity conducted by IMPA corporately with the supervisors, consist of editing and dissemination of AML/CFT guidance and information booklets. During the year 2009, two booklets were issued in cooperation with the ministry of finance - for the Money Services Businesses (hereinafter – MSBs) sector and for the Insurance companies and Insurance agents (the booklet for insurance agencies was published on 26 August 2009, and the booklet for MSBs will be published on September 2009). Moreover, according to IMPA's 2009 annual work-plan, two additional booklets are planned - The first, for the Members of the stock exchange and Portfolio managers; the second for the Banking corporations and the postal bank. Each booklet is adjusted to the unique element of the reporting sector and its skills.

In addition, IMPA also publishes AML/CFT guidelines, news, legal information, typologies and other relevant information on its website. In addition, IMPA publishes on its website a triennial newsletter regarding AML/CFT issues. The newsletter is distributed by email to law enforcement authorities, to the supervisors and to compliance officers of financial institutions.

**4. Improving the timeliness of reports received and their input:** IMPA instructed the financial institutions regarding the timetable of the reports (CTR – Once a week/month, UAR – Immediate). In-house, IMPA operates an outsourcing Input-Center, which is in charge of entering data and incoming reports into IMPA's data base, according to a strict service level agreement (SLA). Defining a strict, realistic and short timetable of reporting obligations and entrance of the data into the FIU's data base ensure the effectiveness of the entire operation. Within this framework, IMPA observed an improvement in the timeliness of reports during the past 18 month.

**5. Improving the quality of the UAR project:** This project comes to serve both the need that derives from IMPA to measure the quality of the UARs and defines ways of action to improve their quality, and the need that derives from financial institutions, to receive a feedback on their UARs, subjected to the limitations by law.

We assume that preliminary products of this project will be available by the end of the year 2009.

**6. Additional projects relating to the effectiveness of the timeliness, planned to be implement according to IMPA's 2009 annual work-plan:**

- (a) Computerization of customs reports.
- (b) Receiving on line reports using a governmental set of encrypted vaults.
- (c) Examination of an automatic solution replacing manual actions regarding transferring files between networks.

## 2. Key recommendations

Please indicate improvements which have been made in respect of the FATF Key Recommendations (Recommendations 1, 5, 10, 13; Special Recommendations II and IV) and the Recommended Action Plan (Appendix 1).

<b>Recommendation 1 (Money Laundering offence)</b>	
<b>Rating: Largely compliant</b>	
Recommendation of the MONEYVAL Report	<i>Amend list of predicate offences to include piracy and environmental crimes and remove threshold approach in section 4.</i>
Measures taken to implement the Recommendation of the Report	On 31 August 2009 the Minister of Justice signed the order that includes piracy and environmental crimes as predicate offences. The order awaits for approval in the Knesset Committee - The Constitution, Law and Justice Committee. In addition, on 24 September 2009 a draft bill for the Prohibition of Money Laundering Law (Amendment No. 8) was published. In the amendment the threshold under Article 4 was reduced to approximately \$10,000 and the differentiation of assets was removed.
Recommendation of the MONEYVAL Report	<i>Review the need for the misapplication of the concept of "willful blindness" within Section 4 PMLL and its impact on effectiveness.</i>
Measures taken to implement the Recommendation of the Report	On 24 September 2009 a draft bill for the Prohibition of Money Laundering Law (Amendment No. 8) was published. In the amendment the "willful blindness" exemption under Article 4 was removed.
(Other) changes since the last evaluation	

<b>Recommendation 5 (Customer due diligence)</b>	
<b>I. Regarding financial institutions</b>	
<b>Rating: Partially compliant</b>	
Recommendation of the MONEYVAL Report	<i>Ensure requirements on numbered accounts are covered by law or regulation.</i>
Measures taken to implement the Recommendation of the Report	The CDD requirement in respect of numbered accounts is presently covered by Directive 411. The Bank of Israel (hereinafter – BOI) included the above mentioned requirement in the amended Banking Order. N\A in regard to other financial institutions.
Recommendation of the MONEYVAL Report	<i>Amend legislation to include investment related insurance activities for CDD purposes.</i>
Measures taken to implement the Recommendation	According to Israeli legislation <sup>2</sup> , insurance businesses are subject to a license from the Commissioner of Insurance and the Capital Market. This license

<sup>2</sup> The Supervision of Insurance Businesses Law; The Supervision of Insurance Businesses (insurance branches) Notice, 1985.

of the Report	specifies the insurance branches that are permissible to engage with, and investment related insurance is not included in this license according to the legislation.
Recommendation of the MONEYVAL Report	<i>Provide obligation for the Postal Bank to take CDD measures below the applicable thresholds.</i>
Measures taken to implement the Recommendation of the Report	The amended Postal Bank order includes similar thresholds as in articles 2(f)-(g) to the banking order, as follows: <ul style="list-style-type: none"> <li>• The Postal Bank shall not carry out a transaction which requires a CTR (the threshold for CTR amended as in the banking order) and which is not recorded in an account in which the party performing the transaction is recorded as an account holder or authorized signatory, without recording the identification particulars of the party performing the transaction.</li> <li>• The Postal Bank shall not carry out a transaction which does not require a CTR and which is not recorded in an account in which the party performing the transaction is recorded as an account holder, authorized signatory, without identifying the party performing the transaction and recording his identification particulars. For this subsection, "transaction" means a transaction in cash involving 10,000 NIS or more, or another transaction involving 75,000 NIS or more.</li> </ul>
Recommendation of the MONEYVAL Report	<i>Amend Orders to bring the threshold concerning Insurers and Insurance Agents for identification in line with the Methodology.</i>
Measures taken to implement the Recommendation of the Report	The amended Insurance order and Provident Funds order lowered the identification threshold from 20,000 NIS to 5,000 NIS and therefore is in line with the Methodology.
Recommendation of the MONEYVAL Report	<i>Amend Orders to specify the lower limit of USD 1,000 for CDD measures in occasional wire transfers.</i>
Measures taken to implement the Recommendation of the Report	A limit of 5,000 NIS (less than 1,000€) for CDD measures in occasional wire transfer was included in the amended orders for Stock Exchange Member, Insurance and Provident Funds and MSBs. In the amended order to banking corporations CDD measures will be carried for all wire transfers (as for now, it is included in the Directive 411). In the amended order to the Postal Bank a higher limit was included (for reported transaction – the CTR thresholds; for unreported transactions - 10,000 NIS in cash transactions or 75,000 NIS in other transactions). Portfolio Managers do not conduct wire transfers and they do not have occasional costumers.
Recommendation of the MONEYVAL Report	<i>Require by law or regulation financial institutions to pursue due diligence where it has doubts regarding the veracity or adequacy of previously obtained customer identification data.</i>
Measures taken to implement the Recommendation of the Report	The amended orders include an obligation to pursue CDD measures where the financial institution has doubts regarding the veracity or adequacy of previously obtained customer identification data.



Recommendation of the MONEYVAL Report	<i>Amend the Insurer and Insurance Agent Order and Provident Fund Order to bring the thresholds in line with the FATF limits for verification.</i>
Measures taken to implement the Recommendation of the Report	The amended orders for Insurance and Provident Funds lowered the verification threshold from 20,000 NIS to 5,000 NIS and therefore is in line with the Methodology.
Recommendation of the MONEYVAL Report	<i>Require by law or regulation the obligatory verification of beneficial owners or holders of controlling interests.</i>
Measures taken to implement the Recommendation of the Report	The amended orders include the obligation to take reasonable measures to verify the identity of the beneficial owner using relevant information or data obtained from a reliable source that the financial institution is satisfied that it knows who the beneficial owner is. In addition, according to the amended Banking order a bank corporation is authorized to verify the identity of the beneficial order with the population registrar.
Recommendation of the MONEYVAL Report	<i>Fully reflect in practice both identification and verification in higher risk situations.</i>
Measures taken to implement the Recommendation of the Report	<p>The amended orders include an obligation to take CDD measures in higher AML/CFT risk situations. For example, the amended order to the Stock Exchange Members added the following article:</p> <p><i>"The stock exchange member shall determine a policy, tools and risk management with regard to the prohibition of money laundering and terror financing, for the application of the obligations according to the order, including with regard to following issues:</i></p> <ul style="list-style-type: none"> <li><i>(a) Know your customer procedure;</i></li> <li><i>(b) Tracing money laundering and terror financing threats deriving, inter alia, from new technologies, particularly those that enables non face to face transactions;"</i> <p>The amended Banking Order includes a specific requirement to conduct Enhanced Due Diligence when dealing with high risk customers. As for now it is included in Directive 411.</p> <p>In addition the amended postal bank order specifies that the postal bank should take CDD measures, inter alia, if the clients' business was denied by another bank corporation for reasons relating to anti-money laundering and terror financing.</p> </li></ul>
Recommendation of the MONEYVAL Report	<i>Provide explicit obligation for financial institutions to obtain information on the purpose and intended nature of the business relationship.</i>
Measures taken to implement the Recommendation of the Report	<p>The amended orders include the obligation to take CDD measures concerning the intended nature of the business relationship, among other things, and the obligation to obtain this information. For example, the amended order to the Stock Exchange Members states as follows:</p> <p><i>"A stock exchange member shall not open an account, without identifying the person who wants to be a client and without carrying out a procedure of know your customer; for this purpose, 'a procedure of know our customer' means ascertaining the source of the money that is supposed to be deposited in the account, his occupation, his public status, the circumstances of opening the</i></p>

	<i>account and the planned activity therein and any other detail that is required in order to understand the nature of the transactions of the owner of the account through the stock exchange member; with regard to a foreign resident — also his connection to Israel, and with regard to someone who owns a business — also becoming acquainted with his business, the nature of his customers and suppliers and his financial activity; the stock exchange member shall make records of these details;"</i>
Recommendation of the MONEYVAL Report	<i>Provide in law or regulation the requirements to ensure ongoing due diligence for financial institutions other than banking corporations. For banking corporations this is now covered in 'other enforceable means'. It should be covered in law or regulation.</i>
Measures taken to implement the Recommendation of the Report	<p>Ongoing due diligence obligation was included in the amended orders. See the relevant articles in the amended Stock Exchange Members Order:</p> <p><b>Article 2(b):</b>  <i>"The stock exchange member shall carry out a due diligence procedure with regard to the information obtained in the know your customer procedure that was taken with the establishment of the business relationship, and will update his records; If the stock exchange member has doubts about the veracity or adequacy of previously obtained customer identification data, he will undertake a procedure of know your customer again."</i></p> <p><b>Article 11:</b>  <i>"The stock exchange member shall carry out an ongoing monitoring of the transactions of the account owner, including the following:</i></p> <p><i>(a) ensure that the transactions are consistent with the character of the account in accordance with his acquaintance with the client;</i></p> <p><i>(b) monitoring the transactions and the connections of the account owner against the <u>list of countries and territories</u> specified in the second appendix;</i></p> <p><i>(c) monitoring the activity in the account of a politically exposed person;"</i></p> <p>In addition, see the amended Postal Bank order:</p> <p><b>Article 2(b):</b>  <i>"the Postal Bank shall carry out an ongoing monitoring of the transactions in the account and ensure that the transactions are consistent with the character of the account in accordance with his acquaintance with the owner of the account."</i></p>
Recommendation of the MONEYVAL Report	<i>Remove the exemption regarding registering an attorney, rabbinical pleader or accountant as a beneficiary of an accountant, as set out in the Banking Order.</i>
Measures taken to implement the Recommendation of the Report	The issue of removing the above mentioned exemption was discussed and examined in the BOI that decided not to remove this exemption at this time, but will reconsider this issue after AML/CFT obligation will be imposed on attorneys, accountants and other independent legal professionals.
Recommendation of the MONEYVAL Report	<i>Ensure that Recommendation 5 is effectively implemented by the Postal Bank, Insurance sector, Provident Funds and Money Service Businesses.</i>
Measures taken to implement the Recommendation of the Report	The supervisor of MSBs, the Postal Bank, Insurance sector and Provident Funds have conducted AML/CFT inspections in order to review the implementation of AML/CFT obligations, including of recommendation 5, especially in respect of identifying higher risk situations in order to report

	<p>UAR's.</p> <p>In addition, the Ministry of Finance and IMPA are also conducting training to the newly registered MSBs with regard to their AML/CFT obligations, and the supervisor of the Postal Bank provides the necessary training regarding inter alia, recommendation 5, as preparation for the application of the amended order.</p> <p>Furthermore, IMPA in cooperation with the ministry of finance issued guidelines and instructions booklets to MSBs and to insurers and insurance agencies concerning AML/CFT issues (the booklet for insurance agencies was published on 26 August 2009, and the booklet for MSBs will be published on September 2009). Moreover, according to IMPA's 2009 annual work-plan, two additional booklets are planned - The first, for the Members of the stock exchange and Portfolio managers; the second for the Banking corporations and the postal bank. Each booklet is adjusted to the unique element of the reporting sector and its skills.</p> <p>IMPA's employees constantly meet and lecture to the financial institutions about their AML/CFT obligations. Moreover, IMPA publishes AML/CFT guidelines, news, legal information, typologies and other relevant information on its website. In addition, IMPA publishes on its website a triennial newsletter regarding AML/CFT issues. The newsletter is distributed by email to law enforcement authorities, to the supervisors and to compliance officers of financial institutions.</p>
(Other) changes since the last evaluation	

<b>Recommendation 5 (Customer due diligence)</b> <b>II. Regarding DNFBP<sup>3</sup></b>	
Recommendation of the MONEYVAL Report	<i>Implement CDD obligation for real estate agents, dealers in precious metals and stones, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants.</i>
Measures taken to implement the Recommendation of the Report	<p>On 12 July 2009 the draft bill for the Prohibition of Money Laundering Law (Amendment No. 7 published on 11 July 2007 and has passed the first reading in the Knesset) was brought again before the Ministerial Committee for Legislation and Law Enforcement for their approval of continuity of the legislation process. After the recent approval of that Committee, the Bill was brought again before the Knesset Plenary, which also approved the continuity of the legislation process. Once the continuity has been approved by the Knesset, the Bill was sent to the Constitution, Law and Justice Committee of the Knesset, in order to go through second and third readings, as part of the formal legislation process. The bill needed to undergo this additional procedure due to the election of a new Knesset after the elections (the 18th Knesset).</p> <p>This bill was submitted by the Israeli Government and it is intended, <i>inter alia</i>, to make the prohibition on money laundering regime applicable to the precious stones traders sector, according to international standards and to place the Israeli diamond industry in line with diamond centers in other countries around the world which have implemented similar steps.</p> <p>Furthermore, during the last two years a draft applying AML/CFT obligations on DNFBPs, has been formulated in the ministry of justice and will be brought soon before the attorney general for consideration.</p>

<sup>3</sup> i.e. part of Recommendation 12.

(Other) changes since the last evaluation	
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**Recommendation 6 (Politically Exposed Persons)**

**Rating: Partially compliant**

Recommendation of the MONEYVAL Report	<i>Extend by law, regulation or other enforceable means the definition of a PEP beyond banking corporations</i>
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Measures taken to implement the Recommendation of the Report	<p>The amended orders include a definition of PEP. For example, The definition in the amended Postal bank order:  <i>"Foreign residents that are senior public functionaries, including their family members, business associates or a corporation under their control"</i>  The term "control" is defined by way of a referral to section 7(a)(1)(b) to the PMLL.  The term "public functionaries" in the amended Postal bank order includes:  <i>"Head of state, president of the state, mayor, judge, a member of the states parliament, a member in the government and a senior military or police officer, or any other aforesaid functionaries even if named differently."</i>  The term "family member" is defined in the amended Postal bank order as:  <i>"Spouse, sibling, parent, grandparents, offspring and offspring of the spouse, and the spouse of the aforementioned."</i></p>
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Recommendation of the MONEYVAL Report	<i>Amend PEPs requirements to include family members and close associates of PEPs.</i>
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Measures taken to implement the Recommendation of the Report	<p>The amended orders include a definition of PEP that includes family members and business associates.  The definition of "family member" will include: spouse, sibling, parent, grandparents, offspring and offspring of the spouse, and the spouse of the aforementioned.  In addition, an amendment to Directive 411 is drafted by the BOI to include a wider definition of PEP that includes family members and close associates of PEPs.</p>
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Recommendation of the MONEYVAL Report	<i>Provide by law or regulation or other enforceable means full senior management approval for establishing business relationships with PEPs for banking corporations.</i>
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Measures taken to implement the Recommendation of the Report	Establishing business relationships with PEPs by banking corporations is covered in section 21(c) of Directive 411.
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Recommendation of the MONEYVAL Report	<i>Ensure senior management approval for continuation of business where a customer is subsequently found to be PEP or becomes PEP.</i>
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Measures taken to implement the Recommendation of the Report	<p>The amended Stock exchange members order and the Portfolio managers order include an obligation for senior management approval where a customer is subsequently found to be PEP or becomes PEP.  In addition, the BOI intends to amend Directive 411 to include an obligation for senior management approval where a customer is subsequently found to be PEP or becomes PEP.</p>
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Recommendation of the MONEYVAL Report	<i>Ensure new correspondent relationships are approved by senior management.</i>
Measures taken to implement the Recommendation of the Report	<p>The amended Stock Exchange Members order includes the following section:  <i>"a stock exchange member shall not open a correspondent account, unless approved by a senior functionary in the stock exchange member."</i></p> <p>The term "functionary" is defined: director, general manager, chief business administrator, deputy general manager, secondary general manager, and every other functionary in the corporation as aforesaid, even if he has a different title, and every other manager that is directly subordinate to the general manager.</p> <p>In the banking sector, the BOI intends to amend Directive 411 to include the obligation to approve new correspondent relationships by senior management. Portfolio managers, insurers and insurance agents, provident funds and companies managing provident funds do not carry out correspondent relationships.</p> <p>The Ministry of Communication intends to include this recommendation in the next amendment to the Postal Bank Order.</p>
(Other) changes since the last evaluation	

<b>Recommendation 10 (Record keeping)</b>	
<b>I. Regarding Financial Institutions</b>	
<b>Rating: Partially compliant</b>	
Recommendation of the MONEYVAL Report	<i>Remove thresholds for retention of documentation.</i>
Measures taken to implement the Recommendation of the Report	In the amended orders (except the Postal Bank order) all thresholds for retaining of documentation were removed. Therefore, financial institutions will have to maintain all necessary records on transactions, for seven years.
Recommendation of the MONEYVAL Report	<i>Establish requirements to retain all documents recording the details of all transactions carried out by the client in the course of an established business relationship.</i>
Measures taken to implement the Recommendation of the Report	<p>The amended orders apply the obligation to maintain the document containing the instruction to carry out any transaction, for a period of at least seven years from the date of recording the transaction in the books of the financial institution.</p> <p>Furthermore, in the amended Stock exchange members order and Portfolio managers' order there was added an obligation for the financial institution, to maintain all documents concerning the ongoing monitoring of transactions of the account owner.</p>
Recommendation of the MONEYVAL Report	<i>Provide a general requirement also to retain documentation longer than 5 years where requested by a competent authority.</i>
Measures taken to implement the Recommendation of the Report	The orders include the requirement to retain documents for 7 years. The Ministry of Justice objects to implement the recommended amendment, for reasons of protection of privacy.

Recommendation of the MONEYVAL Report	<i>Ensure those parts of R.10 which are asterisked in the Methodology are covered in respect of the Postal Bank in law or regulation.</i>
Measures taken to implement the Recommendation of the Report	<p>The amended Postal Bank order includes the following record keeping obligations:</p> <p><b>Article 9:</b>  <i>"The Postal Bank shall retain the identification certificates for a period of at least seven years after the account is closed or after a transaction has been carried out as in subsection 3(f); keeping the identification documents, with the exception of a declaration that was given with an original signature, can be done by means of a computerized scan according to the conditions set out in regulation 3A of the Evidence (Photocopies) Regulations, 5730-1969; in this matter, "identification certificates" means any document provided for purposes of identification and authentication."</i></p> <p><b>Article 16:</b>  <i>"(a) The Postal Bank shall maintain a computerized database of account numbers, identification particulars of account holders, authorized signatories, beneficiaries and holders of controlling interests.</i>  <i>(b) The Postal Bank shall retain the document attesting to the instruction to the postal bank to carry out a transaction which was reported to the competent authority and the instruction document, the value of which transaction is equivalent to at least NIS 10,000, for a period of at least seven years from the date on which the transaction was recorded in the postal bank's books; in the absence of a document attesting to the instruction, the banking corporation shall retain the computerized record attesting to the instruction to perform the transaction."</i></p>
(Other) changes since the last evaluation	

<b>Recommendation 10 (Record keeping) II. Regarding DNFBP<sup>4</sup></b>	
Recommendation of the MONEYVAL Report	<i>Implement CDD obligation (record keeping) for real estate agents, dealers in precious metals and stones, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants.</i>
Measures taken to implement the Recommendation of the Report	See response in the "Key recommendations" table aforementioned (In Recommendation 5 - Regarding DNFBP).
(Other) changes since the last evaluation	

<sup>4</sup> i.e. part of Recommendation 12.

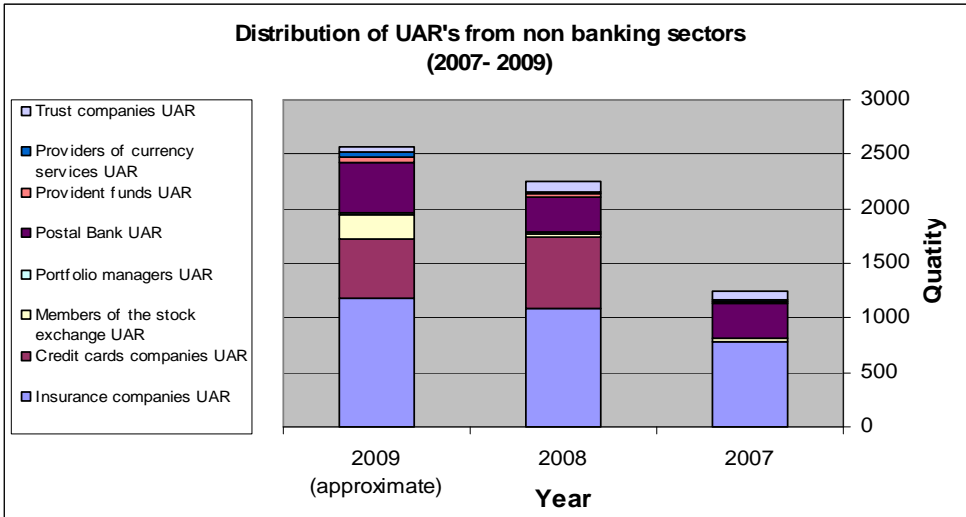
**Recommendation 13 (Suspicious transaction reporting)**  
**I. Regarding Financial Institutions**

**Rating: Largely compliant**

Recommendation of the MONEYVAL Report	<i>Israel needs to remove the thresholds in some of the orders.</i>
Measures taken to implement the Recommendation of the Report	In the amended orders all thresholds for unusual activity reporting were removed.
Recommendation of the MONEYVAL Report	<i>Review level of reporting from non bank financial institutions and undertake outreach as necessary.</i>

Measures taken to implement the Recommendation of the Report

During the last year IMPA has revised its priority regarding the financial institutions' reports, channeling its resources into two main goals: improving and ensuring the quality of the UARs reported by the large scale sectors on one hand, and increasing the quantity of UARs reported by the other sectors, on the other hand. The data specified in the statistics table below (in the 'Statistical Information on reports received by the FIU' table) and the graph below demonstrate the effectiveness of IMPA's efforts to increase level of reporting, as specified herein after. For example, the number of the UARs filed by the Members of the Stock Exchange and the Provident Funds sectors has multiplied, between the year 2007 and the first half of 2009.



**1. Correspondence regarding the quality of the financial institutions reports to IMPA:**

In order to improve the quality of the reports to IMPA, letters were sent to inform financial institutions, of flaws, shortages, and other elements reflected from their reports, which influence the quality of IMPA's database. The letters are not an automatically produced report, but rather focused examination of the content of the report and indication of main flaws, asking their immediate revision or completion. In some cases, IMPA chooses to address the letter not only to the financial institution, but also to the supervisor, mostly to inform him of acute or repeated flaws, severe violations of the procedural regulations or violations of

IMPA's reporting guidance's. In certain cases the letter includes IMPA's recommendation to consider further actions, such as inspections and sanction committees.

	2007	2008	2009*
<b>Letters sent to the reporting institution</b>	<b>69</b>	<b>59</b>	<b>76</b>
<b>Regulator addressed</b>	<b>4</b>	<b>15</b>	<b>12</b>

\* Updated July 2009.

**2. Training events and feedback meetings among the reporting institutions:**

Advanced studies, conferences, training session and feedback meetings, are some of the tools used to educate and increase the awareness of AML\CFT, among financial institutions and the supervisors. The events are mostly initiated by IMPA and are corporately conducted with the supervisors. Those events include lectures and presentations referring to several topics: background on international combat, money laundering, IMPA's added value, work interface, the reports regime, red flags for ML and TF reports, relevant typologies and sanitized cases. The feedback meetings are conducted on a routine basis and mostly consist of small forums. IMPA's experience shows that these meetings, which are based on personal work relationships, are efficient.

	2007	2008	2009*
<b>Advanced study, training session, among the reporting institutions or the regulators (25+ participates)</b>	<b>12</b>	<b>25</b>	<b>8</b>
<b>Feedback meeting, training session among the reporting institutions.</b>	<b>32</b>	<b>44</b>	<b>20</b>

\* Updated July 2009.

**3. Additional training activity:**

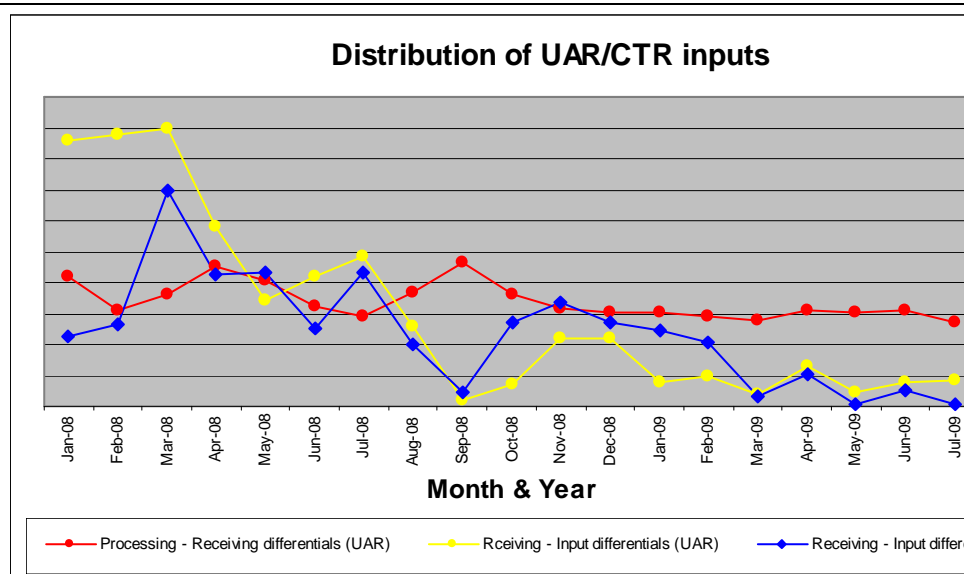
Additional training activity conducted by IMPA corporately with the supervisors, consist of editing and dissemination of AML\CTF guidance and information booklet. During the year 2009, two booklets were issued in cooperation with the Ministry of Finance - for the MSBs sector and for the Insurance companies and Insurance agents (the booklet for insurance agencies was published on 26 August 2009, and the booklet for MSBs will be published on September 2009). Moreover, according to IMPA's 2009 annual work-plan, two additional booklets are planned - The first, for the Members of the stock exchange and Portfolio managers; the second for the Banking corporations and the postal bank. Each booklet is adjusted to the unique element of the reporting sector and its skills. In addition, IMPA publishes AML\CFT guidelines, news, legal information, typologies and other relevant information on its website. In addition, IMPA publishes on its website a triennial newsletter regarding AML\CFT issues. The newsletter is distributed by email to law enforcement authorities, to the supervisors and to compliance officers of financial institutions.

**4. Project for Improving the quality of the UAR:**

From the recognition of the need for quantitative and objective measurement, as much as possible, of the quality of the receiving UARs from the reporting



	<p>institutions, IMPA has defined a project in the annual work-plan, which planned to be implemented during the second half of the year of 2009 – to the beginning of 2010. This project serves both the need that derives from within IMPA, to measure the quality of the UARs and define ways of action to improve their quality, and the need that derives from the reporting institutions, to receive feedback on their UARs, subjected to the law's limitations. So far, several working meetings took place in the frame of department managers; principles and guidelines were outlined; and a working team has defined integrating relevant departments at IMPA.</p> <p>Some of the principles that have been outlined so far are specified hereinafter:</p> <ul style="list-style-type: none"> <li>• The pilot will apply on the sector which reports the majority of the UAR to IMPA, namely – the banking sector.</li> <li>• The working team will have to choose measurable elements from the UAR, on the one hand, which have relevant significance on the other hand.</li> <li>• Creating of preliminary basis which will be combined in the future into another IMPA's project focusing on mechanism and scoring the contribution of all entering data to IMPA's data base.</li> <li>• Some of the data will be used in order to give feedback to the reporting institutions, within the limitations by law.</li> </ul> <p>IMPA assumes that preliminary products of this project will be available by the end of the year 2009. Byproduct of integral part of this project is conclusions regarding the recommended ways to improve the quality of the UAR, and feedback to the reporting institutions of their reported UAR. On the next stage, IMPA will apply the pilot on additional sectors.</p>
<p>Recommendation of the MONEYVAL Report</p>	<p><i>Review the overall effectiveness in relation to the timeliness of the reporting system generally.</i></p>
<p>Measures taken to implement the Recommendation of the Report</p>	<p>Following are the measures taken by IMPA in order to improve the timeliness of the reporting system generally:</p> <p><b>1. Improving the timeliness of reports received and their input:</b></p> <p>One of IMPA's main goals is improving the timeliness of reports received from the reporting institutions and their input to IMPA's database. Therefore, IMPA instructs the reporting institutions regarding the timetable of the reports (CTR – Once a week/month, UAR – Immediate). In-house, IMPA operates an outsourcing Input-Center, which is in charge of entering data and incoming reports into IMPA's data base, according to a strict service level agreement (SLA). Within this framework, IMPA can observe an improvement of at least two indexes, during the past 18 month.</p> <p>The importance of this subject is that defining a strict, realistic and short timetable of reporting obligations and entrance of the data into the FIU's data base ensures the effectiveness of the entire operation.</p>



\* The time that passes between the writing of an UAR by the reporting institutions, till the receipt at IMPA (red line).

\*\* The time that passes between the receipt of an UAR reports, till it is entered to IMPA's Data Base (yellow line).

\*\*\* As mentioned above, but for CTR's (blue line).

**2. Additional projects relating to the effectiveness of the timeliness, planned to be implement according to IMPA's 2009 annual work-plan:**

**(a) Computerization of customs reports:** The current situation is that customs reports are filled out manually by the person who enters or exits Israel through a crossing point. The procedure includes handing statement to the customs-officer, who forwards it to the customs AML headquarters, which gathers several statements from different border stations and forwards them periodically to IMPA. The relevant parties realized that the complicated procedure decreases the effectiveness of the reports regime and a project of computerizing the forms and statements was initiated.

Nowadays, a pilot is being conducted at the "Ben Gurion" Airport border station. The forms will be filled out by the person at a computerized station and will be sent on-line (computerized form + XML file) to IMPA through the servers of the Ministry of Justice. Depending on the success of the pilot, IMPA will computerize other border stations' forms.

**(b) Receiving on line reports using a governmental set of encrypted vaults:** This project is divided into three stages. The first stage of this project is being conducted - pilot among three chosen banks ("strong" reporters). The pilot includes receiving CTR's and UAR's files from the pilot participators (along with maintaining the previous report routine being delivered directly to IMPA), and examining the technical aspects. Following, is the second stage of applying the on-line reports procedure as a routine among the other banks and banking corporations (approx. 30 users). The third and final stage, will include conducting a pilot among the non banking sectors.

**(c) Examination of an automatic solution replacing manual actions regarding transferring files between networks:** In this framework, IMPA examines two security systems 'Made in ISRAEL'. The first system, will handle the issues of transferring the required files in a protected form, unidirectional and

	ensuring complete disconnection between the receiver and the sender. The second system, will filter the information included in these files, according to their content and destination (in/out IMPA's network).
(Other) changes since the last evaluation	

<b>Recommendation 13 (Suspicious transaction reporting) II. Regarding DNFBP<sup>5</sup></b>	
Recommendation of the MONEYVAL Report	<i>Provide for 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).</i>
Measures taken to implement the Recommendation of the Report	See response in the "Key recommendations" table aforementioned (In Recommendation 5 - Regarding DNFBP).
(Other) changes since the last evaluation	

<b>Special Recommendation II (Criminalisation of terrorist financing)</b>	
<b>Rating: Compliant</b>	
Recommendation of the MONEYVAL Report	<i>No recommendation</i>

<b>Special Recommendation IV (Suspicious transaction reporting) I. Regarding Financial Institutions</b>	
<b>Rating: Largely Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Ensure all related information (in financial institutions other than banking corporations) is covered by the tipping off provisions.</i>
Measures taken to implement the Recommendation of the Report	The amended orders for non-banking financial institutions include similar tipping off provision as in the banking order. Section 12 in the banking order states:  <i>"Disclosure of the formulation, existence, nonexistence or contents of a report pursuant to section 9, and of the existence of a complementary report pursuant to section 31(c) of the Law, the existence of a request for the said report or the contents on one of these, and allowing the inspection of documents attesting to a report as aforesaid is prohibited, except to someone duly authorized to be privy to such information for purposes of fulfilling his function in the banking corporation, the supervisor or someone he authorized, the competent authority or pursuant to a court order."</i>
Recommendation of the MONEYVAL Report	<i>Delete s.10 (b) PTFL to avoid any confusion as to the mandatory nature of STR reporting on FT to the FIU, as provided for in s.48 PTFL.</i>

<sup>5</sup> i.e. part of Recommendation 16.

Measures taken to implement the Recommendation of the Report	<p>According to the Israeli law, there is a clear obligation for financial institutions which are subject to the AML/CFT regime to report any transaction they suspect or have reason to believe is related to TF, directly to IMPA the FIU as a UAR according to the relevant order set in accordance with section 7 of the PMLL.</p> <p>In addition, there is a coordinated work procedure between IMPA, the IP and the Ministry of Defense. According to the procedure, every UAR concerning TF received at the IP or the Ministry of Defense will be disseminated to IMPA, and visa versa.</p> <p>Nevertheless, the Ministry of Justice considered this issue with the relevant authorities and decided to remove section 10(b) to the PTFL and replace it with a provision clarifies that the obligation to report to the IP does not substitute the obligation to report to IMPA in accordance with section 7 to the PMLL.</p>
Recommendation of the MONEYVAL Report	<i>Ensure attempted FT transactions are explicitly covered.</i>
Measures taken to implement the Recommendation of the Report	The amended orders include explicit obligations to report all attempted unusual transactions (except the amended Postal Bank order).
Recommendation of the MONEYVAL Report	<i>Ensure removal of thresholds from the (relevant) Orders covering SRIV reporting.</i>
Measures taken to implement the Recommendation of the Report	In the amended orders all thresholds for unusual activity reporting were removed.
(Other) changes since the last evaluation	

**Special Recommendation IV (Suspicious transaction reporting)  
II. Regarding DNFBP**

Changes since the last evaluation	See response in the "Key recommendations" table aforementioned (In Recommendation 5 - Regarding DNFBP).
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### 3. Other Recommendations

In the last report the following FATF recommendations were rated as “partially compliant” (PC) or “non compliant” (NC) (see also Appendix 1). Please, specify for each one what measures, if any, have been taken to improve the situation and implement the suggestions for improvements contained in the evaluation report.

<b>Recommendation 3 (Confiscation and provisional measures)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Amend legislation on confiscation and provisional measures to include full range of relevant predicate offences.</i>
Measures taken to implement the Recommendation of the Report	<p>The Ministry of Justice established a working group and appointed an outsourcing professional skilled lawyer (Adv. Dror Shtrum) to formulate a governmental bill on confiscation (inspired by the principles of the UK's Proceeds of Crime Act 2002 additionally to civil recovery provisions). An initial draft bill has recently published among relevant authorities for their reply, and extensive discussions in this matter are being held.</p> <p>In addition, following MONEYVAL's report, we reviewed again the Israeli legislation on confiscation and the effectiveness of the Israeli confiscation regime. Hereinafter are additional<sup>6</sup> confiscation provisions, relating to predicate offences, that were not included in Israel's evaluation report and that illustrate the effectiveness of the confiscation regime:</p> <ol style="list-style-type: none"> <li><b>1. The Penal Law 5737-1977:</b> <ul style="list-style-type: none"> <li>• Section 129 – forfeiture of instruments connected to offences relating state security.</li> <li>• Sections 234-235 – forfeiture of instruments of gambling offences.</li> <li>• Section 297 – forfeiture of bribery offences.</li> <li>• Section 377D – forfeiture of property connected to offences against the liberty of a person.</li> <li>• Sections 469, 483 – forfeiture of property connected to offences of forgery of money and coins.</li> </ul> </li> <li><b>2. The Customs Ordinance:</b> <ul style="list-style-type: none"> <li>• Section 39(b) – confiscation of goods imported by mail.</li> <li>• Section 203 – confiscation of sea craft.</li> <li>• Section 204 – confiscation of goods.</li> </ul> </li> <li><b>3. The Import and Export Ordinance [New Version], 5739-1979:</b> Section 9 relates to confiscation of goods or transportation instruments connected to the above mentioned law.</li> <li><b>4. The Confiscation of profits gained from publications concerning offences, 2005:</b> Section 2 relates to confiscation of the profits gained from publications concerning offences.</li> </ol>
Recommendation of the MONEYVAL Report	<i>Improve effectiveness in respect of confiscation for the full range of predicate offences.</i>

<sup>6</sup> in addition to the confiscation provisions in the PMLL, the Criminal Law Procedure Ordinance, the Dangerous Drugs Ordinance, the Prohibition on Terrorist Financing Law, the Defense Regulations and the Combating Criminal Organizations Law.

<p>Measures taken to implement the Recommendation of the Report</p>	<p>Following MONEYVAL's report, we reviewed the Israeli regime on confiscation and the effectiveness of the Israeli confiscation regime. Hereinafter are courts' decisions on confiscation that demonstrate the effectiveness of the Israeli regime:</p> <ol style="list-style-type: none"> <li>1. <b>Case 3580/06</b> (verdict on 04/12/2008) - the offender was convicted of offences according to section 413 to the Penal Law. The state confiscated a vehicle (BMW) according to section 39 to the Criminal Law Procedure Ordinance.</li> <li>2. <b>Case 1071/08</b> (verdict on 31/03/2008) - the offender was convicted of an offence of fraud. The state confiscated 701,259\$ according to section 39 to the Criminal Law Procedure Ordinance.</li> <li>3. <b>Case 5001/07</b> (verdict on 25/03/2008) - the offender was convicted of offences of bribery, fraud and theft. The state confiscated 400,000 NIS according to section 39 to the Criminal Law Procedure Ordinance.</li> <li>4. <b>Case 32/08</b> (verdict on 12/07/2009) - the offender was convicted of offences according to section 144 and 329 to the Penal Law. The state confiscated a motorbike according to section 39 to the Criminal Law Procedure Ordinance.</li> <li>5. <b>Case 8031/07</b> (verdict on 28/01/2008) – the offender was convicted of an offence according to section 8 to the Prohibition on Terrorist Financing Law. The state confiscated 391,000 NIS according to section 12 to the Prohibition on Terrorist Financing Law.</li> <li>6. <b>Case 1068/05</b> (verdict on 16/09/2008) – the offenders were convicted of offences of blackmail and of activity in a criminal organization. The state confiscated 3 vehicles (BMW, Mercedes, and Peugeot) according to section 5 to the Combating Criminal Organizations Law.</li> <li>7. <b>Case 40282/05</b> (verdict on 03/07/2008) – the offender was convicted of an offence of organizing gambling games. The state confiscated 2,000,000 NIS according to section 235 to the Penal Law.</li> <li>8. <b>Case 1061/05</b> (verdict on 07/01/2007) - offender was convicted of drug offences. The state confiscated a vehicle (Isuzu 4x4) according to section 36 to the Dangerous Drugs Ordinance.</li> <li>9. <b>Case 219/03</b> (verdict on 30/01/2007) - the offenders were convicted of an offence of obtaining by fraud. The state confiscated 1,605,369 NIS according to the Criminal Law Procedure Ordinance.</li> <li>10. <b>Case 4039/05</b> (verdict on 31/08/2008) - the offenders were convicted of an offence of bribery. The state confiscated two apartments and 3,000,000 NIS according to section 297 to the Penal Law.</li> <li>11. <b>Case 3555/03</b> (verdict on 06/09/2006) - the offender was convicted of an offence of keeping or managing a gambling place. The state confiscated a gambling instrument worth \$90,000 according to sections 234-235 to the Penal Law.</li> </ol> <p>As demonstrated above, the claim about deficiency concerning the effectiveness in respect of confiscation for the full range of predicate offences is not accurate.</p> <p>In addition, according to IP information, large sums of money and property originated from predicate offences are being seized and confiscated.</p>
<p>(Other) changes since the last evaluation</p>	

<b>Recommendation 6 (Politically Exposed Persons)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Extend by law, regulation or other enforceable means the definition of a PEP beyond banking corporations</i>
Measures taken to implement the Recommendation of the Report	Please see our reply in the "Key Recommendation" table.
Recommendation of the MONEYVAL Report	<i>Amend PEPs requirements to include family members and close associates of PEPs.</i>
Measures taken to implement the Recommendation of the Report	Please see our reply in the "Key Recommendation" table.
Recommendation of the MONEYVAL Report	<i>Provide by law or regulation or other enforceable means full senior management approval for establishing business relationships with PEPs for banking corporations.</i>
Measures taken to implement the Recommendation of the Report	Please see our reply in the "Key Recommendation" table.
Recommendation of the MONEYVAL Report	<i>Ensure senior management approval for continuation of business where a customer is subsequently found to be a PEP or becomes a PEP.</i>
Measures taken to implement the Recommendation of the Report	Please see our reply in the "Key Recommendation" table.
Recommendation of the MONEYVAL Report	<i>Ensure new correspondent relationships are approved by senior management.</i>
Measures taken to implement the Recommendation of the Report	Please see our reply in the "Key Recommendation" table.
(Other) changes since the last evaluation	

<b>Recommendation 11 (Unusual transactions)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Establish enforceable requirements for all financial institutions (portfolio managers, stock exchange members, insurance companies, provident funds, money service businesses and the Post Bank) to conduct ongoing due diligence in respect of all complex, unusual large transactions or patterns of transactions that have no apparent or visible economic or lawful purpose.</i>
Measures taken to implement the	Ongoing due diligence obligation was included in the amended orders in relation to the above mentioned financial institutions. See, for example, the

Recommendation of the Report	relevant article in the Stock Exchange Member Order: <b>Article 11:</b> <i>"The stock exchange member shall carry out an ongoing monitoring of the transactions of the account owner, including the following:</i> <i>(a) ensure that the transactions are consistent with the character of the account in accordance with his acquaintance with the client;</i> <i>(b) monitoring the transactions and the connections of the account owner against the <u>list of countries and territories</u> specified in the second appendix;</i> <i>(c) monitoring the activity in the account of a politically exposed person;"</i>
Recommendation of the MONEYVAL Report	<i>Amend all Orders to include examination in writing of the purpose and intent of complex, unusual large transactions explicitly.</i>
Measures taken to implement the Recommendation of the Report	The amended orders require on going monitoring of the transactions in the account with regard to the character of the account in accordance with his acquaintance with the client and documentation of this procedure (except in banking corporations in which this provision already exists in article 14(c) of Directive 411).
Recommendation of the MONEYVAL Report	<i>Amend all Orders to require the findings of the examinations to be kept available for competent authorities for at least five years.</i>
Measures taken to implement the Recommendation of the Report	The amended orders cover the obligation to keep the findings of the transactions' examination available for competent authorities for at least 7 years (except in banking corporations in which this provision will be included in the amendment to Directive 411 drafted by the BOI).
(Other) changes since the last evaluation	

<b>Recommendation 15 (Internal controls, compliance and audit)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Provide generally enforceable requirements to:</i> <ul style="list-style-type: none"> <li>– <i>establish and maintain internal procedures, policies and controls to prevent money laundering and to communicate them to employees in non-banking sector;</i></li> <li>– <i>designate compliance officers at management level in the non-banking financial sector;</i></li> <li>– <i>ensure compliance officers have timely access to information;</i></li> <li>– <i>maintain an adequately resourced and independent audit function to test compliance with AML/CFT procedures, policies and controls in the non-banking financial sector;</i></li> <li>– <i>Establish ongoing employee training outside banking corporations;</i></li> <li>– <i>Put in place screening procedures;</i></li> <li>– <i>Ensure high standards when hiring employees.</i></li> </ul>
Measures taken to implement the Recommendation of the Report	The following measures have been taken concerning recommendation 15: 1. The amended orders (except the Postal Bank order) require financial institutions to establish internal procedures, policies and controls to prevent money laundering and terror financing. For example, In the Portfolio Managers Order:



	<p><i>"Portfolio Manager shall determine a policy, tools and risk management with regard to the prohibition of money laundering and terror financing, for the application of the obligations according to the order, including with regard to following issues:</i></p> <ul style="list-style-type: none"> <li>○ <i>Know your costumer procedure;</i></li> <li>○ <i>Tracing money laundering and terror financing threats deriving, inter alia, from new technologies, particularly those that enables non face to face transactions;"</i></li> </ul> <p>2. Section 8 to the PMLL determines that financial institutions will appoint a responsible person to fulfill the obligations. The person responsible for fulfilling the obligations must act to fulfill the AML/CTF obligations imposed upon the financial institutions, to guide the employees regarding the fulfillment of said obligations and shall supervise their fulfillment.</p> <p>In the proposed amendment to the PMLL, it is suggested to authorize the authorities who issue the orders according to this law, to prescribe terms for the appointing of such a responsible person. For example, it may be prescribed in an order that the person responsible for the fulfillment of the corporation's obligations will be at management level. It is also suggested in the amendment not to prescribe these terms in the main legislation, but to enable flexibility to every regulator to prescribe terms on the matter accordingly to the type of corporations that are under his responsibility.</p> <p>3. Even though not specified in the AML/CFT orders, in practice, the inspections carried out by the authorities supervising financial institutions (Ministry of Finance, Ministry of Communication, BOI, ISA) include, inter alia, the examination of the following issues:</p> <ul style="list-style-type: none"> <li>• The appointment of compliance officer, what is his qualification, what is his position in the organization structure of the financial institution? What are his authorities? Does he have discretion when he carries out his duties? Does he have access to contracts with customers?</li> <li>• AML/CFT policies and procedures.</li> <li>• Are there AML/CFT internal procedures, concerning the way of identification, record keeping, unusual transaction reporting, updating amendments in legislation, etc.</li> <li>• Is there an ongoing employee training program regarding responsibilities according the law, the orders and the internal procedures? Is there a specific training to employees due to their assigned work?</li> <li>• How the internal AML/CFT measures are being implemented?</li> <li>• Is there an internal inspection plan? Have such inspection been taken? What are the findings?</li> </ul>
(Other) changes since the last evaluation	

<b>Recommendation 16 (DNFBP)</b>	
<b>Rating: Non Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Extend the associated requirements in Recommendations 14, 15 and 21 to DNFBP.</i>
Measures taken to implement the Recommendation of the Report	See response in the "Key recommendations" table aforementioned (In Recommendation 5 - Regarding DNFBP).
(Other) changes since the last evaluation	

<b>Recommendation 20 (Other DNFBP and secure transaction techniques)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Israel should consider extending coverage of DNFBP beyond those defined by FATF.</i>
Measures taken to implement the Recommendation of the Report	The draft that was formulated in the Ministry of Justice regarding DNFBPs defined by the FATF applies broadly on <b>any person</b> that conducts specified activities on behalf of another person.
(Other) changes since the last evaluation	

<b>Recommendation 21 (Special attention for higher risk countries)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Extend the requirement in Criteria 21.1 beyond banking corporations.</i>
Measures taken to implement the Recommendation of the Report	<p>The relevant amended orders contain the following changes with regard to Recommendation 21:</p> <ol style="list-style-type: none"> <li>(1) CDD measures taken by financial institutions must refer to the connection of costumers that are foreign residents to Israel.</li> <li>(2) Financial institution will need to carry out an ongoing monitoring of the transactions of the account owner, including monitoring the transactions and the connections of the account owner against the <b>list of countries and territories</b> specified in the appendix to the order. The appendix contains a reference to the FATF NCCT list and other countries that the FATF published statements concerning their failing or insufficiently applying FATF Recommendations, and a reference to several specified jurisdictions specifically designated for AML/CFT purposes.</li> <li>(3) All transactions with the designated countries above 5,000 NIS have to be reported as CTRs to the FIU.</li> <li>(4) When dealing with transactions with countries specified in the above mentioned appendix, financial institutions will have to check against the list of designated terrorist individuals and organizations if the names of parties to transaction appear on the list.</li> </ol>

<p>Recommendation of the MONEYVAL Report</p>	<p><i>Provide clear requirements to examine as far as possible the background and purpose of transactions with countries (which do not, or insufficiently, apply the FATF Recommendations or where there are AML/CFT weaknesses) which have no economic or visible lawful purpose, and provide specific requirements for financial institutions to set forth their findings in writing and to keep the findings available to assist competent authorities.</i></p>
<p>Measures taken to implement the Recommendation of the Report</p>	<p>The amended orders, excluding the banking corporations order (the BOI is considering amending Directive 411 in this respect), contain the obligation for financial institution to carry out a heightened monitoring of the transactions and the connections of the account owner against the <u>list of countries and territories</u> specified in the appendix to the order. According to the draft amended orders, the financial institutions will have to report UARs to the FIU about transactions with no economic or visible lawful purposes. Furthermore, financial institutions will have to maintain all necessary records on transactions including the findings of the transactions' examination, for a period of at least seven years,</p>
<p>Recommendation of the MONEYVAL Report</p>	<p><i>Ensure that appropriate counter-measures can be taken where a country continues not to apply or insufficiently applies FATF Recommendations.</i></p>
<p>Measures taken to implement the Recommendation of the Report</p>	<p>The following counter-measures have been taken:</p> <ol style="list-style-type: none"> <li>1. On 6 August 2009 IMPA informed the supervisors about the FATF update from 26 June 2009 to the statements concerning jurisdictions that do not apply or insufficiently apply FATF Recommendations (published on 28 February 2008), and of MONEYVAL statements about Azerbaijan (dated 12/12/2002 and 23/03/2009). IMPA informed the supervisors about the FATF Statement and its updates. IMPA recommended the supervisors to advise the financial institutions to pay special attention to the ML\TF risks in transactions with financial institutions operating in those countries, including taking enhanced due diligence measures and unusual transaction reporting with regard to those countries.</li> <li>2. On 14 December 2008 IMPA initiated a seminar for compliance officers of banking corporations concerning CFT issues. During the seminar lecturers from IMPA, the IP and the BOI provided clear guidelines concerning CFT issues including warning them that transactions with natural or legal persons within country that continues not to apply or insufficiently applies FATF Recommendations, might run the risk of ML\TF.</li> <li>3. Advanced studies, conferences, training session and feedback meetings, are some of the tools used to educate and increase the awareness in respect of AML/CFT, among the financial institutions and the supervisors.</li> <li>4. During 2009 IMPA in cooperation with the Ministry of Finance issued guidelines and instructions booklets to MSBs and to insurers and insurance agencies concerning AML/CFT issues such as red flags for ML and TF reports, relevant typologies and sanitized cases (the booklet for insurance agencies was published on 26 August 2009, and the booklet for MSBs will be published on September 2009). According to IMPA's 2009 annual work-plan, two additional booklets are planned - The first, for the Members of the stock exchange and Portfolio managers; the second for the Banking</li> </ol>

	<p>corporations and the postal bank. Each booklet is adjusted to the unique element of the reporting sector and its skills.</p> <p>5. IMPA publishes AML/CFT guidelines, news, legal information, typologies and other relevant information on its website. In addition, IMPA publishes on its website a triennial newsletter regarding AML/CFT issues. The newsletter is distributed by email to law enforcement authorities, to the supervisors and to compliance officers of financial institutions.</p>
(Other) changes since the last evaluation	

<b>Recommendation 22 (Foreign branches and subsidiaries)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Israel needs to provide a general enforceable obligation for all financial institutions to ensure their foreign 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</i>
Measures taken to implement the Recommendation of the Report	Only banking corporations have foreign branches and subsidiaries. Regulation 411 applies on foreign branches and subsidiaries under the restrictions pursuant to article 2 of the Directive. The BOI intends to extend article 2 to Directive 411 in accordance with the recommendations.
Recommendation of the MONEYVAL Report	<i>Provide enforceable obligations requiring financial institutions to pay particular attention in respect of their foreign branches and subsidiaries based in countries that do not or insufficiently apply FATF Recommendations;</i>
Measures taken to implement the Recommendation of the Report	The BOI intends to amend Directive 411 to include the recommendations concerning foreign branches and subsidiaries.
Recommendation of the MONEYVAL Report	<i>Provide for enforceable obligations to ensure 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;</i>
Measures taken to implement the Recommendation of the Report	The BOI intends to amend Directive 411 to include the recommendations concerning foreign branches and subsidiaries.
Recommendation of the MONEYVAL Report	<i>Provide a general enforceable obligation to inform the home country supervisor when a foreign branch or subsidiary is unable to observe appropriate AML/CFT measures.</i>
Measures taken to implement the Recommendation of the Report	The BOI intends to amend Directive 411 to include the recommendations concerning foreign branches and subsidiaries.
(Other) changes since the last evaluation	

<b>Recommendation 23 (Regulation, supervision and monitoring)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Israel should reconsider reliance upon outsourcing of supervision of AML/CFT in the Ministry of Finance and Ministry of Communication should be reconsidered.</i>
Measures taken to implement the Recommendation of the Report	Reliance upon outsourcing of supervision was reconsidered during the AML/CFT Regulators Forum meeting which took place on 26 July 2009 (Please find explanation in the next recommendation). During the meeting the supervisors were requested to take a more active approach in the inspections including physical presence of the supervisor's representatives during the on site inspection. The relevant supervisors mentioned that, in practice, their outsourced inspections are accompanied by an employee of the supervisor in substantial part of inspections in order to ensure appropriate and sufficient level of supervision. Furthermore, the outsourced inspectors receive guidance and instructions by the supervisors.
Recommendation of the MONEYVAL Report	<i>Introduce a mechanism for ensuring that an appropriate and sufficient level of supervision is consistently implemented across the whole financial sector.</i>
Measures taken to implement the Recommendation of the Report	During 2009 an AML/CFT Regulators Forum was established. The Forum constitutes representatives from the supervisors, IMPA, and as needed, from the IP and from the prosecution authorities. The first meeting took place on 20 January 2009 and the second meeting on 26 July 2009. The Forum meetings intend to ensure that AML/CFT issues are consistently implemented across the whole financial sector. In the last meeting, the supervisors agreed to issue a memorandum of understanding between all supervisors regarding AML/CFT issues, inter alia, in order to increase cooperation between supervisors.
Recommendation of the MONEYVAL Report	<i>Ensure effective supervision in MSBs and the Postal Bank.</i>
Measures taken to implement the Recommendation of the Report	During 2007-2009, the supervisor of MSBs conducted over 30 sanctions committees, and there are more expected following several inspections taken. On 23 July 2009 the supervisor of the Postal Bank submitted his final AML/CFT inspection report to the Postal Bank in order to subpoena them to a sanction committee. .
(Other) changes since the last evaluation	

<b>Recommendation 24 (DNFBP – Regulation, supervision and monitoring)</b>	
<b>Rating: Non Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Ensure that DNFBP are subject to effective systems for monitoring and ensuring compliance with AML/CFT obligations.</i>
Measures taken to implement the Recommendation of the Report	See response in the "Key recommendations" table aforementioned (In Recommendation 5 - Regarding DNFBP).
(Other) changes since the last evaluation	

<b>Recommendation 25 (Guidelines and feedback)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Provide sufficient guidelines to the financial sector regarding CFT issues</i>
Measures taken to implement the Recommendation of the Report	<p>The following actions have been taken with regard to guidelines concerning CFT issues:</p> <ol style="list-style-type: none"> <li>1. During 2009 IMPA in cooperation with the Ministry of Finance issued guidelines and instructions booklets to MSBs and to insurers and insurance agencies concerning AML/CFT issues such as red flags for ML and TF reports, relevant typologies and sanitized cases (the booklet for insurance agencies was published on 26 August 2009, and the booklet for MSBs will be published on 9 November 2009). According to IMPA's 2009 annual work-plan, two additional booklets are planned - The first, for the Members of the stock exchange and Portfolio managers; the second for the Banking corporations and the postal bank. Each booklet is adjusted according to the unique element of the reporting sector and its skills.</li> <li>2. On 14 December 2008 IMPA initiated a seminar for compliance officers of banking corporations concerning CFT issues. During the seminar lecturers from IMPA, the IP and the BOI provided clear guidelines concerning CFT issues.</li> <li>3. Advanced studies, conferences, training session and feedback meetings, are some of the tools used to educate and increase the awareness in respect of AML/CFT, among the financial institutions and the supervisors</li> <li>4. IMPA initiated a seminar that took place on 6 September 2009 concerning the AML/CFT risks of NPO's.</li> <li>5. On 6 August 2009 IMPA informed the supervisors about the FATF update from 26 June 2009 to the statements concerning jurisdictions that do not apply or insufficiently apply FATF Recommendations (published on 28 February 2008), and of MONEYVAL statements about Azerbaijan (dated 12/12/2002 and 23/03/2009). IMPA informed the supervisors about the FATF Statement and its updates. IMPA recommended the supervisors to advise the financial institutions to pay special attention to the ML\FT risks in transactions with financial institutions operating in those countries, including taking enhanced due diligence measures and unusual transaction reporting with regard to those countries. The above mentioned information was also published on IMPA's website.</li> <li>6. IMPA publishes AML/CFT guidelines, news, legal information, typologies and other relevant information on its website. In addition, IMPA publishes on its website a triennial newsletter regarding AML/CFT issues. The newsletter is distributed by email to law enforcement authorities, to the supervisors and to compliance officers of financial institutions.</li> <li>7. On the 1<sup>st</sup> of April 2009, the ISA together with IMPA held a full day conference attended by senior (CEO's and compliance officers) representatives of all non banking stock exchange members. The major</li> </ol>

	aim of the conference was to increase awareness and provide guidelines regarding unusual transaction reporting.
Recommendation of the MONEYVAL Report	<i>Also provide comprehensive guidance on PMLL issues to the Postal Bank, the insurance and provident funds sector and the money service businesses.</i>
Measures taken to implement the Recommendation of the Report	During the AML/CFT Regulators Forum meeting the supervisors were requested to provide financial institutions comprehensive and coordinated guidance on AML/CFT issues. In addition, as mentioned above, IMPA and the relevant supervisors issued guidelines and instructions booklets to the MSBs and to insurers and insurance companies concerning AML/CFT issues. Two additional booklets are planned - The first, for the Members of the stock exchange and Portfolio managers; the second for the Banking corporations and the postal bank.
Recommendation of the MONEYVAL Report	<i>Coordinate this guidance across the financial sector</i>
Measures taken to implement the Recommendation of the Report	As mentioned above, during the AML/CFT Regulators Forum meeting the supervisors were requested to provide financial institutions comprehensive and coordinated guidance on AML/CFT issues.
Recommendation of the MONEYVAL Report	<i>Make more case specific feedback available.</i>
Measures taken to implement the Recommendation of the Report	The following measures are being taken to provide financial institutions case specific feedback: <ol style="list-style-type: none"> <li>1. During 2009 IMPA in cooperation with the Ministry of Finance issued guidelines and instructions booklets to MSBs and to insurers and insurance agencies concerning AML/CFT issues such as red flags for ML and TF reports, relevant typologies and sanitized cases (the booklet for insurance agencies was published on 26 August 2009, and the booklet for MSBs will be published on September 2009). According to IMPA's 2009 annual work-plan, two additional booklets are planned - The first, for the Members of the stock exchange and Portfolio managers; the second for the Banking corporations and the postal bank. Each booklet is adjusted according to the unique element of the reporting sector and its skills.</li> <li>2. On 14 December 2008 IMPA initiated a seminar for compliance officers of banking corporations concerning CFT issues. During the seminar lecturers from IMPA, the IP and the BOI provided clear guidelines concerning CFT issues including typologies and sanitized cases.</li> <li>3. Advanced studies, conferences, training session and feedback meetings, are some of the tools used to educate and increase the awareness in respect of AML/CFT, among the financial institutions and the supervisors</li> <li>4. IMPA publishes AML/CFT guidelines, news, legal information, typologies and other relevant information on its website. In addition, IMPA publishes on its website a triennial newsletter regarding AML/CFT issues. The newsletter is distributed by email to law enforcement authorities, to the supervisors and to compliance officers of financial institutions.</li> </ol>

Recommendation of the MONEYVAL Report	<i>Publish guidelines for DNFBB</i>
Measures taken to implement the Recommendation of the Report	N/A
(Other) changes since the last evaluation	

<b>Recommendation 33 (Legal persons – beneficial owners)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Review commercial, corporate and other laws with a view to taking measures to provide adequate transparency with respect to beneficial ownership.</i>
Measures taken to implement the Recommendation of the Report	<ol style="list-style-type: none"> <li>1. The Ministry of Justice will review this issue and will consider amendments in order to provide transparency with respect to beneficial ownership, considering the current legal measures.</li> <li>2. The companies' registrar initiated a project of data amelioration in order to update the companies' registration, among other things, data concerning beneficial ownership. This project is well budgeted and includes application to the registered companies and requiring registered companies to submit to the registrar an annual report that includes relevant details about directors and shares holders. This project will improve the accuracy of the registration and will make it more reliable and dependable. In addition, on 23 July 2009, an amendment to the Companies Law was published, and determines sanctions to a company that do not submit an annual report to the companies registrar as required by the law (herein after – the violating company). As mentioned, the companies' registrar is given the authority to sanction such company in various sanctions, for example, refusal to register a company that one of its shares holders is the violating company, the beneficial owner of the violation company or a director in the violating company. This amendment will enable the companies' registrar to ensure that the registration is updated.</li> <li>3. Specifically with regard to NPOs, during the last year, the NPO's registrar ('Amutot' registrar) has taken the following measures to increase the scope of information available on NPOs and their transparency: <ol style="list-style-type: none"> <li>a. Following the amendment to the Law of NPOs that came into force in June 2007, the NPO's registrar acted to implement the requirements of the law, including the requirement to submit a verbal report which will include comprehensive information regarding the NPO's activities, including the use the NPO made with donations and the NPO's future planed activity.</li> <li>b. The Ministry of justice signed on March 2009 an agreement for the establishment of an on-line data-base on NPOs. This information will enable the public and governmental authorities to receive in simple and lenient manner extensive information on NPOs. The data-base is also planned to include additional information from ministries regarding NPOs, and will enable governmental</li> </ol> </li> </ol>



	<p>authorities to cross-reference different types of information. The data-base is planned to go on-line during 2010.</p> <p>4. The Israeli approach to preventing the unlawful use of legal persons and legal arrangements for ML\FT relies on the investigative and other powers of law enforcement, regulatory, supervisory, and other competent authorities to obtain or get access to information. Such information on beneficial ownership may be available from four sources:</p> <ul style="list-style-type: none"> <li>• ‘Open source’ data.</li> <li>• Information retained by AML/CFT regulated businesses as part of their compliance obligations.</li> <li>• Information held by public bodies such as the companies’ registrar, NPO’s registrar, charities registrar or the tax authorities.</li> <li>• Information held by private companies or individuals.</li> </ul>
Recommendation of the MONEYVAL Report	<i>Assess the number of companies on bearer shares and take specific measures to ensure that legal persons which are able to issue bearer shares are not misused for money laundering.</i>
Measures taken to implement the Recommendation of the Report	No changes since last evaluation.
(Other) changes since the last evaluation	

<b>Recommendation 34 (Legal arrangements – beneficial owners)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Review information available on the beneficial owners of private or foreign trusts.</i>
Measures taken to implement the Recommendation of the Report	<p>A draft amendment concerning the application of AML/CFT obligations on DNFBPs such as lawyers, that often provide trust services has been formulated in the ministry of justice and will be brought soon before the attorney general for consideration.</p> <p>In addition, As mentioned above, the Israeli approach to preventing the unlawful use of legal persons and legal arrangements for ML\FT relies on the investigative and other powers of law enforcement, regulatory, supervisory, and other competent authorities to obtain or get access to information. Such information on beneficial ownership may be available from three sources:</p> <ul style="list-style-type: none"> <li>• Information retained by AML/CFT regulated businesses as part of their compliance obligations.</li> <li>• Information held by public bodies such as the tax authorities.</li> <li>• Information held by private companies or individuals.</li> </ul>
Recommendation of the MONEYVAL Report	<i>Provide legal requirements on trust service providers to obtain, verify and retain records of the trusts they create, including beneficial ownership details.</i>
Measures taken to implement the Recommendation of the Report	As aforesaid, A draft amendment concerning the application of AML/CFT obligations on DNFBPs such as lawyers, who often provide trust services, has been formulated in the ministry of justice and will be brought soon before the attorney general for consideration.

(Other) changes since the last evaluation	
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<b>Special Recommendation III (Freeze and confiscate terrorist assets)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Fully implement S/C Res. 1267 (1999) and 1452 (2002)</i>
Measures taken to implement the Recommendation of the Report	<p>As part of the fight against terror financing, and following inter-organizational work lead by the Israeli National Security Council, the Security Cabinet approved on 24 December 2008 declarations of 35 foreign designated terrorist organizations. All the organizations declared are related to Al Qa'ida and the Taliban. As a result financial institutions in Israel must monitor their clients and transactions and report to the IMPA any suspicious or unusual transactions in this respect. The declarations are a significant step in the international combat against the financing of terrorism in accordance with the international standards as set by the relevant United Nations Security Council resolutions (1373, 1267 etc.) and of the FATF. The declarations have been approved according to the Prohibiting on terrorist financing law, 2005 which allows the designation in Israel of foreign terrorist organizations that were designated as terrorist organizations either by a foreign country or by the UN Security Council. These declarations are additional to existing designations of Middle East terrorist organizations (e.g. Hamas, Hezbollah etc.) previously designated under the Defense Regulations (Emergency), 1945 and under the Prevention of Terrorism Ordinance, 1948.</p> <p>The National Security Council, which is the responsible body, intends to submit during the summer of 2009 approximately 50-55 additional declarations of foreign designated terrorist organizations, based on the 1267 list for Security Cabinet approval.</p>
Recommendation of the MONEYVAL Report	<i>Produce comprehensive and focused guidance to financial institutions as to their obligations under Security Council Resolutions.</i>
Measures taken to implement the Recommendation of the Report	<p>As a result of the aforementioned declarations and according to the AML/CFT orders, financial institutions in Israel must monitor their clients (including checking against the list if they appear on the list of designated terrorist individuals and organizations) and their clients' transactions and report to IMPA any unusual transactions in this respect.</p> <p>In the AML/CFT Regulators Forum meeting, the supervisors were requested to provide guidance to financial institutions as to their obligations under Security Council Regulations.</p> <p>In addition, the measures specified in our reply to recommendation 25 (concerning making case specific feedback more available) have been taken, inter alia, in order to provide financial institutions comprehensive guidance with regard to their obligations under Security Council Resolutions.</p>
Recommendation of the MONEYVAL Report	<i>Review effectiveness after the recent promulgation of the PTFL Regulations.</i>
Measures taken to implement the	In December 2007, the Knesset Law Committee approved the PTFL regulations enabling the declaration by a ministerial committee of foreign

Recommendation of the Report	designated terrorists, and legally requiring financial institutions to comply with the foreign designations. The 35 aforementioned declarations have been approved according to the PTFL regulations, have not been challenged and there was no submission of a petition for the cancellation of the declarations.
(Other) changes since the last evaluation	

<b>Special Recommendation VI (AML requirements for money/value transfer services)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Review the compliance of MVT service operators with CDD standards in the light of the issues raised under R.5.</i>
Measures taken to implement the Recommendation of the Report	The amended MSBs order includes all CDD measures raised under recommendation 5 (existing thresholds, enhanced due diligence, information on the purpose and intended nature of the business relationship and ongoing due diligence).
(Other) changes since the last evaluation	

<b>Special Recommendation VII (Wire transfer rules)</b>	
<b>Rating: Partially Compliant</b>	
Recommendation of the MONEYVAL Report	<i>Establish enforceable obligations to require "full" originator information to accompany cross-border wire transfers for the Postal Bank and other relevant non-banking institutions.</i>
Measures taken to implement the Recommendation of the Report	The amended orders include the obligation for financial institutions to require "full" originator information to accompany cross-border wire transfers.
Recommendation of the MONEYVAL Report	<i>Amend the Postal Bank Order to bring the lower threshold of NIS 50,000 in line with the requirements of SR.VII.</i>
Measures taken to implement the Recommendation of the Report	The amended Postal Bank order includes similar thresholds as in the banking order, as follows: <ul style="list-style-type: none"> <li>• The Postal Bank shall not carry out a transaction which requires a CTR (in the case of wire transfer against designated countries and territories the threshold is 5,000 NIS) and which is not recorded in an account in which the party performing the transaction is recorded as an account holder or authorized signatory, without recording the identification particulars of the party performing the transaction.</li> <li>• The Postal Bank shall not carry out a transaction which does not require a CTR and which is not recorded in an account in which the party performing the transaction is recorded as an account holder, authorized signatory, without identifying the party performing the transaction and recording his identification particulars. For this subsection, "transaction" means a transaction in cash involving 10,000 NIS or more, or another transaction involving 75,000 NIS or more.</li> </ul>
Recommendation of	<i>Establish enforceable requirements for each intermediary and beneficiary</i>

the MONEYVAL Report	<i>financial institution in the payment chain to ensure that all originator information that accompanies a wire transfer is transmitted with the transfer.</i>
Measures taken to implement the Recommendation of the Report	The amended orders include the obligation for financial institutions to ensure that all originator information that accompanies a wire transfer is transmitted with the transfer through the payment chain.
Recommendation of the MONEYVAL Report	<i>Establish an enforceable requirement to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information.</i>
Measures taken to implement the Recommendation of the Report	The amended orders (except the Postal bank order) include the obligation for financial institutions to determine policy and procedures for higher risk situations. This provision is phrased broadly enough so financial institutions could determine the procedures for a wide range of higher risk situation, including procedures for handling wire transfers that are not accompanied by complete originator information.
(Other) changes since the last evaluation	

#### 4. Specific Questions

*Please explain the current legislative position regarding IMPA's access to additional information for the purposes of its analyses from non-reporting entities? Does such access require judicial approval?*

IMPA has access to various data bases which include financial, administrative and law enforcement information. Such access does not require judicial approval.

Israeli Population Registrar's database	ID No., Passport No., identity verification, Family tree, Entrance and departure from Israel
Pledge Registration Office	mortgages and the existence of assets
Association's Registration Office	Associations information including - registration No., registration date, goals, financial data
Israeli transportation Registrar's database	Information regarding ownership of valuable cars, yachts and private airplanes (will be available soon).
Land registry bureau	Information regarding ownership of real estate (will be available soon).
Reporting institutions Registration database	Registration details (including license number, address, phones, employees of MSB's etc.)
CTR's database	CTR's on involved entities
UARs database	UARs on involved entities
Information requests database (Israeli Police and , Israeli security Authority	Information regarding several thousand entities included in police and Israel security Authority requests (including information from the Criminal Registry)
Customs reports database	Reports to customs according the PMLL
Israel Court's Management	pending legal proceeding in Israel on involved entities
Israeli Companies Registrar's database	companies and the entities involved in it (shareowners, directors, etc.), companies information

Haaretz daily newspaper - archive	General information on involved entities
Globes business and technology news - archive	General information on involved entities
Maariv daily newspaper - archive	General information on involved entities
The marker - Israeli financial news - archive	General information on involved entities
Takdin	Israeli verdicts on involved entities/ specific subjects, detecting Israeli legislation
Bank of Israel	limited accounts and limited customers under aggravating circumstances
Taxes and more (Missim)	Israeli verdicts regarding taxes, detecting Israeli legislation regarding taxes
Nevo	Israeli verdicts on involved entities/ specific subjects, detecting Israeli legislation
Israel Postal Company	land registration extracts and the existence of real estate
Lexis	Legal and financial information on involved entities (information from different countries, courts, newspapers, companies directories, etc.)
Maya (stock exchange)	General information on public companies
Internet Web	General information on involved entities
* Criminal registry	<p>IMPA has indirect access to law enforcement information. Information requests submitted to IMPA from the police and from the Security Authority include information from their databases (including information from the Criminal Registry). IMPA formed a database that includes information regarding thousands entities included in police and Israel security Authority requests.</p> <p>Furthermore, according to the proposed amendment of the PMLL, IMPA will be authorized to receive additional information from the Criminal Registry, such as cases when there was a stay of proceedings.</p>
* Communication data	As agreed between IMPA and the Ministry of justice, the Communication data law will be amended so IMPA will be authorized to have access to the communication data.

*Have there been any changes, whether legislative or otherwise, since the evaluation to IMPA's ability to obtain additional information for the purpose of its analyses from the police, the tax authorities, and administrative information from Social Security?*

IMPA's ability to obtain additional information from other authorities improved due to several projects in which IMPA and the tax authority cooperate and exchange information within the restrictions of the law, in regard to suspicious designated entities.

In respect of tax information, it should be mentioned that the supplement of a tax fraud offence (according to section 220 to the Income tax order) as a predicate offence is being considered. The meaning of such supplement will be enabling the direct exchange of information between IMPA and the tax authority.

Furthermore, in accordance with Israeli government policy guidelines for AML enforcement (Government decision no. 4618, dated 01.01.2006), IMPA has a permanent membership in the Intelligence Fusion Center, together with members from the IP and the Tax Authority. All the members in the Intelligence Fusion Center have direct access to their databases, and they acting to cross-reference information for the purpose of exposing multi-domain criminality and enabling inter-agency enforcement initiatives.

In addition, IMPA's personnel accompanying the six multi-agency task forces that were established in

accordance with the above mentioned government decision. Each one of the task forces assigned a specified criminal organization or phenomenon, and comprised of elements from the Israel Police, the Tax Authority, and the State Prosecutor's Office.

Concerning administrative information from Social Security - IMPA submitted an application requesting information from the Social Security, and is currently waiting for a reply.

*Has consideration been given since the evaluation to giving IMPA power to provisionally freeze reported suspicious transactions?*

Following MONEYVAL's evaluation, consideration has been given to giving IMPA power to provisionally freeze reported suspicious transactions, but it was rejected since it is not compatible to the fundamental principles of the Israeli regime.

*Have there been changes to the cross-border transportation control regime explicitly to include all bearer negotiable instruments (para 309 of the report) and have any steps been considered to correct the thresholds for declarations under the Immigration Rules (para 310 of the report)?*

The Ministry of justice decided to amend the definition of "monies" in section 9 of the PMLL concerning cross-border reporting obligation, in order to include all bearer negotiable instruments specified in the methodology.

The Ministry of justice is considering correcting the thresholds for declarations under the immigration rules.

*Please provide (if possible) a summary of administrative sanctions taken by the regulatory authorities specifically for AML/CFT infringements since the evaluation.*

**Ministry of Finance – Money Service Businesses**

Year	No. of Sanction Committees	Sanctions (NIS)
2007	8	220,000
2008	11	610,000
2009 Updated to date 08/2009	7	1,500,000*

\* These are the sanctions imposed in 3 sanctions committees. The decisions in other 4 sanction committees are still pending.

**Customs**

Year	No. of Sanction Committees	Sanctions (NIS)
2007	48	851,000
2008	41	1,752,000
2009 Updated to date 06/2009	14	949,000

**Bank of Israel**

Year	No. of Sanction Committees	Sanctions (NIS)
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	2007	3	5,925,000
	2008	1	3,700,000
	2009	2*	

\* Sanction Committees planned to take place during 2009.

**Israel Securities Authority**

Year	No. of Sanction Committees	Sanctions (NIS)
2007	11	94,000
2008	0	-
2009 Updated to date 06/2009	2	Cases are still pending

*What further steps have been taken since the evaluation to review the adequacy of the Law on Non-Profit Organisations in the context of SR.VIII?*

During the last year, the NPO's registrar ('Amutot' registrar) has taken the following measures to increase the scope of information available on NPOs and their transparency:

- (a) Following the amendment to the Law of NPOs that came into force in June 2007, the NPO's registrar acted to implement the requirements of the law, including the requirement to submit a verbal report which will include comprehensive information regarding the NPO's activities, including the use the NPO made with donations and the NPO's future planned activity.
- (b) The Ministry of justice signed on March 2009 an agreement for the establishment of an on-line data-base on NPOs. This information will enable the public and governmental authorities to receive in simple and lenient manner extensive information on NPOs. The data-base is also planned to include additional information from ministries regarding NPOs, and will enable governmental authorities to cross-reference different types of information. The data-base is planned to go on-line during 2010.

In addition, IMPA initiated a seminar that took place on 6 September 2009 concerning the AML/CFT risks of NPO's.

## 5. Questions related to the Third Directive (2005/60/EC) and the Implementation Directive (2006/70/EC)<sup>7</sup>

Implementation / Application of the provisions in the Third Directive and the Implementation Directive	
Please indicate whether the Third Directive and the Implementation Directive have been fully implemented / or are fully applied and since when.	<p>There is high level of compliance with the third Directive and the Implementation Directive.</p> <p>However, there are some provisions in the Directives that are in legislation process (for example, DNFBPs) and others that are still being examined and considered for application in AML/CFT legislation (for example, simplified customer due diligence, enhanced customer due diligence).</p>

Beneficial Owner	
Please indicate whether your legal definition of beneficial owner corresponds to the definition of beneficial owner in the 3 <sup>rd</sup> Directive <sup>8</sup> (please also provide the legal text with your reply)	<p>Section 7 of the PMLL prescribes what are the matters that will be dealt by orders that will be issued by the Governor of the Bank of Israel (concerning banking corporations) or by a minister (regarding a corpus of the corpuses of the third schedule that is within his responsibility).</p> <p>In accordance with this section, the details which can be determined in an order refer to the recipient of a service, as defined in section 7 of PMLL. It has been stated in the PMLL that the term “recipient of a service” includes the beneficiary of the transaction as well as the former of a trusteeship or of a consecration.</p> <p>The definition of "beneficiary" in section 7 to the PMLL is as follows:  <i>" "beneficiary" – a person for whom or for whose benefit the property is held or the transaction in the property was carried out, or who has the ability to guide a transaction in property, all of this directly or indirectly;"</i></p> <p>In the case the account is opened by a corporation or the transaction is carried out by a corporation, the beneficiary may include the one who has control of the corporation. The term “control” for this matter, has been defined in section 7 of the PMLL by way of a referral to the Securities Law, meaning, the following definition:  <i>"Control" – the ability to direct the activity of the corporation, excluding the ability which derives only from serving as a director or as another position of the corporation, and it is assumed that a man is a holder of controlling interest of the corporation if he holds half or more of a certain type of control means of the corporation".</i></p> <p>It should be mentioned, that the draft bill for the Prohibition of Money Laundering Law (Amendment No. 7), proposed to erase the term “a former of a trusteeship or of a consecration” in section 7 of the PMLL, and instead of those terms, to prescribe a new term – “founder” that will be defined as follows -  <i>"founder" means a creator of a trust or creator of an endowment, within their meaning in the Trust Law, 5729 - 1979, and also a person who has the power to decide, in respect of an account not owned by him, who will be the account owner, the beneficiary or person who is the holder of signature</i></p>

<sup>7</sup> For relevant legal texts from the EU standards see Appendix II

<sup>8</sup> Please see Article 3(6) of the 3<sup>rd</sup> Directive reproduced in Appendix II



rights, or has the power to replace, in respect of the said account, and to add or delete thereto, the owner of the account, the beneficiary, or the person holding signature rights; for this purpose –

“account owner” means a person who is registered in the banking corporation as the account owner;

“holder of signature rights” means a person whom the account owner empowered to act in his account.

Furthermore, it is proposed in the draft bill a broader definition for the term "control" as follows –

“control” means the ability to orient the activity of a corporate body, either alone or with others or through them, whether directly or indirectly, including ability resulting from the corporate body’s by-laws, pursuant to a contract made in writing, verbally, or in another manner, or ability resulting from any other source, except for ability resulting only from performing the duties of an office holder in a corporate body; without derogating from the generality of the aforesaid, a person shall be deemed to have control in a corporate body if one of the following exist:

- (1) the person holds the largest amount of the means of control of some kind, or holds at least ten percent of some kind of means of control, and no other person holds means of control of the same kind in an amount greater than his holdings;
- (2) the person holds at least twenty percent of some kind of means of control;
- (3) the person is able to prevent a business transaction in the corporate body, except for decisions that deal with issuance of the means of control in the corporate body or decisions that relate to the sale or liquidation of most of the corporate body’s business or to a substantial change in it;
- (4) in respect of a corporate body that is not a company, without derogating from the generality of the provisions of this subparagraph – the person serves as an office holder in the corporate body, and for the purpose of a corporate body as aforesaid that is a non-profit society – the person is an office holder or committee member thereof, and in each of the above instances is authorized to act in the name of the corporate body;”

“means of control” means each of the following:

- (1) the right to appoint persons entitled to sign in the name of the corporate body;
- (2) the right to vote in the General Meeting of the company, or a comparable body of another corporate body;
- (3) the right to appoint directors of the corporate body or its managing director;
- (4) the right to share in the corporate body’s profits;
- (5) the right to share in the assets of the corporate body following payment of its debts at the time of its dissolution;

“possession”, for the purposes of control means directly or indirectly, whether alone or with others, or through another person, including a trustee or agent, trust company, registration company, including a right to possess as aforesaid and an option to possess that does not result from convertible securities, or in any other way; possession by a company also includes possession by its subsidiary company or a company affiliated with it by

	<p><i>implication, and possession by an individual person includes also possession by a person who is his relative or a dependent of his; for this purpose, "relative" has the same definition as in the Companies Law; "possession with others" means possession of the means of control jointly by two or more persons pursuant to agreement, whether written or verbal;</i></p>
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<b>Risk-Based Approach</b>	
<p>Please indicate the extent to which financial institutions have been permitted to use a risk-based approach to discharging certain of their AML/CFT obligations.</p>	<p>Financial institutions have not been permitted yet to use risk-based approach to discharge certain AML/CFT obligations. The BOI is considering the application of risk-based approach in certain cases.</p>

<b>Politically Exposed Persons</b>	
<p>Please indicate whether criteria for identifying PEPs in accordance with the provisions in the Third Directive and the Implementation Directive<sup>9</sup> are provided for in your domestic legislation (please also provide the legal text with your reply).</p>	<p>The amended orders include a definition of PEP. For example, The definition in the amended Postal bank order: <i>"Foreign residents that are senior public functionaries, including their family members, business associates or a corporation under their control"</i> The term "control" is defined by way of a referral to section 7(a)(1)(b) to the PMLL. The term "public functionaries" in the amended Postal bank order includes: <i>"Head of state, president of the state, mayor, judge, a member of the states parliament, a member in the government and a senior military or police officer, or any other aforesaid functionaries even if named differently."</i> The term "family member" is defined in the amended Postal bank order as: <i>"Spouse, sibling, parent, grandparents, offspring and offspring of the spouse, and the spouse of the aforementioned."</i> <u>As for the banking corporations, article 21 in Directive 411 relates to PEPs.</u></p>

<b>“Tipping off”</b>	
<p>Please indicate whether the prohibition is limited to the transaction report or also covers ongoing ML or TF investigations.</p>	<p>Section 31A of the PMLL provides for a confidentiality obligation. It states that a person who receives information pursuant to the PMLL, in the course of fulfilling his duties or in the course of his work, shall keep it confidential, shall not disclose it to another and shall not make any use of it except in accordance with the provisions of the law or in accordance with a court order. The tipping off issue is regulated broadly in the orders that apply to the financial sector. Section 12 in the banking order states: <i>"Disclosure of the formulation, existence, nonexistence or contents of a report pursuant to section 9, and of the existence of a complementary report pursuant to section 31(c) of the Law, the existence of a request for the said report or the contents on one of these, and allowing the inspection of documents attesting to a report as aforesaid is prohibited, except to someone duly authorized to be privy to such</i></p>

<sup>9</sup> Please see Article 3(8) of the 3<sup>rd</sup> Directive and Article 2 of Commission Directive 2006/70/EC reproduced in Appendix II.

	<p><i>information for purposes of fulfilling his function in the banking corporation, the supervisor or someone he authorized, the competent authority or pursuant to a court order."</i></p> <p>The amended orders for non-banking financial institutions include similar tipping off provision as in the banking order.</p>
With respect to the prohibition of "tipping off" please indicate whether there are circumstances where the prohibition is lifted and, if so, the details of such circumstances.	<p>The confidentiality obligation under section 31A of the PMLL, aforementioned, may be lifted only in accordance with the provisions of the PMLL or in accordance with a court order.</p> <p>Section 12 of the banking order, as quoted above, states the circumstances in which disclosure is permitted.</p>

<b>"Corporate liability"</b>	
Please indicate whether corporate liability can be applied where an infringement is committed for the benefit of that legal person by a person who occupies a leading position within that legal person.	<p>Israeli law allows criminal liability of legal persons.</p> <p>Section 1 of Commentary Order defines "person" – including corporation or association or association of individuals, whether they are incorporated or not.</p> <p>According to Section 23 of the Penal Law, 1977, legal entities may be prosecuted when the offences are committed by a person who according to his position in the legal entity may be seen as acting on behalf or through the legal entity. As a matter of fact legal entities were prosecuted in Israel.</p> <p>Section 23 of the Penal Law:</p> <p><i>"23. (a) a body corporate shall bear criminal liability-</i></p> <p><i>(1) Under section 22 (enhanced liability), if the offence was committed by a person in the course of performance of his function in the body corporate;</i></p> <p><i>(2) for an offence that requires criminal intent or negligence to be proven, if- under the circumstances of the case and in the light of the position, authority and responsibility of the person in the management of the affairs of the body corporate- the act by which he committed the offence, his criminal intent or his negligence are to be deemed the act, the criminal intent or the negligence of the body corporate.</i></p> <p><i>(b) If the offence consists of an omission, the obligation to perform being directly that of the body corporate, then it shall be immaterial whether the offence can or cannot be related also to a certain officer of the body corporate."</i></p>
Can corporate liability be applied where the infringement is committed for the benefit of that legal person as a result of lack of supervision or control by persons who occupy a leading position within that legal person.	<p>Pursuant to section 23 of the Penal Law (cited above), corporate liability can be applied where the infringement is committed for the benefit of that legal person as a result of lack of supervision or control by persons who occupy a leading position within that legal person.</p>

DNFBPs	
Please specify whether the obligations apply to all natural and legal persons trading in all goods where payments are made in cash in an amount of € 15 000 or over.	<p>The draft bill for the Prohibition of Money Laundering Law (Amendment No. 7), intends to make the prohibition on money laundering regime applicable to the precious stones traders sector, according to international standards.</p> <p>The draft bill proposes to impose obligations of identification, registration and reporting on the sector of traders of precious stones, regarding the performance of transactions of precious stones in exchange of money (defined as “cash, bank checks and travelers’ checks”) and that is as part of the work battle against money laundering, by recognition of the fact that these obligations were intended to prevent the performance of money laundering by means of purchasing precious stones.</p> <p>The definition of “trader of precious stones” in the draft bill is –a person who deals with the transferring or receiving of the ownership of precious stones through an occupation, even if it is not his only occupation, providing that during a calendar year he has performed transactions of precious stones on the amount that exceeds 50,000 NIS (approximately 10,000 €) in money (as defined above).</p>

## 6. Statistics

### a. Please complete - to the fullest extent possible - the following tables:

\* All amounts are in EUR (exchange rate – 5.44 NIS for €1)

2007												
	Investigations		Prosecutions		Convictions (final)		Proceeds frozen		Proceeds seized <sup>10</sup>		Proceeds confiscated <sup>11</sup>	
	cases	persons	cases	persons	cases	persons	cases	amount (in EUR)	cases	amount (in EUR)	cases	amount (in EUR)
<b>ML</b>	31	106	16	52	11	21	-	-	10	5,018,382	3	862,684
<b>FT</b>	3	4	2	7	-	-	1	5,515	1	71,875	-	-

<sup>10</sup> According to information received from IP.

<sup>11</sup> According to information received from the prosecution.

2008												
	Investigations		Prosecutions		Convictions (final)		Proceeds frozen		Proceeds seized <sup>12</sup>		Proceeds confiscated <sup>13</sup>	
	cases	persons	cases	persons	cases	persons	cases	amount (in EUR)	cases	amount (in EUR)	cases	amount (in EUR)
<b>ML</b>	48	126	8	35	10	22	-	-	9	9,528,533 <sup>14</sup>	4	1,582,655 <sup>15</sup>
<b>FT<sup>16</sup></b>	2	16	1	2	2	6	3	156,433	-	-	2	163,787 <sup>17</sup>

2009												
	Investigations		Prosecutions		Convictions (final)		Proceeds frozen		Proceeds seized <sup>18</sup>		Proceeds confiscated <sup>19</sup>	
	cases	persons	cases	persons	cases	persons	cases	amount (in EUR)	cases	amount (in EUR)	cases	amount (in EUR)
<b>ML</b>	29	65	8	19	5	13	-	-	6	1,546,930	3	555,147 <sup>20</sup>
<b>FT</b>	1	1	2	2	1	1	-	-	-	-	1	1,838 <sup>21</sup>

## b. STR/CTR

### Explanatory note:

The statistics under this section should provide an overview of the work of the FIU.

The list of entities under the heading “*monitoring entities*” is not intended to be exhaustive. If your jurisdiction covers more types of monitoring entities than are listed (e.g. dealers in real

<sup>12</sup> According to information received from IP.

<sup>13</sup> According to information received from the prosecution.

<sup>14</sup> In addition, 8 apartments, 3 cars, 8 shops and a plot of land were seized but have not yet been sold or evaluated.

<sup>15</sup> In addition, 4 apartments have been confiscated but have not yet been sold or evaluated.

<sup>16</sup> Many FT investigations are performed in the occupied territories and are not included in the statistics.

<sup>17</sup> 91,912 EUR of the sum is a fine.

<sup>18</sup> According to information received from IP.

<sup>19</sup> According to information received from the prosecution.

<sup>20</sup> In addition, 7 vehicles (including luxury cars) have been confiscated but have not yet been sold or evaluated.

<sup>21</sup> The sum received is a fine.

estate, supervisory authorities etc.), please add further rows to these tables. If some listed entities are not covered as monitoring entities, please also indicate this in the table.

The information requested under the heading “*Judicial proceedings*” refers to those cases which were initiated due to information from the FIU. It is not supposed to cover judicial cases where the FIU only contributed to cases which have been generated by other bodies, e.g. the police.

“*Cases opened*” refers only to those cases where an FIU does more than simply register a report or undertakes only an IT-based analysis. As this classification is not common in all countries, please clarify how the term “cases open” is understood in your jurisdiction (if this system is not used in your jurisdiction, please adapt the table to your country specific system).

\* Dissemination of information from IMPA to the IP in the framework of the interagency “fusion center” was not included in the tables below.

2007															
Statistical Information on reports received by the FIU								Judicial proceedings							
Monitoring entities, e.g.	reports about transactions above threshold (1)	reports about suspicious transactions		cases opened by FIU		notifications to law enforcement/prosecutors		indictments				convictions			
		ML	FT	ML	FT	ML	FT	ML		FT		ML		FT	
		cases	persons	cases	persons	cases	persons	cases	persons	cases	persons	cases	persons	cases	persons
commercial banks	675,086	12,678	5												
Credit cards company	0	12													
insurance companies	6,445	774													
Members of the stock exchange	3,494	22													
portfolio managers	39,361	10													
Postal Bank	2,069	318													
Provident funds	3,304	6													
providers of currency services	119,278	20													
Trust company	437	77													
<b>Total</b>	<b>849,474</b>	<b>13,917</b>	<b>5</b>	<b>459</b>	<b>47</b>	<b>205</b>	<b>29</b>	<b>8</b>	<b>27</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>13</b>	<b>-</b>	<b>-</b>

2008															
Statistical Information on reports received by the FIU								Judicial proceedings							
Monitoring entities, e.g.	reports about transactions above threshold (1)	reports about suspicious transactions		cases opened by FIU		notifications to law enforcement/prosecutors		indictments				Convictions			
		ML	FT	ML	FT	ML	FT	ML		FT		ML		FT	
								cases	persons	cases	persons	cases	persons	cases	persons
commercial banks	934,791	19,338	6												
Credit cards company	5,512	653													
insurance companies	3,180	1,092													
Members of the stock exchange	2,629	32													
portfolio managers	38,933	11													
Postal Bank	3464	317													
Provident funds	886	36													
providers of currency services	129,566	19													
Trust company	417	93													
<b>Total</b>	<b>1,115,914</b>	<b>21,591</b>	<b>6</b>	<b>369</b>	<b>112</b>	<b>152</b>	<b>38</b>	<b>4</b>	<b>14</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>14</b>	<b>1</b>	<b>1</b>

2009																
Statistical Information on reports received by the FIU								Judicial proceedings								
Monitoring entities, e.g.	reports about transactions above threshold (1)*	reports about suspicious Transactions*		cases opened by FIU **		notifications to law enforcement/prosecutors**		indictments				Convictions				
		ML	FT	ML	FT	ML	FT	ML		FT		ML		FT		
								cases	persons	cases	persons	cases	persons	cases	persons	
commercial banks	440,760	13,217	4													
Credit card company	7,020	273														
insurance companies	1,834	587														
Members of the stock exchange	1,243	111														
Portfolio managers	22,692	14														
Postal Bank	1,560	224														
Provident funds	167	29														
providers of currency services	56,725	21														
Trust company	136	26			219	28	131	22	2	2	-	-	4	9	-	-
<b>Total</b>	<b>532,137</b>	<b>14,502</b>	<b>4</b>													

\* Data updated 29 July, 2009

\*\*Data updated 20 Aug, 2009

## II. APPENDICES

### *1. APPENDIX I - Recommended action plan to improve the AML / CFT system*

AML/CFT System	Recommended Action (listed in order of priority)
<b>1. General</b>	<b>No text required</b>
<b>2. Legal System and Related Institutional Measures</b>	
2.1 Criminalisation of Money Laundering (R.1 & 2)	<ul style="list-style-type: none"> <li>• Amend list of predicate offences to include piracy and environmental crimes and remove threshold approach in section 4.</li> <li>• Review the need for the disapplication of the concept of “willful blindness” within Section 4 PMLL and its impact on effectiveness.</li> </ul>
2.2 Criminalisation of Terrorist Financing (SR.I)	
2.3 Confiscation, freezing and seizing of proceeds of crime (R.3)	<ul style="list-style-type: none"> <li>• Amend legislation on confiscation and provisional measures to include full range of relevant predicate offences.</li> <li>• Improve effectiveness in respect of confiscation for the full range of predicate offences.</li> </ul>
2.4 Freezing of funds used for terrorist financing (SR.III)	<ul style="list-style-type: none"> <li>• Fully implement S/C Res. 1267 (1999) and 1452 (2002)</li> <li>• Produce comprehensive and focused guidance to financial institutions as to their obligations under Security Council Resolutions.</li> <li>• Review effectiveness after the recent promulgation of the PTFL Regulations.</li> </ul>
2.5 The Financial Intelligence Unit and its functions (R.26)	<ul style="list-style-type: none"> <li>• Grant direct access for IMPA to relevant law enforcement and administrative information to enhance its efficiency as an analytical unit</li> <li>• Improve timeliness of reports to and from IMPA..</li> </ul>
2.6 Law enforcement, prosecution and other competent authorities (R.27 & 28)	<ul style="list-style-type: none"> <li>• More fully exploit FIU intelligence and acted upon as appropriate to enhance effectiveness.</li> </ul>
2.7 Cross Border Declaration & Disclosure	<ul style="list-style-type: none"> <li>• Include all bearer negotiable instruments in cross-border declarations.</li> <li>• Lower the threshold declaration regime under the immigrant rules.</li> </ul>
<b>3. Preventive Measures – Financial Institutions</b>	
3.1 Risk of money laundering or terrorist financing	
3.2 Customer due diligence,	<ul style="list-style-type: none"> <li>• Ensure requirements on numbered accounts are covered</li> </ul>



<p>including enhanced or reduced measures (R.5 to 8)</p>	<p>by law or regulation.</p> <ul style="list-style-type: none"> <li>• Amend legislation to include investment related insurance activities for CDD purposes.</li> <li>• Provide obligation for the Postal Bank to take CDD measures below the applicable thresholds.</li> <li>• Amend Orders to bring the threshold concerning Insurers and Insurance Agents for identification in line with the Methodology.</li> <li>• Amend Orders to specify the lower limit of USD 1,000 for CDD measures in occasional wire transfers.</li> <li>• Require by law or regulation financial institutions to pursue due diligence where it has doubts regarding the veracity or adequacy of previously obtained customer identification data.</li> <li>• Amend the Insurer and Insurance Agent Order and Provident Fund Order to bring the thresholds in line with the FATF limits for verification.</li> <li>• Require by law or regulation the obligatory verification of beneficial owners or holders of controlling interests.</li> <li>• Fully reflect in practice both identification and verification in higher risk situations.</li> <li>• Provide explicit obligation for financial obligations to obtain information on the purpose and intended nature of the business relationship.</li> <li>• Provide in law or regulation the requirements to ensure ongoing due diligence for financial institutions other than banking corporations. For banking corporations this is now covered in 'other enforceable means'. It should be covered in law or regulation.</li> <li>• Remove the exemption regarding registering an attorney, rabbinical pleader or account as a beneficiary of an account, as set out in the Banking Order.</li> <li>• Ensure that Recommendation 5 is effectively implemented by the Postal Bank, Insurance sector, Provident Funds and Money Service Businesses.</li> <li>• Extend by law, regulation or other enforceable means the definition of a PEP beyond banking corporations</li> <li>• Amend PEPs requirements to include family members and close associates of PEPs.</li> <li>• Provide by law or regulation or other enforceable means full senior management approval for establishing business relationships with PEPs for banking corporations.</li> <li>• Ensure senior management approval for continuation of business where a customer is subsequently found to be a PEP or becomes a PEP.</li> <li>• Ensure new correspondent relationships are approved by senior management.</li> <li>• Ensure criteria 7.4 and 7.5 are required by law, regulation or other enforceable means.</li> <li>• Ensure effective implementation internal policies of banking corporations to prevent the misuse of</li> </ul>
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	<p>technological developments in ML/CFT schemes.</p> <ul style="list-style-type: none"> <li>• Ensure adequate enforceable measures which cover FATF Recommendations and apply for the non-banking sector.</li> </ul>
3.3 Third parties and introduced business (R.9)	-
3.4 Financial institution secrecy or confidentiality (R.4)	-
3.5 Record keeping and wire transfer rules (R.10 & SR.VII)	<ul style="list-style-type: none"> <li>• Remove thresholds for retention of documentation.</li> <li>• Establish requirements to retain all documents recording the details of all transactions carried out by the client in the course of an established business relationship.</li> <li>• Provide a general requirement also to retain documentation longer than 5 years where requested by a competent authority.</li> <li>• Ensure those parts of R.10 which are asterisked in the Methodology are covered in respect of the Postal Bank in law or regulation.</li> <li>• Establish enforceable obligations to require “full” originator information to accompany cross-border wire transfers for the Postal Bank and other relevant non-banking institutions.</li> <li>• Amend the Postal Bank Order to bring the lower threshold of NIS 50,000 in line with the requirements of SR.VII.</li> <li>• Establish enforceable requirements for 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.</li> <li>• Establish an enforceable requirement to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information.</li> </ul>
3.6 Monitoring of transactions and relationships (R.11 & 21)	<ul style="list-style-type: none"> <li>• Establish enforceable requirements for all financial institutions (portfolio managers, stock exchange members, insurance companies, provident funds, money service businesses and the Post Bank) to conduct ongoing due diligence in respect of all complex, unusual large transactions or patterns of transactions that have no apparent or visible economic or lawful purpose.</li> <li>• Amend all Orders to include examination in writing of the purpose and intent of complex, unusual large transactions explicitly.</li> <li>• Amend all Orders to require the findings of the examinations to be kept available for competent authorities for at least five years.</li> <li>• Extend the requirement in Criteria 21.1 to beyond banking corporations.</li> <li>• Provide clear requirements to examine as far as possible the background and purpose of transactions with countries (which do not, or insufficiently, apply the FATF</li> </ul>

	<p>Recommendations or where there are AML/CFT weaknesses) which have no economic or visible lawful purpose, and provide specific requirements for financial institutions to set forth their findings in writing and to keep the findings available to assist competent authorities.</p> <ul style="list-style-type: none"> <li>• Ensure that appropriate counter-measures can be taken where a country continues not to apply or insufficiently applies FATF Recommendations.</li> </ul>
<p>3.7 Suspicious transaction reports and other reporting (R.13-14, 19, 25 &amp; SR.IV)</p>	<ul style="list-style-type: none"> <li>• Israel needs to remove the thresholds in some of the orders.</li> <li>• Review level of reporting from non financial institutions and undertake outreach as necessary.</li> <li>• Review the overall effectiveness in relation to the timeliness of the reporting system generally.</li> <li>• Ensure all related information (in financial institutions other than banking corporations) is covered by the tipping off provisions.</li> <li>• Delete s.10 (b) PTFL to avoid any confusion as to the mandatory nature of STR reporting on FT to the FIU, as provided for in s.48 PTFL.</li> <li>• Ensure attempted FT transactions are explicitly covered.</li> <li>• Ensure thresholds from the Orders covering SRIV reporting.</li> </ul>
<p>3.8 Internal controls, compliance, audit and foreign branches (R.15 &amp; 22)</p>	<ul style="list-style-type: none"> <li>• Provide generally enforceable requirements to: <ul style="list-style-type: none"> <li>– establish and maintain internal procedures, policies and controls to prevent money laundering and to communicate them to employees in non-banking sector;</li> <li>– designate compliance officers at management level in the non-banking financial sector;</li> <li>– ensure compliance officers have timely access to information;</li> <li>– maintain an adequately resourced and independent audit function to test compliance with AML/CFT procedures, policies and controls in the non-banking financial sector;</li> <li>– establish ongoing employee training outside banking corporations;</li> <li>– put in place screening procedures;</li> <li>– ensure high standards when hiring employees.</li> </ul> </li> <li>• Israel needs to provide a general enforceable obligation for all financial institutions to ensure their foreign 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</li> <li>• Provide enforceable obligations requiring financial institutions to pay particular attention in respect of their foreign branches and subsidiaries based in countries that do not or insufficiently apply FATF Recommendations;</li> </ul>

	<ul style="list-style-type: none"> <li>• Provide for enforceable obligations to ensure 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;</li> <li>• Provide a general enforceable obligation to inform the home country supervisor when a foreign branch or subsidiary is unable to observe appropriate AML/CFT measures.</li> </ul>
3.9 Shell banks (R.18)	<ul style="list-style-type: none"> <li>• Although the examiners were advised that shell banks are not part of Israeli practice, Israel should consider a more explicit prohibition on the establishment or the continued operation of shell banks.</li> <li>• Provide a specific enforceable obligation to require financial institutions to satisfy themselves that respondent financial institutions in a foreign country do not permit their accounts to be used by shell banks.</li> </ul>
3.10 The supervisory and oversight system - competent authorities and SROs. Role, functions, duties and powers (including sanctions) (R.23, 29, 17 & 25)	<ul style="list-style-type: none"> <li>• Israel should reconsider reliance upon outsourcing of supervision of AML/CFT in the Ministry of Finance and Ministry of Communication should be reconsidered.</li> <li>• Introduce a mechanism for ensuring that an appropriate and sufficient level of supervision is consistently implemented across the whole financial sector.</li> <li>• Ensure effective supervision in MSBs and the Postal Bank.</li> <li>• Provide sufficient guidelines to the financial sector regarding CFT issues.</li> <li>• Comprehensive guidance must also be given on PMLL issues to the Postal Bank, the insurance and provident funds sector and the money service businesses.</li> <li>• Ensure guidance is coordinated across the financial sector.</li> <li>• More case specific feedback must be available.</li> <li>• Publish guidelines for DNFBP.</li> </ul>
3.11 Money value transfer services (SR.VI)	<ul style="list-style-type: none"> <li>• Review the compliance of MVT service operators with CDD standards in the light of the issues raised under R.5.</li> </ul>
<b>4. Preventive Measures – Non-Financial Businesses and Professions</b>	
4.1 Customer due diligence and record-keeping (R.12)	<ul style="list-style-type: none"> <li>• Implement CDD obligation for real estate agents, dealers in precious metals and stones, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants.</li> </ul>
4.2 Suspicious transaction reporting (R.16)	<ul style="list-style-type: none"> <li>• Provide for 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).</li> </ul>

	<ul style="list-style-type: none"> <li>Extend the associated requirements in Recommendations 14, 15 and 21 to DNFBP.</li> </ul>
4.3 Regulation, supervision and monitoring (R.24-25)	<ul style="list-style-type: none"> <li>Ensure that DNFBP are subject to effective systems for monitoring and ensuring compliance with AML/CFT obligations.</li> <li>Provide sufficient guidelines to the financial sector regarding CFT issues</li> <li>Also provide comprehensive guidance on PMLL issues to the Postal Bank, the insurance and provident funds sector and the money service businesses.</li> <li>Coordinate this guidance across the financial sector</li> <li>Make more case specific feedback available.</li> <li>Publish guidelines for DNFBP</li> </ul>
4.4 Other non-financial businesses and professions (R.20)	<ul style="list-style-type: none"> <li>Israel should consider extending coverage of DNFBP beyond those defined by FATF.</li> </ul>
<b>5. Legal Persons and Arrangements &amp; Non-Profit Organisations</b>	
5.1 Legal Persons – Access to beneficial ownership and control information (R.33)	<ul style="list-style-type: none"> <li>Review commercial, corporate and other laws with a view to taking measures to provide adequate transparency with respect to beneficial ownership.</li> <li>Assess the number of companies on bearer shares and take specific measures to ensure that legal persons which are able to issue bearer shares are not misused for money laundering.</li> </ul>
5.2 Legal Arrangements – Access to beneficial ownership and control information (R.34)	<ul style="list-style-type: none"> <li>Review information available on the beneficial owners of private or foreign trusts.</li> <li>Provide legal requirements on trust service providers to obtain, verify and retain records of the trusts they create, including beneficial ownership details.</li> </ul>
5.3 Non-profit organisations (SR.VIII)	<ul style="list-style-type: none"> <li>Perform formal review into the adequacy of the law on Non-Profit Organisations overall had been formally reviewed.</li> <li>Conduct an outreach programme to raise awareness.</li> <li>Israel must ensure that detailed domestic and international transaction records are kept.</li> <li>Review threshold for identification of significant donors.</li> <li>Clarify gateways for international information sharing.</li> </ul>
<b>6. National and International Co-operation</b>	
6.1 National co-operation and coordination (R.31)	-
6.2 The Conventions and UN Special Resolutions (R.35 & SR.I)	<ul style="list-style-type: none"> <li>Israel needs to make the implementation of some of the preventive standards in UN International Convention for the Suppression of the Financing of Terrorism more effective.</li> <li>Implement preventive obligations on other professions involved in financial transactions as required by the UN International Convention for the Suppression of the Financing of Terrorism.</li> </ul>

	<ul style="list-style-type: none"> <li>• Ensure full formal compliance with Security Council Resolution 1267 (1999).</li> <li>• Address effectiveness concerns given recent promulgation of the PTFL Regulations.</li> </ul>
6.3 Mutual Legal Assistance (R.36-38 & SR.V)	<ul style="list-style-type: none"> <li>• Amend law to extend the range of offences contained in Schedule 2 of the 1998 Law.</li> <li>• Review existing law and practices which may act as a barrier to international co-operation in confiscation matters.</li> </ul>
6.4 Extradition (R.39, 37 & SR.V)	-
6.5 Other Forms of Co-operation (R.40 & SR.V)	<ul style="list-style-type: none"> <li>• Review restrictions to FIU access to law enforcement information.</li> </ul>
<b>7. Other Issues</b>	
7.1 Resources and statistics (R. 30 & 32)	<ul style="list-style-type: none"> <li>• Increase numbers of supervisory staff in both the Ministries of Finance and Communication as well as improve training provided.</li> <li>• Review for consistency of the presentation of IMPA and Police statistics.</li> <li>• Make available fully comprehensive statistics on judicial mutual legal assistance as well as complete statistics on administrative international co-operation.</li> </ul>
7.2 Other relevant AML/CFT measures or issues	
7.3 General framework – structural issues	

## **2. APPENDIX II**

### **Article 3 (6) of EU AML/CFT Directive 2005/60/EC (3<sup>rd</sup> Directive):**

(6) "beneficial owner" means the natural person(s) who ultimately owns or controls the customer and/or the natural person on whose behalf a transaction or activity is being conducted. The beneficial owner shall at least include:

(a) in the case of corporate entities:

(i) the natural person(s) who ultimately owns or controls a legal entity through direct or indirect ownership or control over a sufficient percentage of the shares or voting rights in that legal entity, including through bearer share holdings, other than a company listed on a regulated market that is subject to disclosure requirements consistent with Community legislation or subject to equivalent international standards; a percentage of 25 % plus one share shall be deemed sufficient to meet this criterion;

(ii) the natural person(s) who otherwise exercises control over the management of a legal entity:

(b) in the case of legal entities, such as foundations, and legal arrangements, such as trusts, which administer and distribute funds:

(i) where the future beneficiaries have already been determined, the natural person(s) who is the beneficiary of 25 % or more of the property of a legal arrangement or entity;

(ii) where the individuals that benefit from the legal arrangement or entity have yet to be determined, the class of persons in whose main interest the legal arrangement or entity is set up or operates;

(iii) the natural person(s) who exercises control over 25 % or more of the property of a legal arrangement or entity;

### **Article 3 (8) of the EU AML/CFT Directive 2005/60/EC (3<sup>rd</sup> Directive):**

(8) "politically exposed persons" means natural persons who are or have been entrusted with prominent public functions and immediate family members, or persons known to be close associates, of such persons;

### **Article 2 of Commission Directive 2006/70/EC (Implementation Directive):**

#### Article 2

#### Politically exposed persons

1. For the purposes of Article 3(8) of Directive 2005/60/EC, "natural persons who are or have been entrusted with prominent public functions" shall include the following:

(a) heads of State, heads of government, ministers and deputy or assistant ministers;

(b) members of parliaments;

(c) members of supreme courts, of constitutional courts or of other high-level judicial bodies whose decisions are not subject to further appeal, except in exceptional circumstances;

(d) members of courts of auditors or of the boards of central banks;

(e) ambassadors, chargés d'affaires and high-ranking officers in the armed forces;

(f) members of the administrative, management or supervisory bodies of State-owned enterprises.

None of the categories set out in points (a) to (f) of the first subparagraph shall be understood as covering middle ranking or more junior officials.

The categories set out in points (a) to (e) of the first subparagraph shall, where applicable, include positions at Community and international level.

2. For the purposes of Article 3(8) of Directive 2005/60/EC, "immediate family members" shall include the following:

- (a) the spouse;
- (b) any partner considered by national law as equivalent to the spouse;
- (c) the children and their spouses or partners;
- (d) the parents.

3. For the purposes of Article 3(8) of Directive 2005/60/EC, "persons known to be close associates" shall include the following:

- (a) any natural person who is known to have joint beneficial ownership of legal entities or legal arrangements, or any other close business relations, with a person referred to in paragraph 1;
- (b) any natural person who has sole beneficial ownership of a legal entity or legal arrangement which is known to have been set up for the benefit de facto of the person referred to in paragraph 1.

4. Without prejudice to the application, on a risk-sensitive basis, of enhanced customer due diligence measures, where a person has ceased to be entrusted with a prominent public function within the meaning of paragraph 1 of this Article for a period of at least one year, institutions and persons referred to in Article 2(1) of Directive 2005/60/EC shall not be obliged to consider such a person as politically exposed.