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

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# Report on Fourth Assessment Visit – *Executive Summary*

## Anti-Money Laundering and Combating the Financing of Terrorism

# ISRAEL

12 December 2013

Israel is evaluated by MONEYVAL. This evaluation was conducted by MONEYVAL and the mutual evaluation report on the 4<sup>th</sup> assessment visit of Israel was adopted at its 43<sup>rd</sup> Plenary (Strasbourg, 9 – 12 December 2013).

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## **LIST OF ACRONYMS USED**

AML Law	Anti-Money Laundering Law
Amutot	Associations, (singular Amuta)
BOI	Bank of Israel
CC	Criminal Code
CCMIS	Commissioner of Capital Markets, Insurance and Savings
CCOL	Combating Criminal Organisations Law, 5763-2003
CPO	Criminal Procedure Ordinance (Search and Seizure) [New version] (1969)
CDD	Customer Due Diligence
CETS	Council of Europe Treaty Series
CFT	Combating the financing of terrorism
CID	Criminal Investigations Division
CPC	Criminal Procedure Code
CTR	Cash transaction report
DCMIS	Department of Capital Markets, Investments and Savings
DDO	Dangerous Drugs Ordinance [New Version] (1973)
DNFBPS	Designated Non-Financial Businesses and Professions
EAW	European Arrest Warrant
EC	European Commission
ETS	European Treaty Series [since 1.1.2004: CETS = Council of Europe Treaty Series]
EU	European Union
EUR	Euro
FATF	Financial Action Task Force
FCA	Financial Companies Association
FFC	Financial and Fiduciary Companies
FIU	Financial Intelligence Unit
FT	Financing of Terrorism
GRECO	Group of States against Corruption
ILAL	The International Legal Assistance Law (1998)
IMPA	Israel Money laundering and Terror financing Prohibition Authority
IP	Israel Police

ISA	Israel Securities Authority
LEA	Law Enforcement Agency
IBEs	International Business Enterprises
IBUs	International Banking Units
IN	Interpretative note
IT	Information technologies
KYC	Know your customer
Knesset	Israeli Parliament
ML	Money Laundering
MLA	Mutual legal assistance
MLCO	Money Laundering Compliance Officer
MoU	Memorandum of Understanding
MOC	Ministry of Communication
MOF	Ministry of Finance
MOITAL	Minister of Industry, Trade and Labor
MOJ	Ministry of Justice
MSP/MSP	Money services business
MVT	Money Value Transfer
NCCT	Non-cooperative countries and territories
NIS	New Israeli Shekel
NPO	Non-Profit Organisation
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control (US Department of the Treasury)
OGBS	Offshore Group of Banking Supervisors
PEP	Politically Exposed Persons
PMLL	Prohibition of Money Laundering Law
PTFL	Prohibition on Terrorist Financing Law
PTF Regulations	Prohibition on Terrorist Financing Regulations
SAR	Suspicious Activity Report
SR	Special recommendation
SRO	Self-Regulatory Organisation
STRs	Suspicious transaction reports
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TCSP	Trust and company service providers

UAR	Unusual Activity Report
UN	United Nations
UNSCR	United Nations Security Council resolution

## **II. EXECUTIVE SUMMARY**

### **1. Background Information**

1. This report summarises the major anti-money laundering and counter-terrorist financing measures (AML/CFT) that were in place in Israel at the time of the 4<sup>th</sup> round on-site visit (9-16 March 2013) and immediately thereafter. It describes and analyses these measures and offers recommendations on how to strengthen certain aspects of the system. The MONEYVAL 4<sup>th</sup> cycle of evaluations is a follow-up round, in which Core and Key (and some other important) FATF Recommendations have been re-assessed, as well as all those for which Israel received non-compliant (NC) or partially compliant (PC) ratings in its 3<sup>rd</sup> round report. This report is not, therefore, a full assessment against the FATF 40 Recommendations 2003 and 9 Special Recommendations 2001, but is intended to update readers on major issues in the AML/CFT system of Israel.

### **2. Key findings**

2. Illegal gambling, extortion and fraud are the predicate offences most closely associated with organised criminal activity in Israel. As such, these are the areas of concentrated anti-money laundering enforcement activity in Israel. During the on-site visit a concern was regularly expressed that money service providers (MSP) were used to launder money, particularly unregistered MSPs, some of which were controlled by criminal organisations.
3. In terms of risk there is a serious concern that there is still no AML/CFT regime in place for the DNFBP sector. Israel is the largest global exporter of polished diamonds, exporting to a large number of countries. In particular, Orders setting out AML/CFT controls for the diamond industry, which makes a significant contribution to the Israeli economy, were still not in place.
4. Israel has taken action to align its domestic anti-money laundering legislation even more closely with international standards. Israel has utilised the array of legislative tools at its disposal to secure convictions for terrorist financing on a regular basis. The evaluators were impressed by the professionalism and commitment of those they met on-site with responsibilities in this important area. There has been a substantial increase in the number of cases involving seizure of the proceeds of crime with a corresponding increase in the sums confiscated.
5. The Israel Money laundering and Terror financing Prohibition Authority (IMPA), the Israeli FIU, now has access to a much greater range of information than at the time of the previous evaluation. The reports produced by IMPA are valued by the relevant law enforcement agencies. In the view of the evaluators, IMPA is an effective FIU fully compliant with the international standards.
6. Although Israel has taken several legislative and regulatory measures in order to address the deficiencies identified in the preventive measures in the previous evaluation report a number of important orders were still awaiting adoption at the time of the on-site visit. As a consequence of this, there remain a number of deficiencies in legislation and regulation against the FATF preventive standards for financial institutions.
7. Although detailed customer due diligence measures are in place, there remain certain deficiencies including no requirement to take reasonable measures to verify the identity of the beneficial owner of the customer with respect to provident funds, insurance companies and MSPs. Also, the definition of beneficial owner is not fully in line with the standards.
8. There is still no basic requirement to identify politically exposed persons (PEP) for provident funds, insurance companies and agents and MSPs and no requirement for provident funds,

insurance companies and agents, MSPs, Stock Exchange members, portfolio managers or the Postal Bank to take reasonable measures to establish the source of wealth of customers and beneficial owners as PEPs.

9. Thresholds are permitted below which there is no requirement for document retention for the Postal Bank, insurers, MSPs, provident funds and companies managing provident funds. Also, during the on-site visit, MSPs demonstrated a lack of understanding of what records should be kept.
10. The requirements regarding the information that must accompany wire transfers only refer to cross-border transactions. There are no specific requirements in law or regulation setting out information requirements for domestic wire transfers.
11. There has been a significant increase in the volume and quality of unusual activity reports (UAR) from the financial sector and the number of UARs on ML and TF from the non-banking sector has significantly increased.
12. There are no detailed requirements for non-banking financial institutions covering establishment and maintenance of internal control and compliance policies or AML/CFT arrangements for overseas branches.
13. The AML/CFT supervisory framework is well established. All of the designated supervisors have adequate powers. All of the supervisors appeared to be well resourced and there are sanctions in place for AML/CFT breaches which appear to be effective proportionate and dissuasive.
14. At the time of the on-site visit, all of the non-banking supervisors relied on external examiners to conduct supervisory visits. The evaluators understand that this approach is not due to a lack of resources but is intended to draw on the expertise of external bodies and avoid any conflicts of interest.
15. Although central registers exist for corporations and non-profit organisations which are open to consultation by the public, it is not sufficiently guaranteed that competent authorities have access in a timely fashion to adequate, accurate and current information on the beneficial ownership and control of legal persons. There is insufficient information available on the beneficial owners of private or foreign trusts and an absence of legal requirements on trust service providers to obtain, verify and retain records of the trusts they create, including beneficial ownership details.
16. Comprehensive mechanisms are in place for national and international cooperation and Israel actively cooperates with other jurisdictions at all levels. Israel has brought about improvements in terms of its compliance with international standards. However, the exemption for Israeli citizens who are Israeli residents from the declaration process under UN Security Council Resolution 1267 and relevant successor Resolutions is not in line with international standards.

### **3. Legal Systems and Related Institutional Measures**

17. Israel has taken action to align its domestic anti-money laundering legislation even more closely with international standards; environmental crimes and piracy have now been included as predicate offences. The evaluators do remain concerned that the threshold approach to criminal prosecutions under Section 4 of the PMLL is still in place although it is accepted that, in practice, this does not constitute a significant barrier to securing convictions in important cases. With regard to effectiveness, it is noted how genuine and widespread the cultural change in respect of the focus on the financial aspects of profit generating offences and associated money laundering appeared to be, from policy makers to prosecutors and

operational police officers. The statistics indicate that this is bearing fruit in terms of money laundering investigations, prosecutions and convictions.

18. Israel has utilised the array of legislative tools at its disposal to secure convictions for terrorist financing on a regular basis. The evaluators were impressed by the professionalism and commitment of those they met with on-site with responsibilities in this important area.
19. There has been a substantial increase in the number of cases involving confiscation of the proceeds of crime with a corresponding increase in the sums confiscated. It was noted that seizure and confiscation are, along with money laundering, central to an overall national policy of targeting illicit proceeds as a primary objective in Israeli efforts to combat serious and organised criminal conduct. There is, however, the need to extend modern legislation on confiscation and related matters to the full range of relevant predicate offences.
20. The amendments to the PTFL which came into force in July 2012 have enhanced the administrative procedures and Israel is now in a position to give effect to amendments to the UN lists in a timely fashion as required by international standards. Nonetheless, the evaluators were concerned that the timeframe for giving effect to declarations following listings made pursuant to UNSC 1267 was insufficiently prompt. It was also noted that the declaration process does not apply to Israeli citizens who are Israeli residents.
21. In the 3<sup>rd</sup> round MER, the Israel Money laundering and Terror financing Prohibition Authority (IMPA) the Israeli FIU was criticised for its lack of access to law enforcement and administrative information and the lack of timeliness in the dissemination of reports. In line with the overall improvement as noted above, IMPA has much greater access to information including the establishment of an in-house designated police working station staffed by a designated police officer which gives direct access to all on-going investigations. In the meeting with the Israeli Police during the on-site visit the Israeli Police emphasise that the IMPA product is valued and that, in their view, IMPA now had a much more surgical approach and produced a more refined product which pinpoints the felony; in their view 90% of the information from IMPA was of use and they received information back on most enquiries. In the view of the evaluators, IMPA is an effective FIU fully compliant with the international standards.

#### **4. Preventive Measures – financial institutions**

22. Since the adoption of the third round mutual evaluation report in July 2008, Israel has taken several legislative and regulatory measures in order to address the deficiencies identified in the 3rd round report. In particular, the Israeli authorities have amended the legal provisions for Stock Exchange Members, Portfolio managers and the Postal Bank. However, at the time of the on-site visit the amendments to the Banking Order, Insurance Order and MSP's Order as well as the Provident Funds Order were still awaiting for the approval of the Knesset's Constitution, Law and Justice Committee. As a consequence of this, there remain a number of deficiencies in legislation and regulation against the FATF preventive standards for financial institutions.
23. With regard to CDD measures, explicit requirements for identification of customers and to a certain acquiring extent verification of identity data prior to the business relations establishment are in place although a time limit has been set to the requirements for existing customers. The identification requirement for insurers and insurance agents as well as provident funds still contains a threshold for verification and for identification which is not in line with the FATF standard. The definition of beneficial owners is not fully in line with the FATF Glossary and there is no requirement to take reasonable measures to verify the identity of the beneficial owner of the customer with respect to provident funds, insurance companies and MSPs.



24. There is still no basic requirement to identify politically exposed persons (PEP) for provident funds, insurance companies and agents and MSPs. There remain deficiencies in the definition of PEP and there is no requirement for provident funds, insurance companies and agents, MSPs, Stock Exchange members, portfolio managers or the Postal Bank to take reasonable measures to establish the source of wealth of customers and beneficial owners as PEPs.
25. There are no secrecy or confidentiality obstacles in place that inhibit the implementation of the FATF Recommendations and all relevant information can be obtained and exchanged in Israel. There are, however deficiencies related to record keeping. In particular, thresholds are permitted on document retention for the Postal Bank, insurers, MSPs, provident funds and companies managing provident funds. During the on-site visit, the MSPs demonstrated a lack of understanding of what records should be kept in files and some MSPs interviewed stated that they were only keeping identification data.
26. Financial institutions, including banks, are still not required to obtain and maintain the originator information for all wire transfers (both cross-border and domestic ones) exceeding €1,000. Banking corporations are not required to maintain originator information in the payment chain. The requirements regarding wire transfers only refer to cross-border transactions and there are no specific requirements in law or regulation setting out information requirements for domestic wire transfers and no risk-based procedures.
27. MSPs, provident funds and insurers and insurance agents are not directly obliged to examine complex and unusual transaction and keep findings in writing and, apart from banking institutions, there is no explicit obligation to examine as far as possible the background and purpose of transactions with no apparent economic or visible lawful purpose where persons from countries that do not or insufficiently apply FATF Recommendations are involved.
28. There has been a significant increase in the volume and quality of UARs from the financial sector since the last evaluation and the number of UARs on ML and TF from the non-banking sector has significantly increased since the previous evaluation. There are, however some technical deficiencies relating to the reporting requirement. Portfolio managers are exempted from the reporting obligation for certain categories of customer.
29. With regard to requirements on internal controls, compliance and foreign branches, there are no detailed requirements for non-banking financial institutions covering establishment and maintenance of policies, procedures and controls to prevent ML/TF, an independent audit function to test compliance with AML/CFT policies, procedures and controls, the establishment of screening procedures when hiring employees or AML/CFT Arrangements in overseas branches.
30. The AML/CFT supervisory framework, including the roles and functions of the supervisors are clearly designated under the Prohibition of Money Laundering Law (PMLL). All of the designated supervisors have adequate powers to perform their AML/CFT supervisory responsibilities. There are sanctions in place for AML/CFT breaches which appear to be effective proportionate and dissuasive. All of the supervisors appeared to be well resourced and to have adequate training and staff screening regimes in place.
31. At the time of the on-site visit, apart from the Bank of Israel, all of the supervisors relied on external examiners to conduct supervisory visits. The evaluators understand that this approach is not due to a lack of resources but is intended to draw on the expertise of external bodies and avoid any conflicts of interest. The supervisors provide training for the external examiners and frequently accompany them on supervisory visits. Nonetheless, the evaluators consider that there is an excessive reliance on external supervision.

32. It has already been noted above that a number of Orders remedying deficiencies in the AML/CFT regulations were still awaiting approval of the Knesset's Constitution, Law and Justice Committee. The evaluators are concerned that this delay could have a negative impact on the effectiveness and scope of AML/CFT supervision.
33. The registration procedure for MSPs is well regulated and has been reinforced by amendments to PMLL. However, during the on-site visit the view was frequently expressed that MSPs represented a vulnerability to ML and TF in Israel and that the MSPs sector is often misused by organised crime groups. It was also reported that there were a number of unregistered and thus un-regulated MSPs operating in Israel. The evaluators were concerned at the low number of on-site visits conducted to this relatively high-risk sector as well as the lack of requirements under SR.VII for domestic wire transfers.

## **5. Preventive Measures – Designated Non-Financial Businesses and Professions**

34. There are still no CDD or reporting requirements in place for real estate agents, dealers in precious metals and stones, trust and company service providers, lawyers, notaries, other independent legal professions and accountants.
35. The diamond industry makes a significant contribution to the Israeli economy and Israel is the largest global exporter of polished diamonds, exporting to a large number of companies. Although the relevant provisions are in now in place in the PMLL, such measures were not in force at the time of the on-site visit as the related Order had not received the approval of the designated Knesset Committee.

## **6. Legal Persons and Arrangements & Non-Profit Organisations**

36. In Israel there are two principal forms of incorporated entities; corporations (governed by the Companies Law) and “amutot” (governed by the Law of Non-Profit Organisations). A central database exists for each which is overseen by the Israeli Corporations Authority (ICA). Registration is mandatory. The evaluators were informed that the different entities are obligated to report to the relevant Registrar in the ICA regarding any change in ownership or control of companies and, with respect to all corporations, any change in directors or other senior officers. Information on the registers is open to consultation by the public. However, it is not sufficiently guaranteed that competent authorities have access in a timely fashion to adequate, accurate and current information on the beneficial ownership and control of legal persons.
37. The Israeli legal system embraces the concept of trusts. There are a number of different types of trust which can be created under the Law of Trusts. There is, however, insufficient information available on the beneficial owners of private or foreign trusts and an absence of legal requirements on trust service providers to obtain, verify and retain records of the trusts they create, including beneficial ownership details.

## **7. National and International Co-operation**

38. There are various mechanisms supporting inter-agency and multi-disciplinary cooperation and coordination in Israel. All agencies active in the AML/CFT areas cooperate with each other within their legal authority, in the form of exchange of information, joint investigations and other coordination activity. Domestic cooperation between IMPA and the Israeli Police is regulated by the PMLL, Regulations and a Procedure. IMPA addresses intelligence reports to the Israeli Securities Agency that may be terrorist related. It is also under a legal obligation to respond to the Israeli Security Agency's requests and provide information from its database. IMPA is also represented in the Counter terrorism National Security Council. A memorandum of understanding has been signed between the supervisor of the banks, the head

of the Israeli Security Authority (ISA), the Commissioner of Department of Capital Markets, Investments and Savings (DCIMS), the registrar of MSP's, the supervisor of the Postal Bank, the Tax Authority and the Head of IMPA which is intended to create a framework for collaboration between the various bodies charged with responsibility for the regulatory regime in Israel concerning the prohibition of money laundering and financing of terrorism.

39. A domestic committee has been formed, headed by the Attorney General, with the participation of the State Attorney, the Inspector General of the Police, the Head of the Tax Authority, and the Chairman of the Securities Authority. The intention is to coordinate the efforts of all the prosecution bodies and their activities, encouraging cooperation and sharing of information between all prosecution bodies, in order to increase the effectiveness of the prosecution system. An Integrated Intelligence Centre has been established in order to combat severe crime, organised crime and its outcomes. This Centre integrates different intelligence bodies, including the Police, the Tax Authority and IMPA as well as impermanent representatives from other relevant bodies. Overall domestic co-operation and co-ordination between the relevant authorities, governmental, law enforcement and supervisory is well organised ensuring structural coordination between diverse areas of expertise. The AML/CFT effort is subject to regular review and evaluation, which has led to several initiatives in order to improve the fight against serious and organised crime.
40. Israel has brought about improvements in terms of its compliance with international standards as these relate to the identification of beneficial owners. Israeli participation in the important treaty regimes addressed in R.35 and SR.I have positioned it to play an important and constructive role in the provision of international co-operation in the AML/CFT sphere and more generally. With regard to Security Council Resolution 1267 and relevant successor Resolutions the exemption from the declaration process of Israeli citizens who are Israeli residents is not in line with international standards.
41. Israel is a party to the 1959 Council of Europe Convention on Mutual Assistance in Criminal Matters as well as several relevant bilateral instruments. Israel may also seek and provide mutual legal assistance in the absence of a treaty nexus with a third country. As a matter of domestic law this area is governed primarily by the International Legal Assistance Law. Responsibility for mutual legal assistance in Israel is, in essence, divided between the Department of International Affairs in the State Attorney's Office and the Legal Assistance Unit of the Israeli Police. The former is responsible for the drafting and submission of requests to third countries on behalf of the State of Israel. The latter is responsible for incoming requests for assistance unless they are of a nature requiring investigation by a specialised body such as the Israel Securities Authority. Overall Israel has in place a modern and comprehensive regime governing mutual legal assistance in criminal matters and the information provided to the evaluators suggests that the system so created is operating effectively and efficiently in practice.
42. The Israeli Police is a member of Interpol and uses this channel to collect and supply information. Although requests for investigative acts need to follow the MLA procedure, intelligence can be exchanged freely through Interpol, as long as it is not intended to be used as evidence and it does not entail coercive measures. IMPA has a dynamic and constructive approach towards FIU to FIU cooperation and is very active on the international scene. The restraints mentioned in the 3rd round report in relation to limited access to police information have now been eliminated.
43. Although the three main financial sectors (Banking, Securities and Insurance sectors) are governed by legislation that enable the respective supervisory authorities (Bank of Israel, ISA and the DCMIS) to exchange information with their foreign counterparts, it is worth noting

that none of these laws refer to circumstances related to AML/CFT issues and only cover cases and situations related to the respective fields (e.g. host-home issues, securities markets and insurance products). Nonetheless, the Bank of Israel, has established relationships (formally and informally) with its counterparts in the main countries where the Israeli banking sector operates and the ISA has signed several MMOU and MOUs for the exchange of information.

## **8. Resources and statistics**

44. IMPA appears to be adequately structured and funded (partially by the asset confiscation fund), staffed, and provided with sufficient technical and other resources to fully perform its authorised functions. IMPA ensures that professional standards, integrity, skills and confidentiality of its employees are maintained and conducts regular training. The supervisory authorities for the financial sector also appear to have sufficient resources to perform their supervisory functions. There was a concern about the reliance on third parties to conduct AML/CFT supervision by non-banking supervisors, although this policy does not appear to be driven by resource constraints. Overall sufficient resources appear to be devoted to national cooperation and coordination. Trainings seminars are regularly organised by policy makers and policy makers take an active part in different trainings and seminars.
45. With regard to DNFBPs, as they currently fall outside of the scope of the AML/CFT regime is was not possible to assess the sufficiency of resources.
46. With regard to statistics, The Israeli authorities provided detailed and comprehensive statistics covering all main areas under consideration. The authorities displayed a good understanding of the issues underlying the statistics and appeared to make use of these to assess the effectiveness of the AML/CFT regime.

**TABLE 1: RATINGS OF COMPLIANCE WITH FATF RECOMMENDATIONS**

The rating of compliance vis-à-vis the FATF 40+ 9 Recommendations is made according to the four levels of compliance mentioned in the AML/CFT assessment Methodology 2004 (Compliant (C), Largely Compliant (LC), Partially Compliant (PC), Non-Compliant (NC)), or could, in exceptional cases, be marked as not applicable (N/A).

The following table sets out the ratings of Compliance with FATF Recommendations which apply to Israel. <i>It includes ratings for FATF Recommendations from the 3<sup>rd</sup> round evaluation report that were not considered during the 4<sup>th</sup> assessment visit. These ratings are set out in italics and shaded.</i>		
<b>Forty Recommendations</b>	<b>Rating</b>	<b>Summary of factors underlying rating<sup>1</sup></b>
<b>Legal systems</b>		
1. Money laundering offence	<b>LC</b>	<ul style="list-style-type: none"> <li>Section 4 of the PMLL contains a threshold approach and does not extend to all possible categories of property.</li> </ul>
2. <i>Money laundering offence Mental element and corporate liability</i>	<i>C</i>	
3. Confiscation and provisional measures	<b>LC</b>	<ul style="list-style-type: none"> <li>Failure to provide a comprehensive system for value confiscation.</li> </ul>
<b>Preventive measures</b>		
4. Secrecy laws consistent with the Recommendations	<b>C</b>	
5. Customer due diligence	<b>PC</b>	<ul style="list-style-type: none"> <li>No direct prohibition for maintaining accounts in fictitious names;</li> <li>There is no requirement for financial institutions to apply CDD measures when there is a suspicion of money laundering or terrorist financing, regardless of any exemptions or thresholds;</li> <li>Provident funds, insurance companies and MSPs are not required to apply CDD measures when the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data;</li> <li>As the activities of the Insurers and Insurance Agents (for which the threshold of NIS 20,000 is applicable) seems not to be occasional, the threshold is not in line with the Methodology;</li> <li>No requirement to verify the legal status of the legal person or legal arrangement by obtaining</li> </ul>

<sup>1</sup> These factors are only required to be set out when the rating is less than Compliant.

		<p>information concerning the directors;</p> <ul style="list-style-type: none"> <li>• The definition of the beneficial owner is limited to “a person for whom or for whose benefit the property is being held, the transaction is being undertaken, or who has the ability to direct the disposition, and all whether directly or indirectly” is not fully in line with the FATF Glossary;</li> <li>• There is no requirement to take reasonable measures to verify the identity of the beneficial owner of the customer with respect to provident funds, insurance companies and MSPs;</li> <li>• No obligation to take reasonable measures to understand the ownership and control structure of the customer as well as determine who are the natural persons that ultimately own or control the customer and those persons who exercise ultimate effective control over a legal person or arrangement (apart from banking corporations);</li> <li>• The obligation to conduct on-going due diligence for banking corporations is not set out in “law or regulation” and there is no such requirement for other financial institutions (provident funds, money service providers, insurers and insurance agents);</li> <li>• The requirement for the financial institutions (apart from banking corporations) to apply enhanced CDD is limited;</li> <li>• No prohibition from applying simplified CDD to customers from countries which are not in compliance with and have not effectively applied FATF standards;</li> <li>• No direct prohibition from applying reduced CDD measures in the circumstances when suspicions of ML/FT or other risk scenarios exist;</li> <li>• The Banking Order has an exemption regarding registering a beneficiary if an account which an attorney, a rabbinical pleader, or an accountant wishes to open for his clients;</li> <li>• Only banks, the Postal Bank, portfolio managers and Stock Exchange members are required to consider making a suspicious transaction report when they are unable to comply with CDD requirements.</li> </ul>
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6. Politically exposed persons	<b>PC</b>	<ul style="list-style-type: none"> <li>• The PEP definition does not cover persons who are no longer entrusted with prominent public functions;</li> <li>• Important political party officials and senior executives of state-owned corporations are not fully covered;</li> <li>• No requirement to determine whether the beneficial owners of the customer is a PEP;</li> <li>• No basic requirement to identify PEPs for provident funds, insurance companies and agents and MSPs;</li> <li>• No requirement for non-banks to establish the source of wealth of customers who are PEPs;</li> <li>• No requirement to establish the source of wealth of beneficial owners of customers who are PEPs;</li> </ul> <p><b><u>Effectiveness</u></b></p> <ul style="list-style-type: none"> <li>• For some financial institutions it is problematic in practice to establish if the customer becomes a PEP during the business relationship.</li> </ul>
7. Correspondent banking	<i>LC</i>	<ul style="list-style-type: none"> <li>• <i>Although high risk situations are covered for other situations no requirement for obtaining approval from senior management for new correspondent relationships.</i></li> <li>• <i>As far as banking corporations are concerned essential criteria 7.4 and 7.5 are not covered.</i></li> </ul>
8. New technologies and non face-to-face business	<i>LC</i>	<ul style="list-style-type: none"> <li>• <i>Israel has not implemented adequate measures for the non-banking sector.</i></li> </ul>
9. Third parties and introducers	<b>C</b>	
10. Record keeping	<b>PC</b>	<ul style="list-style-type: none"> <li>• No specific requirement to keep records longer if requested by a competent authority in specific cases and upon proper authority;</li> <li>• Apart from the Postal Bank, no specific requirement for other financial institutions to keep records of the account files and business correspondence;</li> <li>• Thresholds on document retention in place for the Postal Bank, insurers, MSPs, provident funds and companies managing provident funds;</li> </ul> <p><b><u>Effectiveness</u></b></p> <ul style="list-style-type: none"> <li>• MSPs demonstrated a lack of understanding of what records should be kept in files and some MSPs interviewed stated that they were only</li> </ul>



		keeping identification data.
11. Unusual transactions	<b>LC</b>	<ul style="list-style-type: none"> <li>• MSPs, provident funds and insurers and insurance agents are not directly obliged to examine complex and unusual transaction and keep findings in writing;</li> <li>• Obligation to pay special attention to all complex and unusual large transactions is not introduced for MSPs, provident funds and insurers and insurance agents.</li> </ul>
12. DNFBPS – R.5, 6, 8-11	<b>NC</b>	<p><b><i>Applying Recommendation 5, 6, 8, 9, 10 and 11</i></b></p> <ul style="list-style-type: none"> <li>• No requirements for DNFBPs as they do not fall under the AML/CFT obligations.</li> </ul>
13. Suspicious transaction reporting	<b>LC</b>	<ul style="list-style-type: none"> <li>• Portfolio managers are exempted from the reporting obligation for certain categories of customer;</li> </ul>
14. <i>Protection and no tipping-off</i>	<b>LC</b>	<ul style="list-style-type: none"> <li>• <i>Tipping off only covered with regard to the existence or non-existence of the report for all financial institutions but not to all related information outside of banking corporations.</i></li> </ul>
15. Internal controls, compliance and audit	<b>PC</b>	<ul style="list-style-type: none"> <li>• Except for the banking sector, the competent regulators have not issued detailed regulation on establishment and maintenance of policies, procedures and controls to prevent ML/TF as required under c.15.1;</li> <li>• Except for the banking sector, the competent regulators have not issued regulations on the maintenance of an adequately resourced and independent audit function to test compliance with AML/CFT policies, procedures and controls;</li> <li>• Except for banking corporations, there are no enforceable requirements for the establishment of screening procedures when hiring employees.</li> </ul>
16. DNFBPS – R.13-15 & 21 <sup>2</sup>	<b>NC</b>	<p><b><i>Applying Recommendation 13</i></b></p> <ul style="list-style-type: none"> <li>• Currently there are no reporting obligations upon real estate agents, dealers in precious metals, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants (Recommendation 13)</li> </ul> <p><b><i>Applying Recommendation 15</i></b></p>

<sup>2</sup> The review of Recommendation 16 has taken into account the findings from the 3<sup>rd</sup> round report on Recommendation 14.



		<ul style="list-style-type: none"> <li>There are no AML/CFT requirements in force for all DNFBPs on internal controls, internal audit, screening procedures and on-going training on AML/CFT issues.</li> </ul> <p><b><i>Applying Recommendation 21</i></b></p> <ul style="list-style-type: none"> <li>No changes with respect to requirements of Recommendation 16 requiring application of Recommendation 21 to DNFBPs compared to the situation at the time of 3<sup>rd</sup> round evaluation.</li> </ul>
17. Sanctions	<b>C</b>	
18. Shell banks	<b>LC</b>	<ul style="list-style-type: none"> <li><i>Measures to prevent the establishment of shell banks are not sufficiently explicit.</i></li> <li><i>There is no specific enforceable obligation that requires financial institutions to satisfy themselves that respondent financial institutions in a foreign country do not permit their accounts to be used by shell banks.</i></li> </ul>
19. Other forms of reporting	<b>C</b>	
20. Other DNFBPS and secure transaction techniques	<b>C</b>	
21. Special attention for higher risk countries	<b>PC</b>	<ul style="list-style-type: none"> <li>MSPs, provident funds, insurance companies and agents are not covered for the purposes of Recommendation 21;</li> <li>Apart from banking institutions, there is no explicit obligation to examine as far as possible the background and purpose of transactions with no apparent economic or visible lawful purpose where persons from countries that do not or insufficiently apply FATF Recommendations are involved.</li> </ul>
22. Foreign branches and subsidiaries	<b>PC</b>	<ul style="list-style-type: none"> <li>No binding obligation to apply AML/CFT measures consistent with Israeli requirements and FATF recommendations for all financial institutions (apart from banks).</li> </ul>
23. Regulation, supervision and monitoring	<b>LC</b>	<p><b><u>Effectiveness</u></b></p> <ul style="list-style-type: none"> <li>The lack of prompt adoptions on the Orders by the competent Ministers that require the approval of the designated Knesset Committee.</li> </ul>
24. DNFBPS - Regulation, supervision and monitoring	<b>NC</b>	<ul style="list-style-type: none"> <li>There are no AML/CFT requirements in force for DNFBPs, thus there are no mechanisms in place for supervising, monitoring compliance with AML/CFT obligations</li> </ul>
25. Guidelines and Feedback	<b>PC</b>	<ul style="list-style-type: none"> <li>More case-specific feedback on UARs could</li> </ul>

		be undertaken to reporting entities; <ul style="list-style-type: none"> <li>• There is not a full coverage of guidelines for the whole of the financial sector;</li> <li>• No guidance for financial institutions on the methods for recognising PEPs during the business relationship;</li> <li>• As consequence of the absence of AML/CFT requirements for DNFBPs in force, guidance and feedback on UARs do not exist.</li> <li>• Lack of guidance for financial institutions on the methods for recognising PEPs during the business relationship could have an impact on effectiveness of implementation.</li> </ul>
<b>Institutional and other measures</b>		
26. The FIU	<b>C</b>	
27. <i>Law enforcement authorities</i>	<i>LC</i>	<ul style="list-style-type: none"> <li>• <i>Effectiveness could be enhanced if opportunities for more fully exploiting FIU intelligence were considered and acted upon as appropriate</i></li> </ul>
28. <i>Powers of competent authorities</i>	<i>C</i>	
29. Supervisors	<b>C</b>	
30. Resources, integrity and training <sup>3</sup>	<b>C</b>	
31. National co-operation	<b>C</b>	
32. Statistics <sup>4</sup>	<b>C</b>	
33. Legal persons – beneficial owners	<b>PC</b>	<ul style="list-style-type: none"> <li>• Concern that it is not sufficiently guaranteed that competent authorities have access in a timely fashion to adequate, accurate and current information on the beneficial ownership and control of legal persons;</li> <li>• Concern over the comprehensiveness of the current approach to bearer shares.</li> </ul>
34. Legal arrangements – beneficial owners	<b>PC</b>	<ul style="list-style-type: none"> <li>• Insufficient information available on the beneficial owners of private or foreign trusts;</li> </ul>

<sup>3</sup> The review of Recommendation 30 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3<sup>rd</sup> round report on resources integrity and training of law enforcement authorities and prosecution agencies.

<sup>4</sup> The review of Recommendation 32 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3<sup>rd</sup> round report on Recommendations 27, 37, 38, 39 and SR.IX.

		<ul style="list-style-type: none"> <li>Absence of legal requirements on trust service providers to obtain, verify and retain records of the trusts they create, including beneficial ownership details.</li> </ul>
<b>International Co-operation</b>		
35. Conventions	<b>C</b>	
36. Mutual legal assistance (MLA) <sup>5</sup>	<b>C</b>	
37. Dual criminality	<b>C</b>	
38. MLA on confiscation and freezing	<b>LC</b>	<ul style="list-style-type: none"> <li>Limited range of offences contained in Schedule 2 of the 1998 Law.</li> <li>Concerns over effectiveness.</li> </ul>
39. Extradition	<b>C</b>	
40. Other forms of co-operation	<b>C</b>	
<b>Nine Special Recommendations</b>		
SR.I Implement UN instruments	<b>LC</b>	<ul style="list-style-type: none"> <li>Exemption of Israeli citizens who are Israeli residents from the declaration system;</li> </ul> <p><b><u>Effectiveness</u></b></p> <ul style="list-style-type: none"> <li>The current timeframe for giving effect to declarations following listings made pursuant to UNSCR 1267 is insufficiently prompt.</li> </ul>
SR.II Criminalise terrorist financing	<b>C</b>	
SR.III Freeze and confiscate terrorist assets	<b>LC</b>	<ul style="list-style-type: none"> <li>The declaration process does not apply to Israeli citizens who are Israeli residents;</li> <li>The current timeframe for giving effect to declarations following listings made pursuant to UNSC 1267 is insufficiently prompt.</li> </ul>
SR.IV Suspicious transaction reporting	<b>C</b>	
SR.V International co-operation	<b>C</b>	
SR.VI AML requirements for money/value transfer services	<b>PC</b>	<ul style="list-style-type: none"> <li>The gaps identified under Recommendation 5, 6, 10, 11, 15, 21-23 and SR.VII also affect compliance with Special Recommendation VI;</li> </ul> <p><b><u>Effectiveness</u></b></p> <ul style="list-style-type: none"> <li>The risk of un-regulated MSPs is not addressed;</li> </ul>

<sup>5</sup> The review of Recommendation 36 has taken into account those Recommendations that are rated in this report. In addition it has also taken into account the findings from the 3<sup>rd</sup> round report on Recommendation 28.

		<ul style="list-style-type: none"> <li>Monitoring mechanism adopted by the Israeli authorities might be negatively affected by the continuous increase in the number of the MSPs.</li> </ul>
SR.VII Wire transfer rules	<b>PC</b>	<ul style="list-style-type: none"> <li>Banking corporations, MSPs, Provident Funds and insurance companies and agents are not required to obtain and maintain the originator information for all wire transfers (both cross-border and domestic ones) exceeding 1,000 euro/USD;</li> <li>Banking corporations, MSPs, Provident Funds and Insurance companies and agents are not required to maintain originator information in the payment chain;</li> <li>No specific requirements in law or regulation setting out information requirements for domestic wire transfers;</li> <li>No requirements to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by the complete originator information.</li> </ul>
SR.VIII Non-profit organisations	<i>LC</i>	<p><i>Though important steps are being taken:</i></p> <ul style="list-style-type: none"> <li><i>No evidence that the adequacy of the law on Non-Profit Organisations overall had been formally reviewed.</i></li> <li><i>No specific outreach programme to raise awareness had commenced.</i></li> <li><i>Unclear whether detailed domestic and international transaction records are kept.</i></li> <li><i>Threshold for identification of significant donors needs reviewing.</i></li> <li><i>Gateways for international information sharing need clarifying.</i></li> </ul>
SR.IX Cross Border declaration and disclosure	<i>LC</i>	<ul style="list-style-type: none"> <li><i>Not all bearer negotiable instruments covered.</i></li> <li><i>The threshold declaration regime is too high under the immigrant rules.</i></li> </ul>