COUNCIL OF EUROPE CONSEIL DE L'EUROPE

Strasbourg, 22 August 2008

MONEYVAL (2008) 01

EUROPEAN COMMITTEE ON CRIME PROBLEMS
(CDPC)

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

DETAILED ASSESSMENT REPORT on ISRAEL [1]

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

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

[1] Adopted by the MONEYVAL Committee at its 27th Plenary Session (Strasbourg, 7-11 July 2008).

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LIST OF ACRONYMS USED

AF	Asset Forfeiture
AML Law	Anti-Money Laundering Law
AML/CFT	Anti Money Laundering and Countering the Financing of Terrorism
BOI	Bank of Israel
CCOL	Combating Criminal Organisations Law, 5763-2003
CDD	Customer Due Diligence
CETS	Council of Europe Treaty Series
CFT	Combating the financing of terrorism
CID	Criminal Investigations Division
CPO	Criminal Procedure Ordinance (Search and Seizure) [New version] (1969)
CTR	Cash Transaction Reports
DDO	Dangerous Drugs Ordinance [New Version] (1973)
DNFBP	Designated Non-Financial Businesses and Professions
EAE (team)	Economic Assault Enforcement team
ESW	Egmont Secure Web
ETS	European Treaty Series [since 1 January 2004: CETS = Council of Europe Treaty Series]
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
ILAL	International Legal Assistance Law (1998)
IMPA	Israel Money laundering and Terror Financing Prohibition Authority
IN	Interpretative Note
IP	Israel Police
ISA	Israel Securities Authority
IT	Information Technology
KNESSET	Israeli Parliament
LEA	Law Enforcement Agency
ML	Money Laundering
MLA	Mutual Legal Assistance
MOF	Ministry of Finance
MOJ	Ministry of Justice
MOU	Memorandum of Understanding

MLPD	Money Laundering Prevention Directorate
MSB	Money services business
NCCT	Non-cooperative countries and territories
NIS	New Israeli Shekel
PEPs	Politically Exposed Persons
PMLL	Prohibition of Money Laundering Law
PTFL	Prohibition on Terrorist Financing Law
SRO	Self-Regulatory Organisation
STRs	Suspicious transaction reports
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TF	Terrorist Financing
UAR	Unusual Activity Report

I. PREFACE

1. In January 2006, the Committee of Ministers of the Council of Europe (the Ministers' Deputies) accepted the application of Israel, not being a member State of the Council of Europe, to join the terms of reference of MONEYVAL as an "active observer" participating in the MONEYVAL evaluation process.

2. The evaluation of the anti-money laundering (AML) and combating the financing of terrorism (CFT) regime of Israel conducted by MONEYVAL was based on the Forty Recommendations (2003) and the Nine Special Recommendations on Terrorist Financing (2001) of the Financial Action Task Force (FATF), and was prepared using the AML/CFT Methodology 2004[2]. Additionally, Israel was evaluated against the two Directives of the European Commission [91/308/EEC and 2001/97/EC], in accordance with MONEYVAL's terms of reference and Procedural Rules. The evaluation was based on the laws, regulations and other materials supplied by Israel during the on-site visit from 4 to 12 November 2007 and subsequently. During the on-site visit, which took place both in Jerusalem and in Tel-Aviv, the evaluation team met with officials and representatives of all the relevant Israeli Government agencies and the private sector. A list of the bodies met is set out in Annex I to the mutual evaluation report.

3. The evaluation was conducted by an assessment team which consisted of experts in criminal law, law enforcement and regulatory issues, together with the Executive Secretary of MONEYVAL: Professor William G. GILMORE, Professor of International Criminal Law, Faculty of Law, University of Edinburgh (scientific / legal expert to MONEYVAL); Mr Boudewijn VERHELST, Deputy Director of CTIF-CFI (scientific expert for law enforcement to MONEYVAL); Dr Vasil KIROV, Director General, Financial Intelligence Agency, Bulgaria, and Chairman of MONEYVAL (financial expert); Mr Andrew STRIJKER, Senior Co-ordinator Financial Markets Integrity, Financial Markets Policy Directorate, Ministry of Finance, The Hague, the Netherlands (financial expert, representing an FATF country). The examiners reviewed the institutional framework, the relevant AML/CFT Laws, regulations, guidelines and other requirements, and the regulatory and other systems in place to deter money laundering (ML) and financing of terrorism (FT) through financial institutions and designated non-financial businesses and professions (DNFBP), as well as examining the capacity, the implementation and the effectiveness of all these systems.

4. This report provides a summary of the AML/CFT measures in place in Israel as at the date of the on-site visit or immediately thereafter. It describes and analyses these measures, sets out Israel's levels of compliance with the FATF 40 + 9 Recommendations (see Table 1), and provides recommendations on how certain aspects of the system could be strengthened (see Table 2). Compliance or non-compliance with the EC Directives has not been considered in the ratings given in Table 1.

[2] As updated in February 2007.

II. EXECUTIVE SUMMARY

1. Background Information

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

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

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

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

5. The evaluators found overall a working AML/CFT system though gaps were identified, several of which had already been identified by the Israeli authorities. A notable gap is that DNFBP are not currently within the scope of the legislation. This needs urgent attention. There are problems in respect of what sometimes can be significant financial thresholds, which unduly restrict AML/CFT requirements in both the preventive and repressive regimes. Israel's separate and complex legislative approach on the preventive side, though permitting flexibility to the system, sometimes results in an inconsistent application of standards across the financial sector.

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

2. Legal Systems and Related Institutional Measures

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

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

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

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

11. The FIU for Israel is the Money Laundering and Terrorism Financing Prohibition Authority ("IMPA"). The agency has a dual function: firstly as a database supporting the police and security services at their request; secondly as an analytical unit processing disclosures with a view to their dissemination to the competent authorities. Conceptually IMPA is, though important, not a central player in the whole of the Israeli AML/CFT system. IMPA, within its legal confines, performs its assignment in a well organised and professional manner resulting in a quality output. It has developed a relationship of trust with the reporting entities. It has dedicated staff and a performing informatics system. IMPA's efficiency as an analytical unit is affected by incomplete direct access to relevant law enforcement and administrative information. The information provided by the Israeli authorities as a result of the reports it has received from financial institutions shows a broad upward curve of disseminations from IMPA to law enforcement between 2002-2007. The degree to which information reports from IMPA

over the years is said to have contributed to law enforcement activity appears to have been variable. In the last two years 17 information reports provided by IMPA led to significant progress in police investigation. IMPA undoubtedly has the expertise in house to play a more substantial role and become a real driving force in the AML/CFT system. Because of the rule of post transaction reporting IMPA's role remains predominantly reactive, which may lead to relevant information reaching the Police in an untimely way. IMPA should try to speed up reporting to and from the FIU. It is particularly important that reports from the FIU are quickly received by the Police where asset restraint and recovery is still possible.

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

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

3. Preventive Measures – financial institutions

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

15. Customer identification requirements are governed by the PMLL and the seven Orders (supplemented by Directive 411, which for the purposes of the Methodology is "other enforceable means"). Together they require that financial institutions shall not open an account or enter into a contract without fulfilling identification obligations. Essentially the Banking Order as amended by Directive 411 provides comprehensive coverage of customer due diligence and enhanced diligence but there are gaps in the remaining Orders, such as inconsistent thresholds or beneficial ownership requirements due to the separate legislative approach of separate Orders. The definition of benefeciary in the PMLL broadly coincides with the FATF definition of beneficial owner. In the Banking Order there is an exemption from registering a beneficiary if an account which an attorney, a rabbinical pleader, or an accountant wishes to open for his clients, where the balance in the account at the end of every business day does not exceed NIS 300,000 (~69,000$), and no transaction exceeds NIS 100,000 (~23,000$). This exemption raises concerns, particularly as more than one such account may be held with a number of currently unregulated professionals.

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

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

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

19. The Directive 411 also governs wire transfers for banking corporations. Every cross-border transfer of cash, securities or other financial assets must include the name of the account holder and the number of the account and the name and account number of the payee. There is no such obligation for domestic wire transfers. Section 27 (b) of Directive 411 requires banking corporations to operate a computerized database of money transfers from and to high-risk countries. The Israel Authorities may wish to consider similar requirements for all wire transfers as a tool to maintain information on the originators of wire transfers. In addition, under the Postal Order, the Postal bank is allowed to carry out a transaction without identifying the party performing the transaction and recording the name and identity number of that party if the value of the transaction is less than NIS 50,000. Moreover, there is no requirement for all financial institutions requiring them to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information, although it is obligatory for banks and stock exchange members to report these cases as unusual transaction reports. There is also no requirement that all incoming or outgoing cross-border wire transfers (including those below USD/Euros 1,000) contain full and accurate originator information.

20. There is a general obligation imposed on banking corporations and other financial institutions under Section 7 PMLL to report (to IMPA) as specified in the Orders made pursuant to PMLL for transaction reporting. The various Orders relevant to the financial sector contain broadly similar obligations which can be characterised as unusual transaction reporting, which was defined in 2004 guidance to mean reporting where there is reason to believe that there is a connection to money laundering. It should be noted that the existence of various different thresholds in some of the Orders sends the wrong signals in respect of unusual transaction

reporting and should be removed. Proposed amendments will delete these thresholds. The Israeli Authorities advised that attempted unusual transactions were in practice covered in Article 9 of the Banking Order, however the examiners recommend that for the avoidance of doubt this obligation should be made explicit.

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

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

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

24. Competence for supervision of compliance with AML/CFT requirements does not lie with a single authority in Israel. The respective authorities responsible for prudential supervision and licensing of the financial institutions are responsible for AML/CFT compliance supervision as a part of prudential supervision. As well as the powers to supervise for AML matters, in place since 2002, the power to supervise CFT issues for all regulators was introduced in the PTFL and therefore AML/CFT specific inspections have been fully in place in Israel in all parts of the financial sector since 2005. However, insufficiently comprehensive guidance has been given on CFT issues to the financial sector. All supervisory authorities have the necessary powers to require relevant documents. The supervisory authorities have generally adequate legal structures to prevent criminals from controlling financial institutions. As far as the licensing procedures in the financial market are concerned, these are broadly in line with the relevant European Union legislation and FATF Recommendations, as are the arrangements for supervision on AML for banking corporations, portfolio managers, insurers and stock exchange members. However, the inadequacy of staffing numbers in the Ministry of Finance and Ministry of Communication and the lack of adequate and relevant training for them, as well as frequent use of outsourcing, means that this area of AML/CFT supervision is very weak. While the evaluators took note that the IMPA is represented on all sanctioning committees, there is no mechanism for ensuring that an appropriate and sufficient level of supervision is consistently implemented across the whole financial sector. Guidance also needs to be consistent and coordinated across the financial sector. A range of financial sanctions have been imposed on financial institutions by the relevant Sanctions Committees as a result of AML/CFT supervisory action.

25. Regarding the field of Money Service Businesses, the PMLL establishes definitions, registration procedures, and powers of inspection and enforcement. The general deficiencies in the CDD regime outlined above materially affect the compliance of the MVT service operators with the FATF Recommendations overall (including deficiencies related to existing thresholds,

enhanced due diligence, information on the purpose and intended nature of the business relationship and ongoing due diligence).

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

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

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

5. Legal Persons and Arrangements & Non-Profit Organisations

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

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

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

6. National and International Co-operation

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

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

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

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

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

7. Resources and statistics

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

III. MUTUAL EVALUATION REPORT

1. GENERAL

1.1 General information on Israel

1. Israel is situated in the Middle East, along the eastern coastline of the Mediterranean Sea. The country is about 290 miles (470 km) in length from north to south and some 85 miles (135 km) across at its widest point between the Dead Sea and the Mediterranean coast. Israel is bordered by Lebanon in the north, Syria to the North-east, Jordan to the east, Egypt to the South-west and the Mediterranean Sea to the west.

2. On 14 May 1948, upon termination of the British mandate over Palestine granted by the League of Nations in 1922, the Jewish people proclaimed the establishment of the State of Israel (The Declaration of the Establishment of the State of Israel). Israel has been a member of the United Nations since 1949.

3. Since the establishment of the State of Israel, the Jewish population has grown from 650,000 in 1948. The Jewish population doubled in the first four years alone with mass immigration of European Holocaust survivors and refugees from Arab countries. Under the Law of Return, any Jewish citizen in the world is allowed to settle in Israel. A further large wave of immigration, which began in 1989, has resulted in the absorption of over a million Jews from the former Soviet Union.

4. Today the population of Israel is over 7 million. The population comprises 76.2 % Jews (recent estimates indicate 41 % of the world Jewish population live in Israel). Non-Jews account for 23.8 % of the population: 16.4 % Muslims; 2.1 % Christians (mostly Arabs); 1.6 % Druze and 3.7 % are not classified by religion. Of Israel's non-Jewish population, Arab communities total approximately 1.6 million. The official languages of the State of Israel are Hebrew and Arabic.

5. The history of the Arab-Israeli conflict and the peace process is outwith the scope of this report, and is well-known. At the time of the on-site visit, in 2007, Palestinian self government had been implemented under the auspices of the Palestinian Authority in Gaza, Jericho, Bethlehem and additional areas in the West Bank. The evaluation team did not assess the implementation of the AML/CFT regime in those areas which at the time of the on-site visit were under the control of the Palestinian Authority. The team was advised that the Israeli currency, the new Israeli Shekel [NIS] is used in the areas under the control of the Palestinian Authority and that cheques from those areas are cleared through Israeli commercial banks. No Israeli banks operate in the areas under the control of the Palestinian Authority.

Economy

6. Israel is now a modern, sophisticated and technologically advanced market-based economy. It has a well-developed capital market and a sound financial sector. Inflation is low and the NIS was strong against the dollar at the time of the on-site visit [3]. GDP grew during the 1990s on average by 5 % a year. In 2006, GDP rose by 5.1 %. GDP per capita in 2006 was $ 19,850. The World Economic Forum also ranked Israel in the same year as 15th (out of 125 nations) on the competitiveness index.

[3] At the time of the on-site visit, the NIS 3.927000 was equivalent to $ 1.

7. In the sixty years of its existence, strong economic development has been achieved by Israel while simultaneously the State has dealt with four major challenges: maintaining national security, which now accounts for some 8 % of GDP; absorbing large numbers of immigrants; establishing a modern infrastructure to meet the requirements for economic growth; and providing a high level of public services.

8. Israel is now fully integrated into the globalised economy – trade flows account for 88.4 % of GDP. Before the 1990s foreign direct investment in Israel was insignificant. In the mid 1990s, there was a rapid expansion of the country's high-tech sector. Exchange controls were abolished in 1998. These developments led to a growth in foreign direct investment and portfolio investment. High-tech sectors, such as software, Internet and other communications, have attracted the largest amount of foreign direct investment. Foreign investors are also active in the banking sector and in some insurance activities. The Israeli authorities have provided the following tables showing origins of foreign investment in Israel:

Israeli insurance company	**Foreign holder**	**Holdings percent**
AIG	AIG	100%
EMI	AIG	100%
Migdal Insurance Co. Ltd.	Generali Group	70%
ICIC	Euler Hermes	33.333%
Harel insurance company Ltd.	Putera Samporena (Indonesia)	20.2%
Clal Credit	Namur Re	20%
Israeli management companies of provident funds		
Migdal platinum gemel Ltd.	Generali Group	34.999%
	Bear Stearns (JP Morgan)	49.999%
Psagot Gadeesh gemel	York Funds (James Deanen)	74.5%
	Akhim Maccemilian (Germany)	21.7%
Helman Aldobi	Peter Friedman	36.427%
Prizma	Markstone Capital Group LLC	30%
Hadas Mercantile	Hadas Arazeem (4 foreigners+ 6 Israelis)	51%

9. Capital is raised either through the Tel-Aviv Stock Exchange or through foreign exchanges. High-tech industries, which accounted for only 37% of industrial product in 1965, grew to 70 % of industrial product in 2006. Almost 80 % of high-tech products are exported. A high proportion of Israeli companies are currently registered for trading on the NASDAQ stock exchange (Israel is the second largest country of origin of traders on this exchange). The number of Israeli companies registered for trading on European stock exchanges has also risen in recent years.

10. Foreign trade is conducted with countries on 6 continents. 49 % of imports and 33 % of exports are with Europe. This pattern of trade is supported by a free trade agreement concluded with the European Union (EU) in 1975. Israel has a similar agreement, updated in 1995, with the United States of America (which accounts for 12.4 % of Israel's imports and 38 % of its exports).

11. The country's diamond cutting and polishing industry is the largest in the world. In 2006, $ 13 billion worth of stones was exported.

System of government

12. Israel is a Parliamentary democracy, with the legislative, executive and judicial branches operating on the principle of separation of powers. The President, whose duties are largely

ceremonial, symbolises the unity of the State. The President is elected by the Knesset (Israel's Parliament) for one seven year term. The President signs laws, pardons prisoners and commutes sentences on the recommendation of the Minister of Justice.

13. The legislative power of the State resides in the Knesset, a unicameral Parliament that consists of 120 members elected by universal suffrage under a system of proportional representation. The Knesset operates in plenary sessions and through 15 standing committees. To become law a bill must pass three readings in the Knesset. Knesset members are chosen every four years in nationwide elections with the whole country constituting a single electoral constituency. The number of seats assigned to each party in the Knesset is proportional to the share of the total national vote. The term may be shortened by the death, or resignation of the Prime Minister, or by a vote in the Knesset of no-confidence in the Government.

14. The Government (Executive Branch) is accountable to the Knesset, and holds office by virtue of the confidence of the Knesset. The President charges a Knesset member with the responsibility of forming a government and presenting, within 28 days, a list of ministers for Knesset approval. Half of the ministers must be Knesset members. Most Ministers are assigned a portfolio; others serve without portfolio but may be given responsibility for special projects. All governments since 1948 have been based on a coalition among several parties as, to date, no one party has received over half of the 120 seats.

Legal system and hierarchy of laws

15. The primacy of the law is a fundamental principle in Israel.

16. Israel has no formal Constitution. Upon attaining statehood, the body of law adopted consisted of statutes in force during the British Mandate, insofar as they were consistent with the provisions of the Declaration of the Establishment of the State of Israel. Since then, new laws have been enacted and old ones revised to address current situations. The functioning of the main institutions of the State is regulated by a number of Basic Laws. They cover the electoral system, the legislature and the judiciary, and guarantee the protection of property, life, body, dignity, the right to privacy and freedom of occupation. Their constitutional import is derived from their nature and, in some cases, from the inclusion of "entrenched clauses" whereby a special majority is required to amend them. Legislation is primary legislation passed in the Knesset in a process of three readings. Secondary legislation is enacted by the executive branch (typically a government minister) as prescribed in the law (primary legislation). In certain cases the law prescribes an approval by a Knesset committee and/or approval or consultation with additional government ministers. In the PMLL (section 32(c)) it has been prescribed that in the PMLL all "Regulations, rules and orders under this Law shall be made with the approval of the Constitutional, Law and Justice Committee of the Knesset." Thus an additional parliamentary approval was added to all secondary legislation enacted under the provisions of the PMLL. It should be noted that the terms "Regulations, rules and orders" can sometimes be differentiated between ad hoc and in rem, but in many cases are interchangeable and always mean "secondary legislation".

17. Israel's criminal justice arrangements closely follow the common law system. The Penal Law and Evidence Ordinance both originated from the British Mandate era and the Criminal Procedure Law has a very strong common law influence. Furthermore, judicial decisions (and the doctrine of precedent) play a significant role in the development and consolidation of the criminal law in Israel. In 1994, the Penal Law (Amendment N° 39 – Preliminary Part and General Part), 5754-1994 was approved. This Law consolidates in a continental fashion the principles of criminal justice that were until then found in the 1977 Penal Law and through decisions of the Supreme Court. Crimes are divided into felonies, misdemeanours and contraventions. A felony is a crime with a minimum punishment of more than 3 years. A

misdemeanour is a crime with a minimum punishment of imprisonment for more than 3 months and up to 3 years. A contravention is punishable by a maximum term of imprisonment of up to 3 months or a fine of up to 7000 Shekels.

18. The Judicial branch is formed by three levels of courts: Magistrates' Courts; District Courts; and the Supreme Court which functions both as an appellate court and as the High Court of Justice. There are also religious courts covering the main religious groups that live in Israel: Rabbinical (Jewish) Courts; Sharaic courts (Muslim) and Druze courts.

19. The independence of the courts and judges is provided for in a Basic Law (Judicature). The criminal justice system is based on a national division of legal regions.

Transparency, Good Governance, ethics and measures against corruption

20. Israel signed the United Nations Convention against Corruption on 29 November 2005 but have yet to ratify it. Israel is not a signatory or a party to the Council of Europe Criminal Law Convention on Corruption. In 2008 Israel initiated the accession process to the OECD convention on Combating Bribery of Foreign Public Officials in International Business Transactions and to Working Group on Bribery. Moreover, Israel has participated in many OECD committees and activities since 1996, and is a full member in 14 OECD bodies/groups and has observer status in more than 40 OECD bodies/groups. In January 2007, the IMF Executive Director for Israel stated that Israel's commitment to maintain a market based economy, good governance and democratic pluralism makes Israel a natural candidate for OECD membership. The Transparency International 2007 "Corruption Perceptions Index" ranked Israel 30th out of 180 (where 180 is considered the most corrupt).

21. Israel is a Party to the UN Convention against Transnational Organised Crime (Palermo, 2000). Israel signed the Convention on 13 December 2000, and ratified it on 27 December 2006. As is well known, this Convention recognises that corruption is an integral component of transnational organised crime and must be addressed as part of efforts to combat organised crime.

22. Israel has been a Party to the WTO Government Procurement Agreement since 1996. The Agreement is an important step towards bringing government procurement under an internationally agreed trade regime. Accordingly, the Agreement sets down procedures to minimise corruption and bribery within bidding and procurement procedures.

23. The Government has funded and encouraged a combined and joint effort to counter corruption in general and corruption in public systems in particular and has acted to minimise illegal economic activity. Fighting public corruption is a major policy aim of the Prosecution Service.

24. Measures to prevent and combat corruption are a high priority for all law enforcement agencies. In principle "public corruption" cases relate to bribery offences, violations of public trust, fraud or theft of public funds by a public servant as well as, attendant acts of money laundering. In support of the policy to prevent and combat corruption, the Israeli authorities pointed to a strong tradition of assertive professional independence within relevant State authorities (including the Police, State Attorney's Office, and State Comptroller), which results in the investigation of allegations and suspicions without political interference. In recent years several investigations and indictments have been pursued against politicians and high-ranking government officials including Ministers and the President.

25. Bribery in respect of public officials accounted for 148 police investigations of predicate offences in 2003, 149 in 2004, 185 in 2005 and 223 in 2006. In the period 2003 – 2007, indictments were filed against nine Mayors and nine, current or former, Members of

Parliament for offences committed in office (primarily regarding bribery offences and violations of public trust). Currently, an indictment has been drawn up against an MP for the theft and money laundering of 2 – 2.5 million Shekel (equivalent to over 500,000 U.S. dollars).

26. A strong and independent Judiciary enjoys general public trust.

27. The Police, State Attorney's Office, State Comptroller etc. all have systems for ensuring high ethical and professional behaviour of their staff, as do professionals in the private sector, such as accountants, auditors and lawyers.A multi-layered system has been put in place to ensure the integrity and ethical behaviour of Israeli Police officers. The vetting procedure for all police recruits includes a background security check and profile assessment for conflicts of interest. For CID personnel, follow-up risk assessments are carried out on a rotational basis. All CID officers who, by designation, are afforded access to sensitive information are required to undergo periodic polygraph examinations. The IP maintains an internal disciplinary prosecution section, as well as a full court and appeals process, for ethical and other serious procedural violations. Suspected criminal offences by police officers (including bribery, violation of public trust etc.) are referred to the Ministry of Justice for further independent investigation, and prosecution in the criminal courts. In addition, there are several rules in the public service to ensure professional behaviour of public servants, including arrangements to prevent conflict of interests, property declarations by high level officials and all candidates must declare whether they were convicted in criminal or disciplinary procedure.

28. Central Government internal accounting and control functions are considered effective. The external audit function includes performance audits, which are publicly available. The passage of a Freedom of Information Act in 2000 has enhanced all aspects of financial transparency. Israel's corporate governance framework is designed to promote market integrity and development through investor protection. The corporate and securities laws, which provide the framework for corporate governance, contain and formally codify principles of good governance and protection of the interests of minority shareholders. Many of the common law rights of shareholders and fiduciary duties of management are explicitly articulated in Israeli law and subject to civil and in many cases possible criminal enforcement. Israel is recognized by the World Bank as one of the highest ranked jurisdictions in terms of the provision of investor protection through the corporate governance mechanisms and disclosure requirements incorporated in its body of corporate and securities law.

1.2 General Situation of Money Laundering and Financing of Terrorism

29. The overall threat to Israel from organised criminal activity and its related money laundering is considerable. Several significant internal money laundering cases have been generated by local criminal enterprises. The Israeli authorities consider that the major proceeds-generating offences associated with organised crime are: illicit drugs, illegal gambling, extortion and fraud. Human trafficking is also a proceeds-generating criminal offence Major domestically based criminal organizations in Israel do not engage in human trafficking. Rather such trafficking is primarily conducted by foreign-based networks operating in Israel, as well as, other countries, though this is thought to be declining. Illegal gambling profits have recently been estimated at 2-3 billion US Dollars per annum. An earlier estimate of the Israeli drug market suggested a yield at above 1.5 billion US Dollars annually. The table below shows the major proceeds-generating predicate offences which have been the subject of investigations in the years 2003-2006. In the same period there were 124 money laundering cases investigated and 37 indictments for money laundering filed (see statistics at 2.1 below).

Instances Investigated – Predicate Offences

Year / Offence	2003	2004	2005	2006
Illegal Gambling	1,447	1,124	757	859
Drug Transactions	10,676	10,806	9,761	9,176
Human Trafficking	51	50	13	27
Prostitution (procurement)	401	541	293	239
Bribery (Public Officials)	148	149	185	223
Fraud	4,110	4,308	4,361	5,246

30. The level of laundering in Israel by individuals living abroad or by organised crime groups operating from outside Israel is difficult to quantify. The Israeli authorities consider that their financial institutions to be vulnerable to international money laundering from individuals and transnational groups from the countries of the ex-Soviet Union, the United States of America and Europe. The authorities are equally conscious of the potential risks of illicit assets entering the Israeli financial system as an inadvertent result of open immigration policies.

31. The Prohibition on Money Laundering Law (PMLL) was enacted in August 2000. It provides inter alia for the imposition of basic preventive obligations on banking corporations by order of the Governor of the Bank of Israel, after consultations with the Minister of Justice and Minister of Internal Security. Provision is similarly made for preventive obligations on other financial intermediaries by Ministerial Order. The PMLL creates money laundering offences and specific forfeiture provisions. It also empowers the Minister of Justice to establish an FIU. The ways in which money is laundered in Israel are constantly developing in response to local legislative and law enforcement initiatives. When the PMLL was introduced much of the domestic laundering was little more than basic placement, mainly in banks and through money service providers, or primitive layering of criminal proceeds (sometimes facilitated by the use of straw entities). Initial law enforcement actions following the introduction of PMLL have led serious offenders to place greater reliance on integration schemes. Today domestic money laundering is increasingly undertaken through ostensibly legal enterprises with requisite invoicing and audited statements. As will be seen later in this report, currently most DNFBP, including lawyers, accountants and auditors are not covered by PMLL.

32. Transnational criminals operating in Israel are known to use multinational layering schemes and complex corporate structures, frequently involving off-shore centres. More specifically, various transnational criminals of interest to the authorities in Israel maintain numerous bank accounts in European banks. Such accounts are frequently owned by companies registered in offshore centres, and are operated through trustee companies located in certain western or

central European countries. Typically money destined for Israel, is channelled through two, three or more of such bank accounts before reaching Israel.

Terrorist financing

33. The State of Israel has been threatened by terrorism since its independence. State Security in Israel is naturally a primary objective of Israeli Government policy. As a result, Israel has developed an extensive network of government authorities, a body of domestic legislation (some of which predates the creation of Israel as an independent State), a range of practical policies and an intense commitment to combat terrorism in all its forms. At the time of the on-site visit, the main recent legislative instrument was the Prohibition of Terrorist Financing Law 2005 (PTFL), which became effective on 1 August 2005 and is largely based on the International Convention for the Suppression of the Financing of Terrorism (1999). Israel ratified this Convention on 19 December 2002.

34. The Security Services pay particular attention in their work to money flows for terrorist purposes and to abuses of non-profit organisations for the purposes of terrorist financing, both inside and outside Israeli territory. However, at the time of the on-site visit, the relevant supervisory authorities had not conducted their own risk assessment of the adequacy of all applicable laws in this sector.

35. A number of investigations and prosecutions for financing of terrorism have been pursued and some convictions have been obtained under both legislation that predated the PTFL and relevant provisions of the 2005 legislation.

1.3 Overview of the Financial Sector and Designated Non-Financial Businesses and Professions (DNFBP)

Financial Sector

36. Israel's financial sector has for several years been centralised and subject to significant government control and ownership. A serious economic crisis in the early 1980s resulted in the government maintaining significant holdings in the banking sector, although it is now gradually divesting itself of these holdings through a privatisation programme.

37. Israel's banking system is small and basically locally-owned. At the end of 2006, 25 banking corporations were operating in the market. There are no offshore banks in Israel. The banking system is highly concentrated with 5 of the largest banking groups (Bank Hapoalim, Bank Leumi, Discount Bank, Mizrahi Bank, and First International Bank of Israel) controlling 94.7 % of all bank assets, and the three largest among them accounting for over 77.3 %. A full range of banking services, including private banking, is offered by the banks. The Postal Bank is Government owned and has about 650 branches in Israel. According to the statistics at 30 September 2007, the assets of the Postal Bank amount to 967,518,000 NIS.

38. The Tel-Aviv Stock Exchange is the only stock exchange operating in Israel. Trading on the Stock Exchange is permitted only to members of the Exchange. All those wishing to trade stocks or financial instruments that are traded on the Tel-Aviv Stock Exchange must act through a member. The bulk of the volume is traded through banks that are members of the exchange whilst the rest is traded through non-banking members who act in a similar way to banks. The exchange members must meet certain minimum equity requirements as well as other criteria governed by the exchange itself. Many exchange members also act as underwriters, portfolio managers and mutual fund managers through related companies. The implementation of money laundering obligations with respect to banking personnel trading on the stock exchange is subject to the regulation and scrutiny of the Bank of Israel. The

implementation of money laundering obligations of non-banking members is supervised through the Israel Securities Authority (ISA).

39. Portfolio Managers - A portfolio manager is anyone who manages a discretionary account in stocks or other financial assets on someone else's behalf (not including mutual funds). The Portfolio managers do not operate with cash and are solely authorised to operate through the bank accounts of their clients. As a general matter, all portfolio managers with more than 5 clients must be licensed, and their activity must be carried out by a licensed limited company with a minimum equity value. The compliance of obligations of portfolio managers with regard to anti-money laundering obligations is also supervised by the Israel Securities Authority (ISA).

40. The insurance industry in Israel is dominated by a few large firms. Today five groups dominate the market: Migdal, Clal Insurance, Phoenix, Harel and Menora. The Commissioner of Insurance, a Treasury official with statutory authority, is responsible for the regulation of the sector. All companies wishing to offer insurance services must submit a business plan and receive approval for policies and rates. All companies are subject to regular reporting requirements and reviews. This system has been expanded to include reporting and review of obligations under the Prohibition on Money Laundering Law, Regulations and Orders.

41. Provident funds - a Provident fund is a fund created for a certain purpose, for example for pensions, stipends, continuing education etc. They also can be in the form of a central fund for investment in other provident funds approved by the governor according to the Income Tax Ordinance (excluding an insurance fund). There are about 70 companies in Israel that manage provident funds. 91% of these companies receive management services from the banks in Israel. Establishment of a new provident fund requires approval from the Ministry of Finance. A management company must satisfy the requirements of this Ministry before the fund will be accorded an income tax authorisation.

42. The Postal Bank was established by the Government under the Postal Bank Law of 1951 to facilitate money transfer in the market and to encourage savings. The Postal Bank operated within the Ministry of Communications and since 1987 provided its services through the Postal Authority (which was created by law). On March 2006 the Israeli Postal Authority was replaced by the Israel Postal Company Ltd, a governmental company. The Israel Postal Bank-incorporated as a subsidiary of the Israel Postal Bank is now called the Postal Bank Company Ltd. Due to the amended Postal Law, financial services are now provided by the Israel Postal Company Ltd on behalf of its subsidiary the Israel Postal Bank Ltd. All financial services are supervised by the Ministry of Communications. Banking services are provided at 697 postal units nationwide 551 of these units are connected on-line to the Main Frame of the Postal Banking Services computer system. The Postal Bank offers chequing accounts to the public. These accounts operate similarly to checking accounts in commercial banks but do not offer overdraft facilities. The Postal Bank processes payments credited to and debited from these accounts including cash and cheque payments, direct deposits, and also transfers funds between accounts. These accounts feature low operating fees. Approximately 300,000 accounts are managed by the bank of which the vast majority are held by private, institutional and corporate clients. The dominant activity of the bank is based on the collection of payments from the public on behalf of governmental institutions, tax authorities and private companies. 150 of these units offer remittance services through Western Union.

43. The PMLL Law regulates the field of "Money Services Businesses" (or currency service providers") and establishes definitions, registration procedures and powers of inspection and enforcement. These provisions apply to all those engaged in the provision of currency services, even if this is not their only occupation. The law requires the registration of all those

who execute one or more of the following actions: The conversion of the currency of one country into the currency of another country; the purchase or redemption of travellers cheques in any currency type; and the receipt of financial assets in one country against the provision of financial assets in another country.

44. The table below details the number of Israeli financial institutions and their current supervisory arrangements.

Financial Institutions	**Supervisor**	**No. of Registered Institutions**
Banking Corporations	Bank of Israel – The Supervisor of the banks	21
Trust Co.	Bank of Israel - The Supervisor of the banks	8
Portfolio Managers	The Securities Authority	132
Provident Funds	The Administrator of the Capital Market, Ministry of Finance	89 holding companies. 482 provident funds.
Stock Exchange Members	The Securities Authority	13
Insurance	Supervisor of Insurance, Ministry of Finance	21 companies (of this 3 are governmental companies, and 7 are licenced for non-life business only, 11 are composite)
MSB's Money and Currency Changing	The Registrar of Providers of Currency Services, Ministry of Finance	1,153
Postal Banks	Ministry of Communication	1/650
Debit and Credit Cards Companies	Bank of Israel – The Supervisor of the banks	3

45. The table below sets out the range of financial activities or operations mentioned in the Glossary to the FATF Recommendations generally conducted by financial institutions, which are performed by Israeli financial institutions.

Table of financial activities compared with the Israeli Financial Sector[4]

		Activities as mentioned in Annex 1 to the Glossary												
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
BOI	Banks	x	x	x	x	x	x	x	x	x	x	x		X
	Mortgage banks						x	x	x					
	Investment finance bank	x	x				x	x						
	Merchant bank		x	x	x	x	x	x	x	x	x	x		X
	Other financial institutions[5]		x	x	x	x	x	x	x	x	x	x		X
	Joint service company	Those companies only provide services to banking corporations or their customers, for example clearing houses												
MoC	Postal Bank Ltd	x			x	x		x						X
MoF	Provident Funds		x											
	Insurance Companies		x				X						x	
	MSBs		x		x									X
ISA	Portfolio managers								x	x		X		
	Stock exchange members	x	x		x		x	x	x		x			X

46. There is no formal regulation on lending activities for non banking business (as long as they do not fall within the PMLL definition of MSB i.e. remit money, discount cheques, or change currency), though there are some limiting provisions in the Off Bank Loan Regularisation Law, 1993 (e.g. the maximum interest rate).

[4] The numbered activities relate to the following as they appear in the Glossary to the FATF Recommendations:
"*Financial institutions* means any person or entity who conducts as a business one or more of the following activities or operations for or on behalf of a customer:

1. Acceptance of deposits and other repayable funds from the public.
2. Lending.
3. Financial leasing.
4. The transfer of money or value.
5. Issuing and managing means of payment (e.g. credit and debit cards, cheques, traveller's cheques, money orders and bankers' drafts, electronic money).
6. Financial guarantees and commitments.
7. Trading in:
   (a) Money market instruments (cheques, bills, CDs, derivatives etc.).
   (b) Foreign exchange.
   (c) Exchange, interest rate and index instruments.
   (d) Transferable securities.
   (e) commodity futures trading.
8. Participation in securities issues and the provision of financial services related to such issues.
9. Individual and collective portfolio management.
10. Safekeeping and administration of cash or liquid securities on behalf of other persons.
11. Otherwise investing, administering or managing funds or money on behalf of other persons.
12. Underwriting and placement of life insurance and other investment related insurance.
13. Money and currency changing."

[5] For example, trust companies.

47. The Postal Bank trades only in money market instruments and foreign exchange in the form of issuing cashier cheques. The stock exchange members only trade in money market instruments, exchange, interest rate and index instruments, transferable securities and commodity futures trading.

48. The amount of assets that was held by institutional bodies (including provident funds, pension funds and insurance companies) during the years 2007-2006 was 652 and 588 billion NIS respectively, The GDP in those years was 652 billion NIS and 633 billion NIS respectively. The tables below illustrate the increase in the assets and premiums that was made by institutional bodies during those years

Assets gained and premiums written by institutional bodies in 2007-2006 (Million NIS)

	Assets managed (Million NIS)		Premiums written (Million NIS)		Premiums as Percent of the GDP	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Provident funds	278,000	255,400	20,800	19,500	3%	3.1%
Pension funds	224,000	201,200	12,300	10,800	1.7%	1.7%
Insurance companies (life)	150,000	135,300	17,450	16,200	2.5%	2.5%
Insurance companies (non life and capital)	66,000	61,700	18,700	18,300	2.9%	2.9%
Total Institution Bodies	652,000	591,900	50,550	46,500	7.8%	7.4%

The number and allocation of insurance agents in the years 2007-2006

Line of business	2007	2006	Change in percents
Pension	9,909	8,669	14.3%
Life and non-life insurance	6,192	6,089	1.7%
Marine	990	1,018	-2.8%
Total number of agents	11,358	9,937	14.3%

Table 5 - Daily Turnover, 1992-2007 (1) (US $ millions)

Year	Shares & Convertibles	Bonds	Treasury Bills[(2)]
1992	59	29	31
1993	123	35	32
1994	104	29	27
1995	37	36	47
1996	33	56	35
1997	59	55	27
1998	62	78	37
1999	86	63	39
2000	115	74	48
2001	64	131	50
2002	51	159	78
2003	80	160	107
2004	147	214	140
2005	223	298	151
2006	326	384	179
2007	505	799	206
Change in 2007	55%	108%	15%

Table 6 - Market Capitalisation of Listed Securities, 1992-2007(US $ billions)

Year	Shares & Convertibles	Bonds	Total
1992	29.6	30.7	60.3
1993	50.8	31.7	82.5
1994	32.7	33.2	65.9
1995	36.5	36.9	73.4
1996	35.9	40.7	76.6
1997	46.4	40.9	87.3
1998	40.9	37.4	78.3
1999	65.4	39.7	105.1
2000	66.8	41.4	108.2
2001	57.6	44	101.6
2002	42.6	45	87.6
2003	70.4	57.6	128
2004	92.1	69.5	161.6
2005	122.6	79.7	202.3
2006	161.4	98.9	260.3
2007	235.2	151.4	386.6

Designated Non-Financial Businesses and Professions (DNFBP)

49. Casinos (including internet casinos) are prohibited under Israeli Law. The National Lottery operates under a special permit issued under the Penal Code (1977) by the Ministry of Finance. The permit is issued after the Ministry of Finance has conferred with the FIU – the Israel Money Laundering and Terror Financing Prohibition Authority (hereafter IMPA) regarding AML/CFT aspects. The permit includes money laundering obligations: the appointment by the national lottery of a person who is responsible for compliance with the corporation's AML/CFT obligations; the National Lottery must also identify any person who wins more than 50,000 NIS.

50. Real estate agents mediate in the buying and selling of real estate pursuant to the Real Estate Agents Law 1996. They have to be licensed and registered with the real estate agents registrar at the Department of Justice. 16,000 real estate agents are currently registered. They are not covered by AML/CFT obligations at present but proposals were being considered, at the time of the on-site visit, which would apply the PMLL to them when they engage as financial intermediaries.

51. There are 350 companies dealing in precious metals. They are unregulated and not covered by any AML/CFT obligations and at the time of the on-site visit there were no plans to extend coverage to them. By contrast, dealers in precious stones are licensed by the supervisor of diamonds and precious stones at the Ministry of Industry Trade and Labour (the Ministry of Industry Trade and Labour – diamonds, precious stones & jewellery administration). There are about 2,200 members licensed. They are currently subject to internal procedures on a self regulatory basis; they have to complete an application and provide documents including evidence of their financial stability, their experience in diamond industry, etc. The current draft of the PMLL amendments would apply the law to dealers in precious stones.

52. Lawyers are licensed by the Bar Association. Israel has one of the highest *per capita* ratios of lawyers to citizens. There are 38,000 lawyers in Israel. They engage in all forms of financial mediation for clients and can act as trust and company service providers.

53. There are 1500 notaries in Israel, regulated under the Notaries Law 1976. A notary's powers are specified in section 7 of the Notaries Law. A notary is able:

- to authenticate a signature on a document;
- to certify that a person who signed a document in the name of another person was competent to do so;
- to certify the correctness of the copy of a document;
- to certify the correctness of the translation of a document;
- to receive and certify an affidavit and any other declaration;
- to certify that a particular person is alive;
- to certify the correctness of an inventory;
- to draw up or do any other act in respect of a document where such drawing up or doing by a notary is required or permitted by law, including the law of a foreign state or by virtue of another document;
- to exercise the powers of a notary public under any other law;
- to authenticate a financial agreement, which was signed prior to the marriage.

54. Members of the Israel Bar Association may be granted a notary licence by the Licensing Committee if they are an Israeli national or permanent resident and have practiced law as attorneys or as judges for at least ten years. The Licensing Committee is chaired by the Attorney General and composed of seven members appointed by the Minister of Justice and includes two members who are recommended by the Chamber of Advocates, at least two representatives of the public and at least one notary.

55. There are 18,090 accountants licensed by the Accountants' Council, pursuant to the Accountants Law 1955. Accountants perform several functions, including auditing, providing tax advice, submitting tax returns on behalf of clients. There is not a separate profession of auditor. According to the Accountants Law, auditing means the examination, criticism or approval of any balance-sheet, profit and loss account, income and expenditure account, receipts and payments account and any similar account, and the carrying out of any other function which is or will be reserved to an auditor by any enactment, but does not include the keeping of accounts. The Audit Council is authorised to grant an accountant's licence to a person who meets the following requirements:
    - he is 18 years old or over;
    - has passed the examinations held on behalf of the Council or if the Council has exempted him from part of the examinations, those from which he has not been exempted, or has proved to Council his training in auditing and
    - has had practical in training for at least two years, either in Israel or abroad.

56. Lawyers, notaries and accountants have no AML/CFT obligations currently, though consideration was being given to this issue. Present governmental thinking is to extend AML/CFT obligations to them when their professional duties require them to engage as financial mediators.

57. Trust and company service providers (as distinct financial businesses separate from lawyers) operate in Israel. They operate either as sole traders or as companies. They are responsible for the establishment, operation or management of trusts and companies. They are not currently covered by any AML/CFT obligations, though consideration was being given to bringing them under the PMLL also when they act as financial mediators.

1.4 Overview of commercial laws and mechanisms governing legal persons and arrangements

Companies

58. Private and public companies are principally governed by the Israeli Companies Law, 1999 (the "Companies Law"). The courts have, however, made a significant contribution to the development of Israeli law by means of judicial interpretation. In their decisions, the courts have to some extent been influenced by continental law, although English and American law have persuasive force.

59. The Companies Law recognises two types of companies: private companies and public companies. A public company is a company the shares of which are listed for trading on a stock exchange or are offered to the public by prospectus, and are held by the public. A private company is any company that is not a public company.

60. Other forms of association exist under Israeli law, e.g., co-operative associations. These are legal entities owned and controlled by its members. There are approximately 200 co-operative associations registered at the co-operative association's registrar, according to the co-operative association ordinance. Co-operative associations are obligated to submit to the Registrar protocols and financial reports on the association activities. The supervision unit at the registrar supervises on the activities of the association's authorities, on the association's businesses etc. Other forms of NPO's are 'amutot', dedications, ottoman associations, public welfare corporations and parties.

61. The establishment of an Israeli company is a relatively straightforward (and inexpensive) process which normally takes a matter of days. There are no restrictions on foreign shareholders or directors. Where the company has foreign shareholders or directors, identifying documentation must be submitted to the Companies Registry – a certified copy of the passport in the case of an individual, or a certified copy of the certificate of incorporation in the case of a corporate shareholder. The company must have a registered office with an address in Israel.

62. The articles of association (or by-laws) of both private and public companies must include the name of the company, the company's objectives, particulars of the company's registered share capital and particulars of the limitation of liability.

63. A private company may have a single shareholder. Consistent with the characteristics of companies established in leading common law and civil law jurisdictions, Israeli companies limited by shares enjoy a legal personality separate from their members and the personal liability of each member for the company's obligations is limited to the amount, if any, unpaid on that member's share capital. Under the Companies Law, the members of the company are not personally liable for its obligations, save in exceptional circumstances (e.g. fraudulent misconduct), when the "corporate veil" may be lifted.

64. Under the Companies Law, certain corporate decisions must be adopted by the shareholders at a general meeting including, *inter alia*, alterations to the company's articles of association or its authorised share capital, appointment of an auditor and approval of certain acts and transactions involving officers and interested parties.

65. The Companies Law stipulates that a private company must file with the Companies Registry an Annual Report within 14 days of its Annual General Meeting (AGM). If there is no AGM, the Annual Report must be filed no later than 14 days after the financial statement was sent to the shareholders and if the company is dormant and there are no financial statements, then

once a year. The Annual Report includes general corporate details, such as the names of the company's directors and shareholders.

66. A private company is also required to file reports to the Companies Registry regarding certain general corporate matters such as changes to the articles of association, appointments to the Board of Directors and changes in its composition, and share issuance. These actions take effect even if they are not reported to the Companies Registry, except for a change of a company's name or objectives, which cannot take legal effect until notice has been filed at the Companies Registry.

67. A private company is required to pay an annual registry fee to the Companies Registry.

68. Foreign companies conducting business in Israel do so either through a locally incorporated subsidiary or through a local branch. The Companies Law requires a foreign company that establishes a place of business in Israel to register at the Companies Registry. This is a straightforward procedure and requires the delivery to the Companies Registry of the following documents and information: a certified copy of the company's corporate documents (certificate of incorporation, articles of association, by-laws etc.); a list of directors of the corporation; the name and address of a person resident in Israel who is authorised to receive judicial documents on behalf of the company, and to receive notices issued to the company; and a copy of a power of attorney authorising a person normally resident in Israel to act on behalf of the company in Israel. With respect to corporate maintenance, a branch has very limited reporting requirements.

Partnerships

69. Under Israel's Partnership Ordinance, 1975 (the "Partnership Ordinance"), a partnership can take one of two forms: a general partnership and a limited partnership.

70. A partnership is a form of business association under which the partners bear personal, unlimited joint and several liability for the obligations of the partnership. A company may be a partner in a partnership. A partner who leaves the partnership continues to be liable for the obligations of the partnership incurred while he or it was a partner but not for obligations incurred after leaving. Each partner is treated as an agent of the partnership with power to bind the partnership by its actions.

71. A partnership is essentially a contractual arrangement between the partners and is generally constituted by a partnership agreement. It is important to note that it is typically more cumbersome to transfer an interest in a partnership than to transfer shares in a company. Under the Partnership Ordinance, the transfer of a partnership share requires the consent of all the partners unless the partnership agreement specifies otherwise.

72. The management of a partnership and the respective rights of the partners are generally specified in a partnership agreement but, to the extent that they are not so specified, these matters are governed by the provisions of the Partnership Ordinance.

73. A limited partnership is a partnership which has at least one general partner who has unlimited personal liability for the obligations of the partnership and one or more limited partners whose liability for the obligations of the partnership is limited to the amount which it/they contributed to the capital of the partnership. A limited partner (which again may be a company) may not withdraw its capital contribution while it continues to be a limited partner and, if it does so, it continues to be liable for the full amount of the capital contribution.

74. A limited partner may not take part in the management of the partnership and, if it does so, it is treated as a general partner. For this reason, *inter alia,* limited partnerships are generally used as investment vehicles rather than as a form of association for active business participants.

Trusts

75. Trusts are a type of non-corporate entity and their legal basis is found in the Law of Trusts. A trust cannot own property. Trusts allow individuals to dispose of their assets according to particular objectives and for a range of other activities. Some trusts receive governmental support. Common law traditions have influenced the types of trusts found in Israel. They include bare, fixed, discretionary, hybrid, private and public/charitable, as well as implied, resulting and constructive trusts. The authority in charge of registering and overseeing them is the Registrar of Trusts.

1.5 Overview of strategy to prevent money laundering and terrorist financing

a. AML/CFT Strategies and Priorities

76. The Israeli Government have articulated policy guidelines for AML enforcement in Government Decision N° 4618 of 1 January 2006. In this document, the Government explicitly prioritises the attack on illicit proceeds as a primary objective in combating serious and organised criminal activity. All relevant agencies are required to operate in a co-ordinated way, pursuant to the programme objectives and work-plan approved by a senior committee, which is led by the Attorney-General (hereafter "The Committee").6 The Committee membership comprises the Attorney General, the State Prosecutor, the Chief of Police, the Head of the Tax Authority, and the Chairman of the Securities and Exchange Commission. The State Attorney chairs the Steering Committee.

77. A lower level inter-agency Implementation Committee is charged with translating the Executive Committee's directives into measurable operational practice. The Implementation Committee is chaired by the Head of CID of the Israel Police (IP), and its membership includes counterparts from the Tax Authority, Prisons Service, Securities and Exchange Commission, Anti-Trust Authority, State and District Prosecutors' Offices, as well as the Head of IMPA.

78. Currently, programme objectives include:
- coordinated targeting of offenders and prioritisation of cases;
- creating integrated intelligence products drawing on multiple sources from the various member agencies for enforcement purposes;
- sharing professional knowledge and expertise;
- operational-investigative co-operation;
- creating models for effective systemic action against defined criminal phenomena
- identification and removal of systemic "bottlenecks" (e.g. problems in inter-agency transfer of information, recurring delays in the enforcement process due to a lack of necessary manpower at any stage of the process, etc).

[6] Note: there is an additional Steering Committee led by the deputy state attorney (criminal affairs) which recommends ways of improving the effectiveness of enforcement of the money laundering offence

79. A work-plan produced by the Implementation Committee and budgeted for 2007-2010 includes the following:
    - Six multi-agency task forces – each has been assigned a specified criminal organisation or phenomenon, and comprises personnel from the Israel Police, the Tax Authority, and the State Prosecutor's Office, supported by IMPA personnel.
    - The creation and operation in the last 14 months of a joint intelligence body (the Intelligence Fusion Centre). This Centre, housed in the IP premises, comprises permanent professional members of the IP, the Tax Authority and IMPA. The unit has direct access to the databases of each component authority and cross-references information for the purpose of exposing crime with a multi-agency dimension and enabling inter-agency law enforcement initiatives. The centre has presented the Implementation Committee with a Joint Intelligence Overview for 2008 (including targeted recommendations). Presently it is charged with mapping assets, membership and criminal activity in respect of 3 separate criminal organisations targeted for Task Force activity.
    - The augmentation and restructuring of AML staff units in the Police and the Tax Authority.
    - An Academy for Interdisciplinary Enforcement Studies – to serve as a centre for information and research.

80. As a result of the Implementation Committee's, AML manpower in the Police, Tax Authority, Prosecutors' Offices, and IMPA has increased by 107 positions. 14 million US Dollars have also been allocated in IT funding.

81. Performance indicators for the various task forces and for assessing the overall effectiveness of law enforcement have been developed, in particular the elaboration of significant asset confiscation targets and offender imprisonment targets.

b. The institutional framework for combating money laundering and terrorist financing

82. The following are the main bodies and authorities involved in combating money laundering or financing of terrorism on the financial side:

(1) Ministries and co-ordinating committees

Ministry of Justice

83. The Minister of Justice leads the Ministry of Justice and is responsible to the Knesset for the Ministry and the courts system. The Ministry has two main areas of activity.

84. The first area of activity of the Ministry of Justice involves public prosecutions, legislation and legal advice. Professional responsibility for this area is borne by the Attorney General, who is legal advisor to the Government and Head of the country's judicial system. He is assisted by the Legal Advice and Legislation Divisions, as well as by the Public Prosecutor's Office (the State Attorney). Specifically the legislation department of the Ministry of Justice is responsible for the reviewing and updating of AML/CFT legislation and regulations. As such the Ministry of Justice is the lead AML/CFT policy-making department.

85. The Attorney General is a civil servant, appointed by the Government upon the recommendation of a committee led by a retired Supreme Court judge, together with the

Minister of Justice, a member of the Bar Association, Member of the Knesset and an academician. The term of his appointment is 6 years. The Office of the Attorney General is by tradition since the 1960s politically neutral. The Attorney General directs state prosecution. The Attorney General's decisions are arrived at independently without reference to any instructions or policy of the Government or the Minister of Justice. Only the Attorney General can initiate proceedings against the President, the Prime Minister, Ministers and judges. Recent prosecutions against senior Israeli politicians are indicative of the assertive and firmly independent position that the Attorney General occupies in the judicial system. The Attorney General in practice delegates much of his prosecutorial responsibilities to the State Attorney. Prosecutors thus take their directions from the Attorney General or the State Attorney. There is a Head Office of the State Attorney in Jerusalem and regional district offices of the State Attorney. In the context of AML/CFT prosecution, all district attorneys can prosecute money laundering and financing of terrorism cases. The Head Office usually participates in the more complex investigations with the IP. Most money laundering cases are handled by the Tel-Aviv (economic and fiscal crimes) district and the economic department at the State Attorney's Office, Jerusalem. The State Attorney's Office Department for International Affairs is the central authority for judicial international co-operation.

86. The second area of activity of the Ministry of Justice involves administration, registration, and supervision of property and other rights. This area is handled by the Ministry of Justice's Director General, who is responsible to the Minister for all the Ministry's divisions including land registration, companies, partnerships, business names, etc. Specifically in the context of AML/CFT the Registrar of Legal Persons is within the organisational structure of the Ministry of Justice. He is responsible for the law relating to legal persons and arrangements. The Registrar registers companies and trusts and is responsible for existing supervisory arrangements in the non-profit sector. The registration of real estate agents, as noted, is undertaken by the Registrar of Real Estate Agents, who works within the Ministry of Justice.

87. The country's FIU, IMPA, is part of the Ministry of Justice though it enjoys complete professional independence. It has been operational since January 2002 and began receiving reports in February 2002. It is an administrative FIU and has been a member of the Egmont Group since June 2002. It receives both currency transaction reports (CTRs) specified by size and type and unusual activity reports (UARs) on transactions that seem to be unusual or suspicious. Its mandate is set out in the PMLL.

Ministry of Internal Security

88. The Internal Security Minister of Israel is the political Head of the Israeli Ministry of Internal Security, which oversees the Israel Police (IP) and the Israel Prison Service. He is a member of the Cabinet.

89. The IP have responsibility for money laundering criminal investigations and intelligence analysis. They routinely target money laundering offenders. Responsibilities are split between a Central AML Unit, the Criminal Investigation Division (CID) and various other investigative units.

90. Within the IP, there is an International Department which acts as the Central Police authority for incoming police requests for international assistance and which has responsibility for the execution of foreign requests for AML/CFT legal assistance. The Fusion Centre (see above) is within the IP and the Inter-Agency Implementation Committee is chaired, as noted above, by the Head of the CID.

Ministry of Finance

91. The Ministry of Finance is the main economic ministry of the Government of Israel. It is responsible for planning and implementing the Government's overall economic policy. The Ministry prepares the draft State Budget and monitors its implementation, manages state revenues and collects direct and indirect taxes, promotes non-resident investment and conducts the Government's economic relations with the Government of other States, notably the United States of America.

92. In the context of AML/CFT, the Ministry of Finance regulates the capital market, savings and insurance. The Capital Markets, Insurance and Savings Division of the Ministry of Finance is responsible for AML/CFT regulation and inspection of insurance undertakings, insurance agents and Provident Funds. The Registrar of Money Service Providers is responsible for the registration procedures and approval of any person (natural or legal) who or which seeks to act as a money service provider and is responsible for inspection of money service providers for AML/CFT purposes. There are 1,153 money service providers registered.

93. The Customs and Value Added Tax Department is a Department within the Ministry of Finance. This Department collects indirect taxes on imported goods, domestic manufacture and services. The Department has 5 customs houses, at Ben-Gurion International Airport, Haifa, Tel-Aviv, Ashdod and Jerusalem (as well as a Customs station in Eilat). There are 14 external stations each responsible for a geographical region. There are regular Customs inspections also at the Jordan river bridges and units at the Egyptian border crossings. There are also 4 investigation units. These units can conduct money laundering and terrorist financing investigations (and gather intelligence) where these offences are connected to offences under the Customs Ordinance or under the Import and Export Ordinance or where they are connected to detected breaches of the requirements for monetary declarations at border crossings.

Ministry of Communications

94. This Ministry is responsible for the regulation and inspection for AML/CFT purposes of the Postal Bank.

Ministry of Defence

95. The Ministry of Defence has responsibility for the designation of illegal associations under the Defence Regulations (State of Emergency) [1945]. These Regulations formed part of the legal basis, at the time of the on-site visit, for the Israeli implementation of the freezing of funds pursuant to SR.III (see 2.4 beneath).

Ministry of Foreign Affairs

96. This Ministry is responsible for the ratification of international agreements.

AML Working Committee of the State Prosecutor (criminal affairs)

97. The AML Working Committee was established prior to the establishment of the Steering Committee under the Attorney General. It was established to deal with very specific AML criminal and forfeiture enforcement policy issues, and today its directives are brought to the Implementation Committee for approval.

(2) Financial sector bodies

Bank of Israel (BOI)

98. Under the provisions of the Bank of Israel Law, the Banking Law and the Currency Control Law, the Bank of Israel has a range of responsibilities. The main ones are as follows:
- regulating and directing monetary policy;
- economic advice to the Government – the Governor acts as the Government's economic adviser;
- managing the foreign exchange reserves;
- monitoring and analysing foreign exchange activity;
- banking regulation and supervision including on AML/CFT issues;
- promoting financial stability;
- issuing of currency;
- acting as banker to the government and the banks;
- representing Israel in relevant international institutions.

99. The Central Bank's Licensing Committee approves the issuing of licences to establish or purchase a controlling interest in a banking corporation, as well as approving the establishment of branches. Banks are regularly subject to inspections by the Central Bank and have a regular reporting requirement to the Central Bank.

Israel Securities Authority (ISA)

100. The Israel Securities Authority (ISA) was established in Jerusalem in 1968 by the Israeli Government to protect investors in Israeli capital. It is an independent regulatory agency. It has responsibility for AML/CFT regulation and inspection of stock exchange members and portfolio managers.

c. The approach concerning risk

101. The 411 Directive requires banking corporations to include in their procedures rules for defining high risk customer accounts with regard to the prohibition on money laundering and the financing of terror. To do so the banking corporations shall grade the following factors by at least two levels:
- The type of business.
- The location of the customer's activity.
- The type of services required by the customer.
- The type of customer.

102. Furthermore, the directive requires banking corporations to operate appropriate intensified systems for monitoring these customers' accounts and shall follow up on high-risk accounts. Specific high risk categories included in the Directive are: private banking, numbered accounts, shares in bearer form and third-party accounts.

103. The Orders with respect to other types of financial institutions contain no reference to types of customers presenting particular risks.

d. Progress since the last mutual evaluation

104. As noted already, this is the first mutual evaluation to be undertaken in respect of Israel by MONEYVAL. The IMF published a Report on Standards and Codes (ROSC) in June 2005 on

Israel based on field work finalised in April 2003, when AML obligations were comparatively new. The system has developed in the intervening years. The present evaluators overall found a working AML/CFT system. More reports are being made to IMPA, though still largely by the banks. However DNFBP have still not been brought into the PMLL. There continue to be problems, some of which were identified by the IMF in the last report, in respect of the existence of (sometimes significant) financial thresholds which unduly restrict AML/CFT requirements in both the preventive and repressive regimes. These are detailed in the sections beneath. On the positive side, there have been numerous money laundering investigations, prosecutions and convictions. Similarly there have been investigations, prosecutions and convictions for financing of terrorism. IMPA itself is highly professional in its analytical work though its access to law enforcement information is considered to be too indirect and limited.

2. LEGAL SYSTEM AND RELATED INSTITUTIONAL MEASURES

Laws and Regulations

2.1 Criminalisation of money laundering (R.1 and 2)

2.1.1 Description and analysis

105. As noted at an earlier stage, Israel criminalised money laundering for the first time in the Prohibition of Money Laundering Law, 2000 (PMLL). Sections 3 and 4 of the law are central to the approach adopted and read as follows:

> **"*Prohibition on money laundering***
>
> *3. (a) A person performing a property transaction provided in paragraphs (1) to (3) hereunder, (in this Law referred to as "prohibited property"), with the object of concealing or disguising its source, the identity of the owners of the rights, the location, movement or disposition with respect to such property, shall be liable to ten years' imprisonment or a fine twenty times greater than the fine specified in section 61(a)(4) of the Penal Law –*
>
> *(1) property originating directly or indirectly in an offence;*
> *(2) property used to commit an offence;*
> *(3) property enabling the commission of an offence.*
>
> *(b) A person performing a property transaction or delivering false information with the object of preventing any reporting under section 7 or in order not to report under section 9, or to cause incorrect reporting under the aforesaid sections, shall be liable to the penalty prescribed in subsection (a); for the purposes of this section, "transmitting false information" shall include failure to deliver updated information about any item required to be reported.*
>
> ***Prohibition of performing a prohibited transaction with property***
>
> *4. A person performing any property transaction, knowing that it is prohibited property, and that such property falls within one of the categories of property specified in the Second Schedule, and at the value determined therein, shall be liable to seven years imprisonment or a fine ten times the fine stated in section 61(a)(4) of the Penal Law; for the purposes of this section, "knowing" does not include disregarding, within the meaning specified in section 20(c)(1) of the Penal Law.*"

106. It should be noted that it is section 3(a) and section 4 which address money laundering in its orthodox international conception. Section 3(b), by contrast, has a different but closely related purpose. As was noted in Crim. Misc. Appl. 1542/03 State of Israel v Adar et al., P.D. 58(3) 613, 620: "Section 3(b) of the Law constitutes, based on its purpose, a security belt that runs around the principal provision in section 3(a). A person wanting to launder money that was obtained in an offence – including capital that was used in the commission of an offence or capital that enabled commission of an offence – will do everything he can to conceal his acts from the authorities. Section 3(b) seeks to disrupt the manner of action of the offender". In, inter alia, criminalising the structuring of transactions it protects the need for accurate reporting under the PMLL. Its utility in practice was stressed by the authorities in the course of the on-site visit. Several examples of its use, either alone or in combination with sections

3(a) and 4, were provided to the team. However, the international standards are primarily concerned with those other provisions and it is to them that this report now turns.

Recommendation 1

107. Section 3(a) lies at the heart of the efforts of Israel to criminalise money laundering in the manner contemplated by international standards. In the words of Vice-President Cheshin of the Supreme Court in the February 2005 judgment in Shem Tov v State of Israel, Civ. App. 9796/03, para. 19: "The offence defined in subsection (a) relates, in substance, to the making of a transaction in prohibited property for the purpose of concealing or disguising any identifying particular and any characteristic with respect to the source of the property, identity of the owner of the rights in it, its location, its movement, and every transaction made with respect to it. It involves disguising the 'scent' or 'colour' of the money (even if we know that money had neither scent nor colour)". Both "a property transaction" and "property" are broadly defined in section 1 of the Law.

108. Section 4, PMLL, also has a broad reach. Entitled "Prohibition of performing a prohibited transaction with property" it embraces, inter alia, acquisition, possession and use of criminal proceeds without the need to show concealment. Seemingly because of its scope the decision was taken to introduce a value threshold in this context; something which was not done in respect of the core section 3(a) offence; i.e. monies in excess of 400,000 NIS or real estate, securities, objects of art, and other specified items if their value is 120,000 NIS or more. This is not in conformity with criterion 1.2 of the methodology.

109. Several other features of the approach of Israel to the criminalisation of money laundering should be noted at this point. First, it is not necessary that a person be convicted of a predicate offence when proving that property is the proceeds of crime. Second, Israel utilises a list approach to predicate offences; i.e. offences which are specified in the First Schedule of the PMLL. The Israeli authorities have provided a list of offences under Israeli Law which correspond to the FATF's designated categories of offences (Annex II). The list is an extensive one which covers all major proceeds generating crimes in an Israeli context, prevention of terrorism offences, other serious crimes (including money laundering) and conspiracy to commit the same. However, two matters listed in the Glossary to the 2003 FATF Recommendations (environmental crimes and piracy) are not so listed. While neither of these categories of offences appears to be of major practical relevance in the context of the jurisdiction in question, their omission constitutes a technical derogation from the requirements of FATF Recommendation 1.

110. By virtue of section 2(b) PMLL predicate offences for money laundering extend to conduct committed in a foreign state. While, as a general rule, this is subject to a double criminality requirement this is dispensed with, under section 2(c), in respect of certain stipulated offences including terrorism, money laundering (section 3 only) and conspiracy to commit one of the specified offences. Self-laundering is also criminalised in Israel. Under the Penal Law a range of ancillary offences are provided for including conspiracy, attempt and incitement.

Recommendation 2

111. There is a high level of formal compliance by Israel with the essential criteria relating to FATF Recommendation 2. Thus, the offence of money laundering applies to natural persons who knowingly engage in money laundering activity and the intentional element of the statutory offences can be inferred from objective factual circumstances. Similarly the legal system of Israel embraces the concept of corporate criminal liability (see, e.g. Penal Law, section 23).

112. Finally, the PMLL provides for substantial maximum penalties in relation to those who are convicted of money laundering. Thus the core offence, section 3(a), is punishable by up to 10 years imprisonment or a fine of approximately US$ 475,000. Conviction under section 4 carries with it imprisonment of up to seven years or a fine of approximately US$ 235,000. As will be seen at a later stage confiscation of proceeds is also provided for in both these instances. For the sake of completeness it should be noted that at the time of the on-site visit section 3(b), relating to structuring and similar offences, carried the same penalties as those envisaged for section 3(a). However, as a consequence of judicial criticism a draft Bill was under consideration which would have the effect of reducing the punishments for this offence in circumstances involving property that had not been proved to be "illegal".

Recommendation 32 - Statistics

113. Pursuant to FATF Recommendation 32 competent authorities are required to maintain comprehensive statistics on, inter alia, money laundering investigations, prosecutions and convictions.

114. In this regard, the response to the mutual evaluation questionnaire contained limited data on investigations and indictments but no information on convictions and penalties. In the course of the on-site visit it became apparent that such data was compiled by (or available to) various individual actors in the AML sphere but that no overall "national" statistics as such were maintained. This is unfortunate in that it inhibits the ability of the competent authorities to reflect on the effectiveness and efficiency of the Israeli system in the manner contemplated by Recommendation 32.

115. From the data eventually made available to the evaluation team it was evident that numerous investigations have been launched, indictments secured and convictions obtained. Furthermore, data on penalties actually imposed by the courts were such as to indicate that the full scope of those envisaged by the PMLL were being utilised in practice. Importantly the statistical information provided also indicates that all relevant provisions of the law are being utilised (often in combination) and that successes are being secured in both self-laundering and professional laundering cases. The following data from the Israel Police illustrate this reality:

Indictments and convictions – not self laundering Vs self laundering (2003-2006)

Total	**Sec 3(b) only**	**[Sec 3(a) or Sec 4] + Sec 3(b)**	**Sec 3(a) or Sec 4 only**	
100	**40**	**20**	**40**	**Indicted**
57	13	13	31	Self Laundering
43	27	7	9	Not Self Laundering
43%	68%	35%	23%	NSL/ Indicted
57	**20**	**6**	**31**	**Convicted**
35	6	1	28	Self Laundering
22	14	5	3	Not Self Laundering
39%	70%	83%	10%	NSL/ Convicted

37% of the indicted are still waiting for verdict. 6 acquittals.

116. Further more detailed information on money laundering convictions and pending indictments was provided shortly after the on-site visit set out in the tables at Annexes IV and V beneath.

2.1.2 Recommendations and comments

117. It will be apparent from the above that Israel has put in place legislative provisions to criminalise money laundering which are broadly in accordance with international standards and expectations. However, as noted above at para. 109 the failure to include piracy and environmental crimes in the First Schedule of the PMLL is not in conformity with Recommendation 1. It is understood that the possibility of eliminating these minor gaps in legislative coverage is under consideration by the appropriate authorities and the evaluators encourage such a course of action.

118. Of somewhat greater concern is the use, in section 4, of a value threshold (see para. 108 above). While in our discussions with our Israeli counterparts the protective purpose of this feature of the law was stressed, and although on several occasions the view was expressed that it did not pose a major problem in practice, the fact remains that criterion 1.2. requires that the offence of money laundering "extend to any type of property, regardless of its value, that directly or indirectly represents the proceeds of crime".

119. Of somewhat greater concern was the inclusion within section 4 of wording intended to ensure that the concept of "wilful blindness" does not apply in this context (i.e., "for the purposes of this section 'knowing' does not include disregarding... "). Indeed, we share the view expressed by some of our counterparts that this "carve-out" limits the full potential of section 4 in practice. Though not inconsistent with existing international standards we urge the appropriate authorities to review the need for this limitation and its impact on effectiveness in due course.

120. While the law of Israel meets the *mens rea* requirements of FATF Recommendation 2, the issue of the difficulty of proof of money laundering arose in certain of our discussions on-site. In this regard it should be noted that section 5 PMLL stipulates that for the purposes of both sections 3 and 4 "it is sufficient if it is proved that the person performing the act knew that the property was prohibited property, even if he did not know to which specific offence the property is connected". The specialised prosecutors are to be commended for the results achieved so far in serious money laundering cases notwithstanding the perceived high evidential burden in respect of predicate offences.

2.1.3 Compliance with Recommendations 1 and 2

	Rating	Summary of factors underlying rating
R.1	**Largely compliant**	• Piracy and environmental crimes not predicate offences. • Threshold approach in section 4 needs to be removed.
R.2	**Compliant**	

2.2 Criminalisation of terrorist financing

2.2.1 Description and analysis

121. Throughout its history Israel has sought to address the financing of terrorism through the criminal law and several statutory provisions pre-date, some by many years, its ratification of the UN International Convention for the Suppression of the Financing of Terrorism.

122. By way of illustration, Section 4 of the Prevention of Terrorism Ordinance (1948) provides that a person who gives money or money's worth for the benefit of a terrorist organisation is guilty of a criminal offence. The provision of a location or an article to a terrorist organisation for its use is similarly treated. Section 148 of the Penal Law (1977) criminalises the payment of membership dues to an 'unlawful organisation'. That term, as defined in Section 145, includes an organisation that incites to forcefully or violently overthrow the legal government of the State of Israel or of any other state. Under its general provisions this law also has a substantial extraterritorial application. The Defence Regulations (State of Emergency) (1945) establishes various relevant offences including fund raising for an unlawful association (Regulation 85.1 (h)).

123. These legislative measures retain both validity and relevance notwithstanding the enactment of the Prohibition on Terrorist Financing Law (2005) (PTFL). Section 49 provides: "The provision of this law are in addition to the provisions of any law, including the Defence (Emergency) Regulations and the Prevention of Terrorism Ordinance, and do not derogate from them."

124. Section 8(a) is central to the approach adopted and reads as follows:

> *" One who performs a transaction in property for the purpose of enabling, furthering or financing the perpetration of an act of terrorism, or to reward the perpetration of an act of terrorism, or for the purpose of enabling, furthering or financing the activity of a declared terrorist organisation or of a terrorist organisation shall be liable to imprisonment for ten years or a fine that is 20 times greater than the fine set in Section 61 (a)(4) of the Penal Law."*

125. The fine in question amounts to 4,040,000 NIS or approximately US$ 962,000.

126. Several other features of the legislation are relevant in this context. First, proof that the transaction was performed for one of the stipulated purposes is sufficient "even if it was not proven for which of those purposes specifically" (Section 8(b) (1)). Second, Chapter One of the Law affords a broad interpretation to the key terms used including "a declared terrorist organisation", "an act of terrorism", and "property". In particular, it should be noted that the term "property transaction" means the "acquisition or receipt of ownership or other rights in property, regardless of whether any consideration is paid, including solicitation, transfer, receipt, possession, exchange, banking transactions, investment, any transaction involving securities or possession of securities, brokerage, granting or receipt of credit, import, export or creation of a trust or co-mingling of terrorist property with other property even if it is not terrorist property".

127. Under Israeli law the intentional element of terrorist finance offences may be inferred from objective factual circumstances. As seen earlier in this report Israel also embraces the concept of corporate criminal liability.

128. Section 9 on the *Prohibition on a Transaction in Terrorist Property* is also of importance in appreciating the scope and ambition of this important piece of legislation. Section 9a provides:

> " 9. *(a) He who performs one of the following is liable to imprisonment for seven years or a fine that is ten times greater than the fine set in Section 61(a)(4) of the Penal Law –*
> *(1) Carries out a property transaction that is capable of enabling, furthering, or financing the perpetration of an act of terrorism or to reward the perpetration of an act of terrorism even if the recipient of the reward is not the one who perpetrated or planned to perpetrate the act of terrorism; for the purposes of this paragraph, proof that the one who carried out the transaction was aware that one of the possibilities existed is sufficient even if it is not proven which one of them specifically;*
> *(2) Carries out a transaction in terrorist property or property that is direct compensation or direct profit from terrorist property; for the purposes of this paragraph, "Property" includes immovable property, movable property, money and rights;*
> *(3) Transfers property to a declared terrorist organisation or to a terrorist organisation.* "

129. The legislative presumption contained in para (b) thereof is noteworthy in this context:

> " 9. *(b) He who carries out a transaction in property of a person whom he knows to be a terrorist activist or he knows that there is a declaration pursuant to Section 2 that he is a terrorist activist, there is a presumption that he did so with the knowledge that the transaction will enable, further or finance the perpetration of an act of terrorism, or to serve as a reward for the perpetration of an act of terrorism, as relevant, unless he brings evidence that he had no such knowledge; where a reasonable doubt has arisen as to whether he knew, and the doubt has not been resolved, the doubt will be to his advantage.* "

130. For present purposes it is of importance to stress that terrorist financing offences, as described above, are predicate offences for money laundering in Israeli law. This is accomplished by Section 18 of Schedule 1 of the PMLL.

131. The PTFL also appears to adequately cover the criminalisation of financing of an individual terrorist, as set out in the following: According to section 9(a) of the PTFL one who "carries out a property transaction that is capable of enabling, furthering, or financing the perpetration of an act of terrorism"… has committed a criminal offence. It should be emphasized that according to section 9(b) of this law " He who carries out a transaction in property of a person whom he knows to be a terrorist activist or (for whom) he knows that there is a declaration pursuant to Section 2 that he (that person) is a terrorist activist, there is a presumption that he did so with the knowledge that the transaction will enable, further or finance the perpetration of an act of terrorism, or to serve as a reward for the perpetration of an act of terrorism, as relevant, unless he brings evidence that he had no such knowledge; where a reasonable doubt has arisen as to whether he knew, and the doubt has not been resolved, the doubt will be to his advantage". See also s.8 (b) 3 which is also highly relevant in this context as it defines rewarding the perpetration of an act of terrorism in broad terms. Therefore, according to the PTFL, it is a criminal offence to finance an individual terrorist (knowing that he is a terrorist activist). This section was worded as a presumption, in order to give a very narrow entrance in some cases, for example: the terrorist's wife who has given her husband some food, will not be accused of doing a transaction in terrorist property, which is a crime punishable with 7 years' imprisonment.

132. Finally, it should be noted that the approach adopted to the criminalisation of terrorist financing has a significant extraterritorial reach. For instance, under the PTFL "an act that constitutes an offence" includes, by virtue of Chapter One, "an act that was committed or was planned to be committed outside of Israel, which the penal laws of Israel are not applicable to,

provided that the act constitutes an offence according to the laws of the State of Israel and according to the laws of the place where the act was committed or the laws of the country against which, or against whose residents or citizens, the act was intended". As noted in the analyses of compliance with FATF Recommendation 1 above, while the general rule under the PMLL that predicate offences for money laundering extend to conduct committed aboard is subject to the satisfaction of a double criminality requirement this restriction is dispensed with in relation to, inter alia, terrorist financing (see section 2(c)).

2.2.2 Recommendations and comments

133. No data concerning investigations, prosecutions and convictions was provided on-site. Subsequent to the on-site visit, statistical information was provided which is appended at Annex VI. Some of the convictions refer to Section 85 (c) of the Defence Regulations (State of Emergency) 1945. The Israeli Authorities emphasised during discussion that these particular convictions relate solely and exclusively to terrorist financing in its orthodox sense. One conviction was recorded under Section 85 (h) Defence Regulations (State of Emergency) 1945 in 2005 / 2006. 2 defendants were convicted under Section 8 of PTFL on 11 December 2007 shortly after the on-site visit and were sentenced in January 2008. 4 offenders were convicted on 29 November 2007 and 24 December 2007 respectively under Sections 8 and 9 (2) PTFL and were sentenced to terms of imprisonment in November 2007 and January 2008 respectively. A conviction was recorded on 30 December 2007 under Section 3 (b) PMLL, which is said to relate to financing of terrorism.

2.2.3 Compliance with Special Recommendation II

	Rating	Summary of factors underlying rating
SR.II	**Compliant**	

2.3 Confiscation, freezing and seizing of proceeds of crime (R.3)

2.3.1 Description and analysis

134. The legal framework in Israel concerning confiscation of the proceeds of crime and related provisional measures is a complex one. Modern, robust and innovative provisions have been enacted in the areas of money laundering, drug trafficking and organised crime. The regime in respect of terrorist financing is outlined in 2.4 below (SR III). Beyond that, however, reliance is placed on a pre-existing procedure under the Criminal Procedure Ordinance. This fall-back system is not entirely adequate to confiscate the proceeds of other predicate offences (including indirect proceeds) and property of corresponding value.

135. In so far as money laundering is concerned Chapter 6 of the PMLL contains the relevant procedures on what in Israel is known as forfeiture. Two strands are provided for; namely, forfeiture in criminal proceedings (section 21) and forfeiture in civil proceedings (section 22). The former applies upon conviction for a section 3 or section 4 offence, is mandatory in nature, and is value based. In addition to instrumentalities, "property obtained directly or indirectly as remuneration for the offence or in consequence of the commission of the offence, or was intended for that purpose" is covered (section 21(a)(2)). Section 21 (c) PMLL contemplates forfeiture in respect of offences under the PMLL against third parties where the acquisition of property was financed by the convicted person or which be transferred to the other person without consideration.

136. According to section 21(b) of the PMLL, "For the purposes of this section, "property of the convicted person" means any property found in his possession, control or account". Therefore, the forfeiture according to section 21 of the PMLL may be of property transferred to third parties in other circumstances, see for example, CA 3343/05 – in which was decided by the Supreme Court that apartments that were transferred to a third party (and were registered in that party's name in the land registry bureau) were still under the control of the convicted person, because they were being used by the convicted person (in this case - to promote activity of the Hamas), and therefore they are considered as the property of the convicted person, in accordance with section 21(b).

137. Civil forfeiture applies in more limited circumstances and is framed in discretionary terms. Section 22(a) is worded as follows:

> *22. (a) The District Court, on the application of a District Attorney, may order the forfeiture of property in civil proceedings (hereinafter referred to as "civil forfeiture"), where it is satisfied that the following two conditions have been fulfilled:*
>
> *a. the property was obtained, directly or indirectly, by an offence under sections 3 or 4 as remuneration for such offence, or an offence was committed therewith under the same sections;*
>
> *(2) the person suspected of committing such an offence is not present permanently in Israel or cannot be found and thus an indictment cannot be filed against him, or the property specified in paragraph (1) was discovered after the conviction.*

138. It should be stressed that the assumption underlying section 22 is that the owner of the property is situated outside of the borders of the state or cannot be found and that accordingly special measures should be made available. It also applies to relevant property discovered after the securing of a conviction.

139. By virtue of section 23 various provisions of the Dangerous Drugs Ordinance (sections 36C to 36J) are applied "*mutatis mutandis* to forfeiture of property and forfeited property under this Law...". In this way detailed regulation of a number of important matters is provided for: namely, limitations on forfeiture, revocation, appeals, the administration and use of the property in question, the making of regulations in this sphere, and like matters. Importantly the Law in this manner makes available certain provisional measures including the power to make "temporary" orders *ex parte* if the court "considers that there is suspicion that some immediate action may be taken with regard to the property that would forestall its forfeiture" (section 36 F (c)). The relatively stringent time limits provided for in this legislation would be somewhat relaxed under legislative proposals which were under consideration at the time of the on-site visit (Proposed Prohibition on Money Laundering (Amendment No. 7) Law, 5767-2007, amendment of section 23).

140. It should be noted that in the PMLL the term "property" (section 1) and "property of the convicted person" (section 21(b)) are broadly defined. Furthermore the same legislation makes appropriate provision for the protection of the rights of *bona fide* third parties.

141. As noted earlier in this section, modern legislative provision for confiscation and related matters is also to be found in relation to drug trafficking and organised crime. In some cases it is also possible for a charge under s.4 PMLL to be brought in conjunction with the prosecution of other predicate offences thus enabling confiscation proceeds to take place. The Israeli authorities confirmed that this stance has been adopted in a number of appropriate cases. While this possibility minimises the impact which would otherwise flow from the limited reach of the modern legislation the evaluators have noted in the analysis of Recommendation 1 the deficiencies which attach to s.4 PMLL itself.

142. Recourse can also be had to the less appropriately focused sections of the Criminal Procedure Ordinance. In particular the evaluation team was directed to section 32 thereof. Entitled "Power to seize objects" it is worded in relevant part as follows:

> *32. (a) A policeman may seize an object, if he has reasonable grounds to assume that an offence was or is about to be committed with it or that it is likely to serve as evidence in a judicial proceeding for an offence, or if it was given as remuneration for the commission of an offence or as a means for its commission.*

143. Subsequent sections govern the operation and control of this power including, under section 39, the making of a confiscation order in respect of a seized object in addition to any penalty imposed in respect of the offence in question.

144. While the seizure and confiscation of objects in the above sense may on occasion overlap with, and further the ends of, the criminal justice policy of depriving offenders of the fruits of their criminal conduct it is not, on its face, a mechanism designed to give effect to the confiscation of criminal proceeds in its modern conception and as reflected in existing international standards (e.g., in relation to value confiscation). To this extent existing Israeli law does not satisfy the requirements of FATF Recommendation 3.

145. It should be noted that Israeli law provides law enforcement with generally adequate powers to identify and trace property that is or may become subject to forfeiture or confiscation. In this regard IMPA may use the authority to obtain information (sections 7 and 31(c), PMLL) and to disseminate information from its database to the police.

146. It was apparent both from the mutual evaluation questionnaire and from the on-site meeting with officials from the Israel Police, IMPA and prosecutors that where modern confiscation tools were available there was both the desire and the ability to make the system

work. By way of illustration the following statistics were provided in respect of seizures and confiscations in drugs and money laundering cases.

Seizures*

Year / Fund	2003	2004	2005	2006
Drugs	29,400,000 NIS	28,400,000 NIS	14,500,000 NIS	13,421,000 NIS
ML	81,000,000 NIS	124,500,000 NIS	336,000,000 NIS	47,000,000 NIS
Total	110,400,000 NIS	152,900,000 NIS	350,500,000 NIS	60,421,000 NIS

* includes frozen/restrained assets

Confiscations

Year / Fund	2003	2004	2005	2006
Drugs*	4,378,000 NIS	4,830,000 NIS	4,756,000 NIS	5,039,000 NIS
ML	0	1,020,000 NIS	49,373,000 NIS	48,871,000 NIS
Total	4,378,000 NIS	5,850,000 NIS	54,129,000 NIS	53,901,000 NIS

*includes fines imposed in lieu of forfeiture

147. The evaluators note with interest that a substantial sum has been budgeted for the development of an asset management system allowing storage and retrieval of all information relevant to the disposition and practical administration of assets seized for the purpose of eventual confiscation. The system is included in the police IT work plan for 2007-2008.

148. The PMLL makes adequate provision for the protection of third party rights in both criminal and civil forfeiture proceedings (sections 21-23).

149. Finally, for present purposes, it is of relevance to note that sections 13 and 30 of the Contracts Law of Israel provide that if the making, content or object of a contract is illegal or contrary to public policy it is void.

Additional elements

150. As noted above, Israeli law makes limited provision for civil forfeiture. In addition, the Combating Criminal Organisations Law provides for the confiscation of the property of such groupings and of the persons who head them.

2.3.2 Recommendations and comments

151. In a limited number of important and high profile areas, including money laundering, drug trafficking and organised crime, Israel has put in place a robust system for the confiscation of criminal proceeds and for the taking of provisional measures in respect of the same. It is, however, necessary to build on this achievement by extending such measures to other predicate offences in order to ensure full compliance with existing international standards. The evaluators urge that this be taken forward as a matter of priority.

152. As noted above, Israel has made limited but valuable provision for civil forfeiture in

section 22 of the PMLL. Similar possibilities are also made available in the Dangerous Drugs Ordinance and the Combating Criminal Organisations Law. The appropriate authorities may wish to consider the utility of extending such precedents to other predicate offences or to enacting a comprehensive civil forfeiture scheme.

2.3.3 Compliance with Recommendation 3

	Rating	Summary of factors underlying rating
R.3	**Partially compliant**	• Need to extend modern legislation on confiscation and provisional measures to the full range of relevant predicate offences. • Effectiveness concerns in respect of confiscation in areas not covered by modern legislation.

2.4 Freezing of funds used for terrorist financing (SR.III)

2.4.1 Description and analysis

153. Israel has for many years sought to address the freezing and subsequent confiscation of funds used for the financing of terrorism. As noted previously some of the legal instruments available to it in this context include the PMLL as well as enactments of an earlier vintage. It is, however, the Prohibition of Terrorist Financing Law 2005 (PTFL) which is central to current efforts in this regard.

154. It will be recalled that SR.III has two major strands. The first addresses implementation of relevant UN Security Council Resolutions and is primarily preventative in nature and intent. The second, which has a significant punitive dimension, is to deprive terrorists of relevant funds or other assets if and when links have been adequately established between such funds or other assets and terrorists or terrorist activity.

155. While the PTFL addresses both dimensions of SR.III at the time of the on-site visit the system was at a more mature stage of evolution in relation to the second strand (see freezing, seizing and confiscation in other circumstances beneath).

156. Even prior to the enactment of the PTFL Israeli law contained provisions relevant to the satisfaction of the other stand of SR.III; namely, freezing and where appropriate seizing under relevant UN Security Council Resolutions. It will be recalled that jurisdictions must have in place effective laws and procedures in respect of those persons and entities designated by the UN Al-Qaida and Taliban Sanctions Committee in accordance with Resolution 1267 (1999). In addition countries should have effective laws and procedures to freeze terrorist funds or other assets of persons designated in the context of Resolution 1373 (2001). For instance, on 4 October 2001 the Minister of Defence was able to declare Al-Qaida an unlawful association in accordance with Regulation 84(1)(b) of the Defence Regulations (State of Emergency) 1945. Consequently fundraising for this group became a criminal offence. In addition, as the Ambassador to the UN informed the Chairman of the UN Security Council Committee in July 2003, "a person in possession of property, a bank account or a deposit on behalf of the association must notify the Minister of Finance within 48 hours. The Minister of Finance is authorised to confiscate such property" (S/AC.37/2003 (1455)/61). Furthermore, on 4 August 2002 the government declared the same group to be a terrorist organisation pursuant to the Prevention of Terrorism Ordinance, 1948. As the Ambassador explained:

"Accordingly, a person who gives money or something of value for the benefit of a terrorist organisation is guilty of a crime and is liable to be imprisoned and/or fined. The same applies to a person who puts a place or an article at the disposal of anyone in order

that such place or article may serve a terrorist organisation or a member of a terrorist organisation or its members.

157. The Ordinance further stipulates that any property of a terrorist organisation shall be confiscated. Such property may be subjected to an attachment order by decision of the Inspector General of the Police. The ordinance provides for an evidentiary presumption that property located on the premises of a terrorist organisation is the property of a terrorist organisation. ”

158. Several other similar declarations have since been made under the 1945 and 1948 laws in a terrorist context.

159. Finally, the Taliban has been considered an “enemy” under the Trade with the Enemy Ordinance, 1939. This imposes mandatory freezing of enemy assets and prohibits transactions with the Taliban.

160. The Israeli authorities clarified that the actions taken against Al Qaida and the Taliban were particularised and thus made operational for the banking sector by virtue of the communication of the UN and US OFAC lists to relevant obligated entities and the clarification of their duties in this regard. Similar action, the team was informed has been taken only in relation to limited further categories within the financial sector.

161. While these procedures further the aims of the United Nations Security Council Resolutions, and overlap with some of their specific provisions, they do not adequately cover all of the ground, for instance in respect of criterion II.4.

162. One of the purposes of the PTFL was to enhance the ability of Israel to give effect to the detailed provisions of the key Security Council Resolutions covered by SR.III. This is particularly evident in Chapter 2 of the Law entitled “Declaration that a Foreign Person is a Terrorist Activist or that a Foreign Organisation is a Terrorist Organisation in accordance with a determination outside of Israel”. Pursuant to section 2(2) the new provisions do not derogate from the authority to make declarations under the Prevention of Terrorism Ordinance or the Defence (Emergency) Regulations mentioned above.

163. According to section 2 if it is determined outside of Israel that a foreign person is a terrorist activist or that a foreign association of people is a terrorist organisation a Ministerial Committee may declare that the said person is a terrorist activist or that the association in question is a terrorist organisation. By virtue of section 2(2) “determined outside of Israel” means determined by the authorised body of a foreign country or by the UN Security Council or by one authorised by it. The system so created is thus capable of addressing both action taken pursuant to Resolution 1267 (1999) and its successor Resolutions by the UN Committee and actions taken by third states as envisaged in Resolution 1373 (2001). Thus, for the purposes of Resolution 1373 and the implementation of designations by third countries, there is a clear designation body in Israel.

164. The PTFL has a complex architecture which envisages the taking of actions of the types contemplated in the Resolutions and of other kinds. In the latter context, for instance Chapter 6 provides for the forfeiture of terrorist property – a term that is broadly defined – in civil proceedings which are not preceded by a criminal conviction. This facility is available if the terrorist property is (1) connected to a foreign terrorist organisation which has been declared as such under section 2 of the Law; or (2) if the property is connected with an act of terrorism that has no connection with Israel. Interestingly, under section 30, property found in the possession, the control or in the account of, inter alia, a declared terrorist organisation or a person declared to be a terrorist activist is presumed to be the property of such organisation or person “unless proven otherwise”.

165. The Law also contains extensive treatment of temporary measures to ensure forfeiture or to prevent an act of terrorism that has no connection to Israel (Chapter 8A and 8B respectively). Section 36 enables a Court to make an *ex parte* temporary order where it is satisfied that there are grounds for apprehension that there will be an immediate transaction in the property and that the holding of a hearing in the presence of the parties will frustrate the purpose of the order. Chapter 9 provides for the administrative seizure of terrorist property regarding a terrorist organisation or an act of terrorism that has no connection with Israel. In relation to all of these procedures property of an organisation declared to be a terrorist organisation pursuant to section 2, "property that is used for the activities of such organisation, or property that enables the activity, is property whose seizure, or the granting of a temporary order regarding it, is necessary in order to prevent an act of terrorism unless it is proven otherwise" (section 45). All such temporary measures are subject to statutory limits in respect of duration.

166. At the time of the on-site visit Israel had yet to put in place a comprehensive system for communicating declarations made by the Ministerial Committee under section 2 PTFL to the financial sector. This was accomplished later in 2008 by the "Prohibition on Financing of Terror (Declaration Regarding a Foreign Terrorist Organisation or a Foreign Terror Activist) Regulations", 5768-2007 which entered into force on 8.1.08. Among other things, this sets out the details to be included in such declarations, their publication (in the Official Gazette, three daily newspapers in different languages, and on the Internet site of the Ministry of Defence), arrangements for their transmission to obligated entities under the PMLL, and the compilation, publication and updating of a list of such persons and organisations.

167. Section 10 of the PTFL articulates a detailed obligation to report reasonable suspicion that a property transaction involved terrorist property or that the transaction in question may enable, further, finance or reward the perpetration of an act of terrorism. In addition, the evaluators were informed in the MEQ that some guidance has been provided to the financial sector concerning their obligations in a terrorist finance context. However, the evaluators did not receive the text in question and were thus not in a position to assess its adequacy.

168. Section 4 of the PTFL makes provision for persons and organisations subject to declarations under section 2, and others who have been directly harmed by such declarations, to submit a petition for the cancellation of such a declaration. Furthermore the Law also provides for the periodic review of declarations (section 5). Detailed rules concerning the operation of these procedures were introduced by the 2008 Regulations, mentioned above, after the on-site visit. Procedures for cancellation of declarations following de-listing by the UN or foreign state concerned are also in place.

169. It is of relevance for present purposes to note that the PTFL contains provisions designed to ensure, among other things, that those subject to forfeiture orders and other measures have adequate means of subsistence and a reasonable place of residence (see, sections 26 and 43). In this manner the Israeli stance reflects the spirit though not the exact wording or procedural detail of UN Security Council Resolution 1452 (2002).

Freezing, seizing and confiscation in other circumstances

170. It should be noted, in particular, that Chapter 4 of the Law makes detailed provision for forfeiture of property following upon conviction in criminal proceedings. Adequate provisions exist for tracing such property and for the taking of provisional measures in respect of the same.

General provisions

171. Finally, for present purposes, the PTFL contains extensive provisions for the protection of the rights of bona fide third parties and these are interwoven throughout the text. Similarly it can be said that the Israeli system provides a context within which compliance with the laws and regulations relevant to SR.III can be monitored. Appropriate sanctions for failure to comply are generally provided for.

Additional elements

172. Time and related constraints did not permit the evaluation team to assess in a systematic fashion the extent to which those measures set out in the Best Practices paper for SR.III which extend beyond those reflected in the essential criteria had been implemented in practice. That said the evaluators noted the high level of importance attached to the issue of the freezing of terrorist assets by all parties with which it met on-site. The significance of financial information to the taking of effective action against terrorist organisations and associated financing networks was widely acknowledged in our discussions with law enforcement, representatives of relevant branches of the security and intelligence community, IMPA, prosecutors and others. Similarly importance was attached to the improvement of international co-operation in this context.

2.4.2 Recommendations and comments

173. As previously noted Israel has for many years focused in practice on the freezing (and subsequent confiscation) of funds used for the financing of terrorism. Among the legal instruments available to it are some dating back to the 1940's. Consequently the relevant authorities had extensive experience in this field long before the emergence of the UN Security Council as an actor in this sphere. Given this history and the practical realities faced by the competent authorities it is perhaps unsurprising that the legal regime for freezing, seizing and confiscation in a domestic context presented as both better established and more obviously effective in terms of its implementation than the structures to give effect to more recently articulated international expectations and standards in respect of action taken at the UN level or by foreign countries.

174. As noted above one of the purposes of the PTFL was to better enable Israel to give effect to its obligations under Chapter VII of the UN Charter in this sphere. However, the somewhat indirect manner in which the legislative drafters approached this matter has resulted in a situation in which the law overlaps with the requirements and the spirit of the UN Resolutions rather than replicating them in a more exact and technical fashion. The use of time limitations throughout the relevant parts of the PTFL as compared to the absence of the same in Resolution 1267(1999) is a case in point. As a consequence a situation in which all elements of the relevant international standards were fully observed in a technical sense was unlikely to result. It is recommended that a technical review be undertaken to identify the extent to which there are differences of detail between the UN requirements and existing law and procedure and that timely action is taken to ensure full formal compliance.

175. In addition, however, it has taken some time to bring the 2005 legislation fully into operation in relation to what might be described as its UN Security Council dimension. As noted above, detailed implementing regulations regarding foreign terrorist organisations and foreign terror activists were only promulgated in late 2007. This might be explained in part by the apparent absence of Taliban activities, or Al-Qaida assets in Israel. In practice, the evaluation team was informed that Israeli banks had come to rely informally on the UN and US OFAC lists for the purposes of informing their reporting obligations to IMPA and

operationalising their duties under the then existing law. Now that the legislative system has become fully operational, it is of importance that the relevant authorities issue clear and focused guidance to financial institutions concerning their obligations in taking action under the freezing measures relevant to the Resolutions of the United Nations Security Council.

176. Given the very recent introduction of the Regulations the evaluators are not in a position to conclude that the legal position so perfected is effective in practice. Nor, in the absence of practice under these new procedures, was it possible to determine whether, in fact, freezing "without delay" pursuant to the Security Council Resolutions could be achieved. However, discussions with our Israeli counterparts and the statistical data provided in the MEQ on declarations of unlawful associations pursuant to the Regulations, declarations of terrorists organisations pursuant to the Ordinance, seizure and confiscation orders made and other matters permits the formulation of more positive conclusions concerning the effectiveness of other aspects of the system.

Recommendation 32

177. The statistics which the Israeli authorities provided in answer to this aspect of the evaluation are set out beneath.

Terrorist financing freezing data

	Declarations of unlawful associations pursuant to the Regulations	Declarations of terrorist organisations pursuant to the Ordinance	Seizure orders	Confiscation orders	Reports from Banking Corporations on seizure of funds
2002	28	1	0	1	0
2003	5	2	0	0	2
2004	3	0	0	1	5
2005	12	0	1	0	1
2006	8	0	2	0	1
2007	6	0	7	0	2

2.4.3 Compliance with Special Recommendation SR.III

	Rating	Summary of factors underlying rating
SR.III	**Partially compliant**	• Technical shortcomings in giving effect to S/C Res. 1267 (1999) and 1452 (2002) • Effectiveness concerns given the recent promulgation of the PTFL Regulations • Need for comprehensive and focused guidance to financial institutions as to their obligations under Security Council Resolutions.

Authorities

2.5 The Financial Intelligence Unit and its functions (R.26, 30 and 32)

2.5.1 Description and analysis

Recommendation 26

178. The FIU for Israel is the Money Laundering and Terrorism Financing Prohibition Authority ("IMPA"). It was established on the basis of section 29a of the PMLL 5760-2000 and became operational on 17 February 2002. On 1 August 2005 its remit was extended to TF under Section 48 of the PTFL 5765-2004. It is an administrative type body located within the Ministry of Justice and performs the typical FIU functions in that it first of all receives and centralises financial information disclosed by the reporting entities in the implementation of their preventive AML/CFT obligations. These reports relate to unusual or suspicious activity (UARs or STRs) including transactions aimed at circumventing the reporting requirements and currency transactions ("CTRs") specified by regulation.

179. The PMLL mandates IMPA to manage and secure the database containing the reports and other relevant data. As an administrative type unit it does not carry out investigations as such, but processes the information through analysis supported by customized software tools. Finally IMPA decides on dissemination of information to the appropriate authorities (Section 29(b) PMLL), i.e. the Israel Police Authority and the General Security Service. As for the TF reports, section 48a PTFL specifically provides for their preservation in the IMPA database.

180. Procedures and other formal requirements on the manner of reporting are laid down in regulations (Prohibition on Money Laundering (Modes and Times for Transmitting Reports to the Database under Chapter 4 of the Law) Regulations, 5762-2002; Prohibition on Money Laundering (Methods and Times for Reporting to the Database by Banking Corporations and entities specified in the Third Schedule) Regulations, 5762-2002), authorizing the head of IMPA, following a consultation process with the supervisory authorities, to give instructions specifying the manner, structure, timeframe and destination of the reporting.

181. On this basis, IMPA provides binding Guidelines for the reports from financial institutions, detailing the form and content of the reports. One set of Guidelines relates to the CTRs that must be submitted electronically on a weekly basis (banks, trust and credit card companies) or on a monthly basis (other financial institutions). For regular transactions Regulation 57621-2002 establishes a "reporting period" of minimum one day plus two days for banks to transmit the report to IMPA, and a reporting period of one month that have to be sent to IMPA before the 17th of the next month for non-banks. According to the (binding) guidelines on art. 9 of the Banking Order 5761-2001, issued by the BoI by Circular of 30 August 2004, (par. 6 e), UARs should be reported as soon as possible "under the circumstances of the case at hand and no longer than two weeks after the official in charge receives the report".

182. Apart from the requests of the Israeli Police and Israeli Security Authority, and the Customs reports database (on direct request), IMPA has access to the following additional registers holding financial, administrative and law enforcement information:
- Population Registrar's database
- Companies Registrar's database
- Pledge Registration Office (mortgages and assets)
- Association's Registration Office
- Transportation Registrar's database (cars, yachts and private airplanes).
- Land registry bureau

- MSB database, MSB registration, MSB employees (money services)
- Israel Court's Management (pending legal proceedings)
- Bank of Israel (limited accounts and customers)
- Israel Postal Company (land registration extracts and real estate)
- Haaretz daily newspaper archive
- Globes business and technology news archive
- Maariv daily newspaper archive
- Jurisprudential d-bases
- Lexis/Nexis
- Maya (stock exchange)

183. Case related financial information can be obtained from the reporting entities themselves (see below). Access to law enforcement databases or information is conspicuously limited, although a proposed amendment to the PMLL aims at authorising IMPA to receive additional information from the Criminal Registry.

184. Section 31(c) to the PMLL gives IMPA the right to request additional information directly from the reporting entities if it deems this necessary for completing the analysis of a disclosure or when related to the person or entity subject of the disclosure. In addition, reporting financial institutions must enclose relevant or required documents to the report (Prohibition on Money Laundering (Modes and Times for Transmitting Reports to the Database by Banking Corporations and the Entities Specified in the Third Schedule to the Law) Regulations, 5762-2002).

185. A proposed amendment of the PMLL is meant to install a new Procedure for IMPA to collect financial information from reporting entities. In case of a "technical" completion of an incomplete report, IMPA would be entitled to request the reporting entity to provide any information that is missing from the report. Furthermore, if there are reasonable grounds to assume that additional information regarding a person, subject of a UAR, is necessary to reach a decision on the dissemination of information under section 30 of the PMLL, the head of the FIU will have the power to request additional information on the same person from the entity that has reported. In all other cases however, if there are reasons to assume that additional information is needed from other (reporting) financial institutions for the FIU to effectively undertake its analytical functions the head of IMPA will from then on need a court order.

186. Dissemination of information held by IMPA to the domestic law enforcement authorities is made either on request or on IMPA's own initiative.
- Section 30(b)(1) of the PMLL provides that IMPA may disseminate, in the context of the implementation of the AML/CFT legislation, information from its database to the Israel Police on their reasoned request.
- According to Section 30(c) dissemination of IMPA held information the Israeli Security Agency is allowed on their motivated request, for the purpose of prevention or investigation of terrorist activities, terrorist organisations or financing of terrorism.
- IMPA is also authorised, according to Section 30(e) of the Law, to disseminate on its own initiative, information to anybody competent to receive information under the PMLL for the purposes of AML/CFT prevention, of defending state security or of combating terrorist organisations.

187. The proper procedures for requesting and disseminating are laid down in The Prohibition on Money Laundering (Rules for Request and of Transmitting of Information from the Competent Authority to the police) Regulations 5762-2202 and the Prohibition on Money Laundering (Rules for Request and of Transmitting of Information from the Competent Authority to the Israel secret service) Regulation 5762-2002.

188. Although embedded in the Ministry of Justice and (separately) funded by the State budget, IMPA operates as an autonomous agency and acts independently in operational matters. The law is very specific in the confidentiality requirements surrounding the operational information and the restricted access to the database. Civil Services rules require IMPA staff to abstain from potential situations of conflict of interests. This concern for operational independence is also reflected in the qualifications required from the Head of the FIU and the way he is appointed, namely at the recommendation of a professional (non political) committee that includes a public representative. There have been no indications of instances of interference or undue interventions in the past.

189. As already pointed out, the PMLL explicitly restricts the access to IMPA's database and is quite specific in indicating the agencies to which the information can be disseminated.

190. IMPA's premises are secured and guarded against unwanted entries. At least every 6 months an inspection of the Israeli Security Agency takes place at IMPA. The inspection covers the implementation of the procedures related to the information protection, the physical security and the security of computer system protection.

191. Specific Data Protection Regulations impose implementation of high-level data protection and Information System security measures in accordance with the ISO 15408 for high classification. IMPA applies rules and procedures for access management, information retrieval and information dissemination to other Law Enforcement government organisations (see Prohibition on Money Laundering (Rules for Conduct of Database and Protection of Information therein) Regulations, 5762-2002).

192. No law enforcement authority has access to IMPA's database, and within IMPA itself the access to the database is limited to the head of IMPA, heads of the divisions and additional specified employees who have received special authorization from the General Commissioner of the Israel Police.

193. All personnel of IMPA must be cleared by the national authority and receive a security classification regulating their access to "Top Secret" material and therefore are subject to a strict screening procedure before their engagement. In addition to the national security clearance and classification each employee of IMPA must be cleared by the Inspector General of the Israeli Police Force for employment in IMPA and for controlled access to the information stored in IMPA Database in accordance with his / her task.

194. An employee of IMPA who has disclosed information intentionally or due to his negligence and was not authorised to provide such information is subject to a fine and up to 3 years of imprisonment if found guilty as charged under paragraph 31A of the Prohibition of Money Laundering Law 2000.

195. Section 31B(a) of the PMLL provides that the head of IMPA shall, on an annual basis, submit a written report to the Constitution, Law and Justice Committee of the Knesset on:

(1) The number of reports that were received by IMPA under Chapter Three (obligation imposed on providers of financial services) and under Prohibition on Terrorist Financing Law, classified according to the category of the reporting entity as determined in that chapter;
(2) The number of reports that were transmitted to IMPA under Chapter Four (obligation to report on monies at the time of entry into and exit from Israel);
(3) The number of dissemination of information from IMPA's database to entities permitted to receive information (Police, ISA, foreign FIUs).
(4) The number of providers of currency services registered in accordance with Chapter Four;

(5) Inspection acts which were reported, in accordance with the duty of regulators according to Section 31C to transmit to the head of IMPA periodic reports dealing with their implementation of the PMLL.

196. IMPA provides general feedback through its website (in Hebrew and in English) which is regularly updated with new information, legislation, court rulings, standard forms, reports and ML/FT trends and typologies. It also publishes a quarterly magazine on the site containing an overview of the latest developments / evolutions regarding ML/FT around the world.

197. Finally, a comprehensive activity report covering the years 2002 to 2005 was published and circulated to IMPA's contacts.

198. IMPA's Collection Department published a training manual designated for reporting entities. The manual comprises: an introduction overview of money laundering; a general description of the compliance officer and IMPA's expectations from the co-operation between organisations; an extensive collection of examples and typologies spanning the wide range of reporting entities, and a list of ML indicators (red flags) divided into categories and explaining each indicator.

199. IMPA became a member of the Egmont Group in June 2002 and takes an active part in the EGMONT group meetings and working groups.

200. IMPA abides by the Egmont Group principles formulated in the "Principles for Information Exchange between Financial Intelligence Units for Money Laundering and Terrorism Financing Cases".

201. Such information exchange with counterpart FIUs is based on Section 30(f) of the PMLL. The Attorney General in his decision of March 7, 2006, set the guidelines for interpretation of section 30(f). According to these guidelines, IMPA may provide information to a counterpart authority in another country not only if there is a reasonable ground to suspect that the information relates to a specific predicate offence but also if the information includes indications of ML or TF Typologies.

202. Section 30(f) of the PMLL permits IMPA to transmit information to a foreign FIU, even in the absence of an international agreement. However, IMPA has a policy to sign MOUs with her counterparts FIUs.

203. IMPA has adopted the Egmont "best practices for the improvement of exchange of information Between Financial Intelligence Units For money laundering and terrorism financing" in its internal procedures governing the exchange of information with foreign FIUs. Furthermore, an amendment to section 30(f) to the PMLL is presently being considered which broadly translates the Egmont Group Statement of Purpose and its Principles for Information Exchange between Financial Intelligence Units into legal texts.

Recommendation 30 (FIU)

Staffing and resources

204. IMPA is adequately structured and funded (partially by the asset confiscation fund), staffed, and provided with sufficient technical and other resources to fully perform its functions. IMPA currently employs 27 officials and 7 additional positions are in the tender process. That does not include the IT services that are outsourced and provided by external classified contractors.

205. IMPA comprises four departments:

- The Collection, Control and organisation department, which is in charge of collection and filing of CTRs and UARs submitted by the financial institutions, quality control of reports, monitoring compliance, provision of guidance and feed-back to reporting entities. This unit is also responsible for the dissemination of information.
- The Collation, Research, Analysis and Assessment Department, which is responsible for the processing of the disclosures and related information, and support law enforcement in their investigations.
- The Legal Department, which is responsible for initiation and coordination of amendments to the Law and its secondary legislation as well as legal orders within the scope of the operation of IMPA and for coordination of legal work with regulators and legislators.
- The Information Processing, Communication and Technology Department, which is responsible for the design, development and operation of the computing infrastructure of IMPA.

206. IMPA is currently operating a highly secured Information processing system which houses the principal data warehouse accumulated from unusual reports and CTRs and enrichment information resources. The system is equipped with an Anti Money Laundering software program developed and distributed by the Israeli Firm ACTIMIZE Ltd., which provides alerts to IMPA analysts in cases of independent reports or compilation of reports that have characteristics that meet the terms of the AML "rules" defined in the system. This sub-system includes up to date FATF points, as well as other *modus operandi* based "rules". The tool provides also alerts based on a "Watched Entities" list, maintained by IMPA.

207. As noted before, specific Data Protection Regulations were enacted according to the PMLL. These Regulations dictate implementation of high-level data protection and Information System security measures in accordance with the ISO 15408 for high classification.

208. As for IMPA's operational independence, reference is made to the comments at paragraph 188 above (relating to cr. 26.6).

Professional standards, integrity and confidentiality

209. Taking a multi-disciplinary approach, IMPA currently employs 27 officials who graduated in different relevant subjects, such as certified accountants, lawyers, economists and information technology scientists. Due to the unique skills needed to be acquired by IMPA, IMPA personnel were provided from 2004 with a special promotion and advancement training plan by the Civil Service Commission, aimed at prolonging their services within IMPA, while enabling them to be rewarded internally. Thus the continuity of the agency's specialized skills and expertise is preserved.

210. As mentioned above, all IMPA staff must be vetted for "Top Secret" material access by the national authority and are subject to a strict screening procedure before their employment. In addition to the national security clearance and classification each employee of IMPA must be cleared by the Inspector General of the Israeli Police Force for employment in IMPA and for controlled access to the information stored in IMPA Database in accordance with his task. The confidentiality obligation is spelled out in Section 31 A, which also provides for criminal sanctions in case of breach of confidentiality.

211. IMPA operates on the basis of an annual work plan. The plan provides the objectives that IMPA wishes to achieve within the work year and the means required. The resources invested are compared with the production of reports and progress in other areas. This method of productivity measurement is utilized for IMPAs personnel reward plan as well as for estimating the necessary resources.

Training

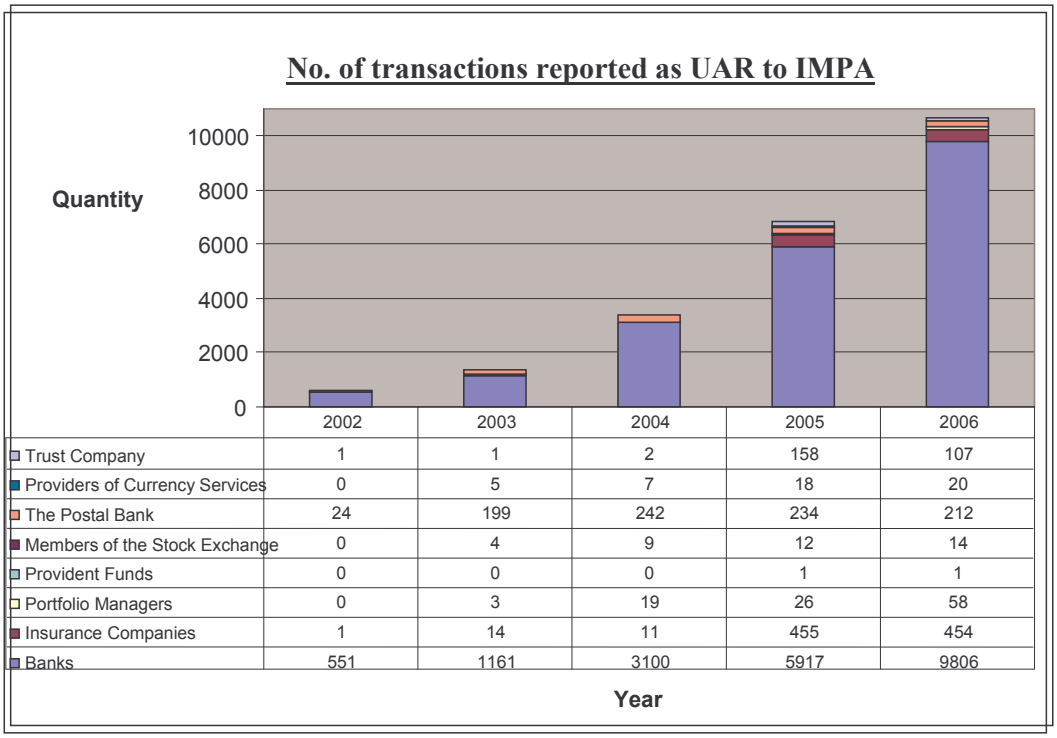
212. Continued training of the FIU staff is a priority for IMPA to maintain its level of expertise and efficiency. Examples of management and professional training undertaken are set out in detail at Annex III.

Recommendation 32

Statistics

213. The following statistical figures were supplied by IMPA:

(i) STRs (UAR) received per financial institution



	2002	2003	2004	2005	2006
Trust Company	1	1	2	158	107
Providers of Currency Services	0	5	7	18	20
The Postal Bank	24	199	242	234	212
Members of the Stock Exchange	0	4	9	12	14
Provident Funds	0	0	0	1	1
Portfolio Managers	0	3	19	26	58
Insurance Companies	1	14	11	455	454
Banks	551	1161	3100	5917	9806
Total	**577**	**1387**	**3390**	**6821**	**10672**

	2007
Trust Company	80
Providers of Currency Services	22
Postal Bank	323
Stock Exchange	26
Provident Funds	6
Portfolio Managers	10
Insurance Companies	786
Banks	13215

214. Translated into percentages, the following figures emerge for 2006:

- Banks: 9 1.90%
- Insurance Companies: 4.25%
- The Postal Bank: 1.97%
- Trust Company: 1.00%
- Other (Portfolio Managers, Members of the Stock Exchange, Providers of Currency Services, Provident Funds): 0.87%.

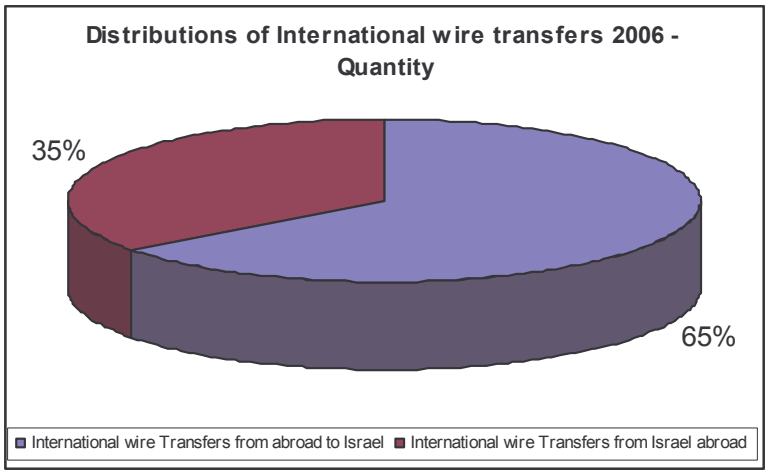
215. A significant increase in the volume and the quality of the unusual activity reports is notable from the year 2004 onwards. This rise is attributable to an increased awareness of the reporting duties by the officials of the institutions and their compliance officers especially in the Banking sector. Furthermore, it may also be due to the enforcement actions (criminal investigations) and by administrative sanctions committees imposed by the relevant boards and, last but not least, the amendment of the Banking Order and the addition of types of occurrences which may justify reporting to IMPA.

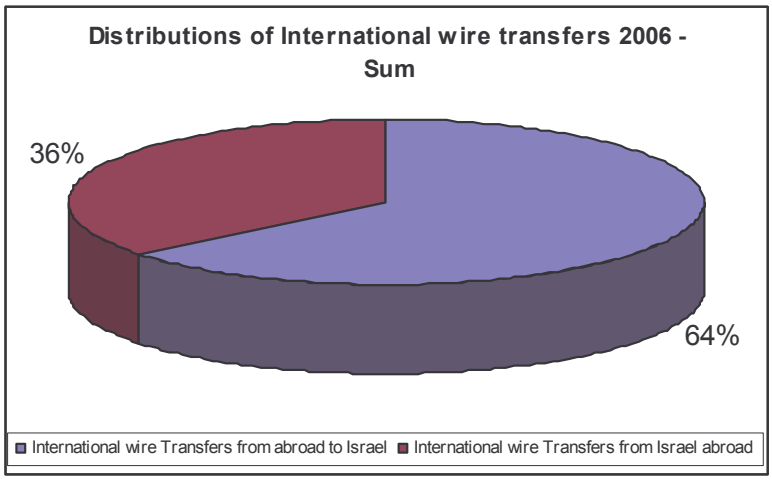
(ii) Number of transactions reported as CTR to IMPA

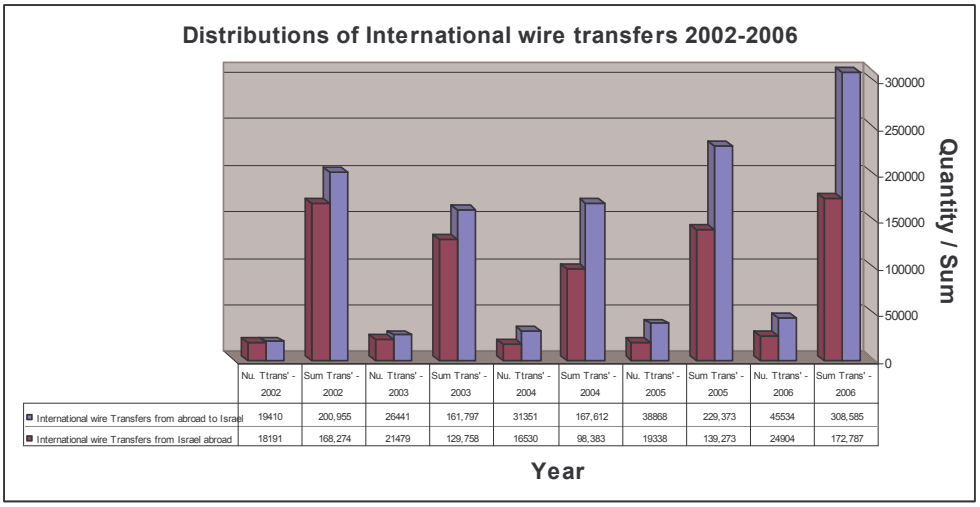
	Year	2002	2003	2004	2005	2006	TOTAL
Financial Institutions							
Banking Corporations		85,974	114,925	421,632	467,670	532,539	**1,622,740**
Insurance		1	574	315	496	595	**1,981**
MSBs		5	2,384	5,965	13,779	16,606	**38,739**
Portfolio Managers		738	3,961	7,451	6,862	6,212	**25,224**
Postal Banks		358	527	1,025	1,120	1,478	**4,508**
Provident Funds		83	480	1,041	4,086	1,350	**7,040**
Stock Exchange Members		854	1,428	1,856	3,827	3,669	**11,634**
Trust Co.		NULL	NULL	124	200	205	**529**
TOTAL		**88,013**	**124,279**	**439,409**	**498,040**	**562,654**	

(iii) International wire transfers are not defined as a unique type of report by the reporting institutions. However, International wire transfers are being reported to IMPA by the banking institutions as integral part of their CTR reporting obligations, according to the threshold of one million NIS (approximately 250,000 USD) or above.

216. The following charts show "Distributions regarding International wire transfers" reported to IMPA, according to the sum of the transactions and their quantity.







	Nu. Ttrans' - 2002	Sum Trans' - 2002	Nu. Ttrans' - 2003	Sum Trans' - 2003	Nu. Ttrans' - 2004	Sum Trans' - 2004	Nu. Ttrans' - 2005	Sum Trans' - 2005	Nu. Ttrans' - 2006	Sum Trans' - 2006
International wire Transfers from abroad to Israel	19410	200,955	26441	161,797	31351	167,612	38868	229,373	45534	308,585
International wire Transfers from Israel abroad	18191	168,274	21479	129,758	16530	98,383	19338	139,273	24904	172,787

* Source – IMPA database only.
** The sums are in millions of NIS.

(iv) Cross-border transportation (customs)

See SR.IX statistics beneath.

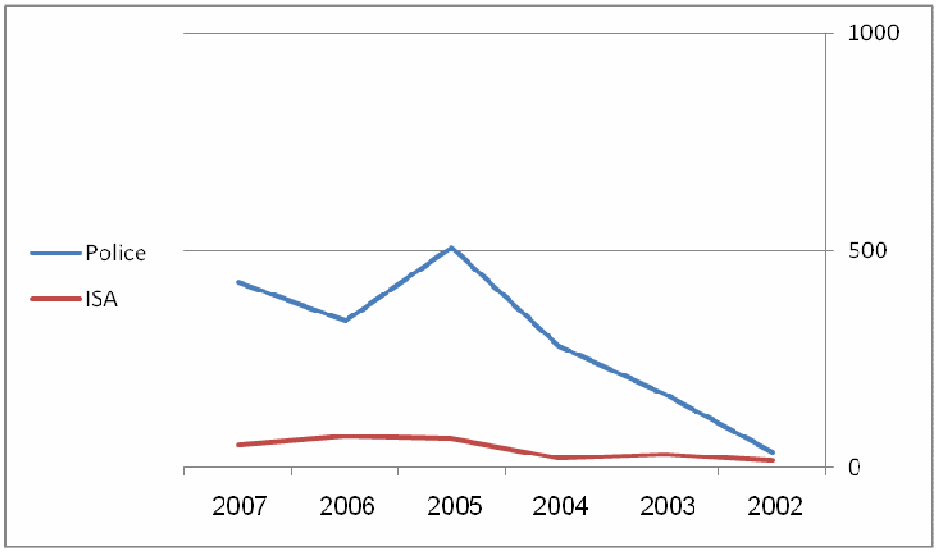
(v) Output from IMPA

Aggregate reports disseminated by IMPA to the competent authorities between 2002 and 2006 are set out beneath:

	2002	2003	2004	2005	2006
UAR	133	520	770	*820	886
CTR	2,539	14,335	20,663	31,097	32,346

* Estimation

217. The Israeli authorities provided the evaluators with the statistical data showing disseminations from IMPA to the police and the Security Services, though they advised that the raw statistical data could not be placed in the public domain for reasons connected with Israeli legislation. The evaluators have therefore included the graph beneath in respect of IMPA disseminations. It shows a broad upward curve of disseminations from IMPA to law enforcement between 2002 and 2007.



218. Though the raw statistics are not given in the report, it was apparent to the evaluators that there is a disconnect between the number of UARs/CTRs disseminated and the figures stating the disseminations to IP and ISA. This can be explained in the sense that the first statistics reflect individual disclosures and the others relate to cases aggregating several such disclosures. It is not specified how many disclosures or cases concern criminal proceeds and how many relate to TF. The reports to ISA were said to be TF related.

219. The following feedback was received from the police as to how effectively they used IMPA material in investigations and prosecutions. According to information received from IP, in 2005 64 % of the information reports IMPA provided to the police contributed in some way (of that, 9 % in a significant way) to complete information gaps. 41 % of the information reports IMPA provided to the police led to new channels of investigation (of that 9 % in a significant way). In 51 % of the cases, the information reports IMPA provided to the police contributed to the detection of evidence (from that 13% in a significant way). The Israeli Police also more recently reported that, over the last two years, 17 information reports which IMPA provided to the police led to significant progress in police investigation.

Additional elements

220. IMPA's information intelligence report is edited as an integral work and includes various information details, evaluation and summary. Therefore, IMPA has certain difficulties managing statistics regarding the contribution of specific UARs to the Law Enforcement Authority's investigations, integration of indictments or verdicts. However, IMPA is aware of the importance of receiving feedback regarding the information disseminated to the Law Enforcement Agencies and its contribution to combating organised crime, Money Laundering and Terror Financing. Therefore, IMPA receives, from time to time, written feedback from the Israeli Police which includes statistics regarding IMPA's reports from different aspects: reports forwarded to an investigating field unit or other authority recommending a review of the content of the information and even initiation of an investigation, integration of the report in an existing investigation, integration with material that was forwarded to the prosecution, or archives and follow-up. Therefore, IMPA's representative is contacted and a meeting is arranged with the ML officer of the relevant unit and its investigators, regarding specific reports – their potential contribution to an investigated case, clarification and emphasises.

Analysis and efficiency

221. Conceptually IMPA is, though important, not a central player in the whole of the Israeli AML/CFT system. The agency has a dual function: firstly as a database supporting the police and security services at their request (art. 30 (b) and (c) PMLL); secondly as an analytical unit processing the disclosures with a view to their possible dissemination to the "competent authorities" (art. 30 (e) PMLL). Thus the law has not allocated IMPA the role of driving force behind the AML/CFT system, but has subordinated its mandate to the law enforcement effort.

222. In itself this limited approach is justifiable and fully within the accepted standards, yet it raises some questions on the impact on the AML/CFT system as a whole and the powers allocated to IMPA.

223. IMPA's access to additional information is unduly restricted. The submitted list of databases IMPA can consult is quite extensive (see above) but fails to cover important additional sources. Formally the PMLL only gives IMPA the possibility to request information of a confidential nature from the tax authorities (art. 31 (a)) and the reporting entities (art. 31 (c)). The other sources are either of a public nature (data mining), or relate to information received anyway under the PMLL rules (substantiated requests from the Police and Security Services, and reports on cross-border cash movements from the Customs).

224. So, to give some examples, formally IMPA has no direct or indirect access to law enforcement information from the police, to intelligence from the security service, and to administrative information from social security. Even if it may be argued that the international standards are not explicit and specific on this point, and as a consequence every jurisdiction can exercise some discretion in this regard, it still raises a question of effectiveness. For an

FIU to perform its analytical function in an effective way, it is essential to be empowered to accede to or receive all relevant information useful to evaluate the incoming disclosures as to their pertinence in terms of indications of ML and TF, and to present a picture which is as complete and as clear as possible to be of use in the ensuing investigation.

225. The present formulation of Article 31 (c) PMLL states that additional information can be requested from the reporting entities "to complete a report received …" and if related to the report and to a person subject of the report. This obviously refers to additional information or supporting documentation to be supplied by the entity that submitted the report, but the fact that it does not unequivocally and expressly extend this possibility to all entities subjected to the PMLL obligations, whether they have reported or not, might raise some doubts on this point. It was stated that this provision should be understood as covering all reporting entities, whether they have reported or not, and that querying such additional information was a matter of regular practice.

226. The general formulation of Article 31 (c) certainly supports this interpretation, but some confusion was created by the fact that it was deemed necessary to propose an amendment to the PMLL specifically providing and regulating the access to additional financial data, whereby information held by a non-reporting financial institution is only accessible through a request to the magistrates' court. Apparently the purpose of the suggested amendment is both to clarify the term "completion of the reports", which is considered to be too vague, and to add judicial review to the decision of the head of IMPA to the effect that, if there are reasonable grounds to assume that additional information is needed from other PMLL subjected entities than the one which actually reported (in order to come to a decision on the dissemination of information), the head of IMPA will have to turn to the magistrates' court requesting an order for a subjected entity to supply additional information to IMPA.

227. In any case, without going into an analysis of the background and *ratio* of the proposed amendment, which falls outside the scope of this assessment, the evaluators do not see the necessity of such an additional condition on the collection of essential information and feel that, if accepted, the proposal would introduce an unduly restraining factor in the performance of the FIU.

228. Given the issue of timeliness that was raised in the law enforcement context, affecting the efficiency of the reporting system, an important question arises in respect of the promptness of reports to the FIU. Not all IMPA reports are said to come in on time to be immediately exploitable. This is not surprising as some delays are unavoidable, since (quality) analysis may take some time. Moreover, sometimes intelligence cannot be immediately put to use by its very nature. This is in itself not a serious issue, as long as the right priority is given according to the urgency and relevance of the various disclosures and reports. IMPA's internal organisation reflects such a customised approach and it is also acknowledged that IMPA in the past years has made serious efforts to reply promptly to law enforcement requests and to pass on relevant information to those authorities in due time. Nevertheless IMPA should endeavour to step up its efforts towards that objective.

229. So the real cause of the problem does not lie there, but it must be seen as a consequence inherent in the reporting system itself, that is not geared to have a proactive effect. Reference is made to the comments made on this issue under Section 3.3.7 (Rec. 13). Ideally efficiency could be greatly enhanced by endowing IMPA with the power to provisionally freeze reported suspect transactions or assets in order to enable effective seizure by the appropriate authorities. The Israel legislative authorities may wish to give this suggestion serious consideration.

230. As for the statistical part, IMPA does collect the necessary figures to enable an insight into the performance of the FIU intervention. There are, however, differences with the relevant

statistics supplied by the police. The Police counts all the requests submitted to IMPA within a specific inquiry file as one request. IMPA calculates every one of these requests separately. Consequently it seems necessary to articulate both sets of statistics by using the same methodology. Also, the statistics are rather unspecific and do not differentiate between reports related to criminal proceeds and those that concern TF. Beside the ISA, which is purely an intelligence service, the police also conducts TF investigations and uses IMPA generated intelligence reports in this context.

231. This being said, IMPA's input in the AML/CFT effort remains a vital one. It must also be acknowledged that IMPA, within its legal confines, performs its assignment in a well organised and professional manner, resulting in a quality output. It has developed a relationship of trust with the reporting entities, which is a prerequisite for a good performance of the reporting system. In the accomplishment of its tasks it can rely on dedicated staff and the support of an efficiently performing informatics system. With that background the agency undoubtedly has the required expertise in house to play a more substantial role and become a real driving force in the AML/CFT system.

2.5.2 Recommendations and comments

232. It is essential that the capacity of the FIU to query additional supporting information in the implementation of its legal assignment, not only from the reporting entities but also from other sources, should be as broad as possible, including law enforcement and administrative information and sources. Although the standards leave the possibility of such access being direct or indirect to the discretion of the legislator, it may affect the efficiency of the FIU when it is dependent on the decision of other authorities to obtain relevant information. It is of definite concern that the proposed amendment of the PMLL in respect of additional financial information weakens IMPA's capacities instead of strengthening them.

233. Because of the rule of post transaction reporting, IMPA's role remains predominantly reactive, which may translate itself in relevant information reaching the police in an untimely way, i.e. too late to step in and immobilise the suspect assets. As long as this rule has not been adapted to accommodate the EU standard on this point, IMPA should step up even more its endeavours to speed up the reporting to and from the FIU through the existing procedures and instruments, such as Guidelines and Regulations.

234. As for the statistics, they should be more specified to give a comprehensive picture of the reporting system. Moreover the relevant IMPA and IP figures should reflect the use of a consistent and correspondent methodology.

2.5.3 Compliance with Recommendation 26

	Rating	Summary of factors underlying rating
R.26	**Largely compliant**	• IMPA's efficiency as an analytical unit is affected by the incomplete direct access to relevant law enforcement and administrative information. • Timeliness of the IMPA reports needs improvement.

2.6 Law enforcement, prosecution and other competent authorities – the framework for the investigation and prosecution of offences, and for confiscation and freezing (R.27 and 28)

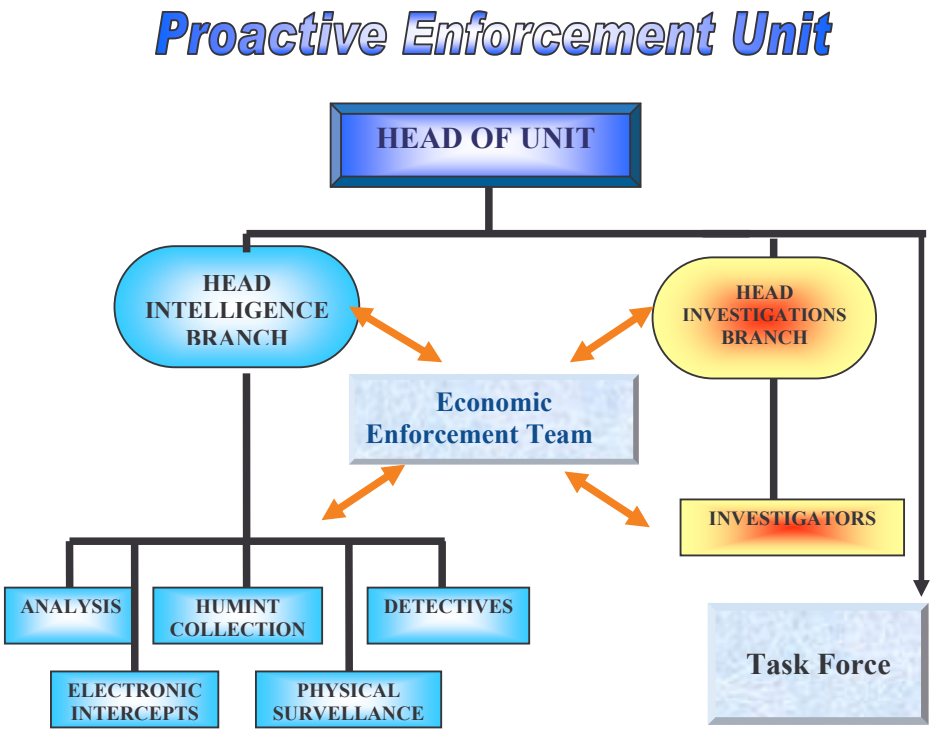
2.6.1 Description and analysis

Recommendation 27

Police

235. The primary responsibility for AML/CFT investigations rests with the Israel Police. Geographically, apart from 3 nationally organised units (Fraud, National and International Serious Crimes, and Economic Crime), its structure comprises 6 Police Districts (Northern, Central, Judea and Samaria, Southern, Tel Aviv and Jerusalem).

236. One of the main objectives of the law enforcement effort is focused on the detection and recovery of illegal proceeds, particularly in the context of the fight against serious and organised criminality. This is primarily reflected in the way the Israel Police has organised itself - bearing in mind that they have to be able to cope with some 115.000 incoming intelligence reports per year - by creating a specialized environment to that end: serious ML cases are dealt with by proactive Enforcement Units, each with full independent capabilities in human intelligence collection, electronic surveillance and physical surveillance. The intelligence division comprises a Section (for) Economic Assault on Crime (SEAC) which focuses on the financial, i.e. ML/TF and asset forfeiture aspects. Each Enforcement Unit contains an Economic Enforcement Team comprised of AML enforcement specialists.



237. Currently, since 1/1/2008, Task Forces are being established as inter-agency AML enforcement mechanisms, designed to complement and coordinate AML enforcement structures in covert and open investigations. The "Kingpin" strategy primarily targets criminal syndicates, organised crime and serious criminal phenomena, such as corruption and illegal gambling.

Task Force diagram

238. As the diagrams show, the IMPA reports constitute an important intelligence source. Other intelligence is generated by the secret services, customs, tax authorities, foreign law enforcement and citizen reports.

Statistics

239. For the statistics on the number of investigations concerning major criminal activity generating criminal proceeds where the police focuses its resources, reference is made to the charts under Recommendation 26.

240. Statistical data was also made available on the investigations between 2003 and 2006 resulting in indictments and convictions for violation of art. 3a, 3b and 4 of the PMLL. It is interesting to note that nearly half of the convictions (44%) were the result of plea bargaining, which is used as a practical alternative to cope with the high evidential burden and to speed up proceedings.

Suspects, indicted and convicted in sections 3(a) and 4

TOTAL	Sections 3(a) + 4	Section 4	Section 3(a)		
221	**24**	**31**	**214**	**Suspects**	**Suspicion**
60	**24**	**33**	**51**	**Indicted**	**Indictments**
27%	100%	106%	24%	Indicted/ suspects	
37	**15**	**21**	**30**	**Convicted**	**Convictions**
17%	63%	68%	14%	Convicted/ suspects	
62%	63%	64%	59%	Convicted/ Indicted	

33% of the indicted are still waiting for verdict. 3 acquittals.

241. These figures are encouraging and reflect a distinct interest in and focus on the money laundering/proceeds angle. They have to be put in perspective however: between 35 and 40% of the cases relate to technical art. 3b PMLL (reporting) violations that do not necessarily imply money laundering activity. Other statistics relate to the proportion of self-laundering cases and others:

Indictments and convictions – not self laundering Vs self laundering (2003-2006)

Total	**Sec 3(b) only**	**[Sec 3(a) or Sec 4] + Sec 3(b)**	**Sec 3(a) or Sec 4 only**	
100	**40**	**20**	**40**	**Indicted**
57	13	13	31	Self Laundering
43	27	7	9	Not Self Laundering
43%	68%	35%	23%	NSL/ Indicted
57	**20**	**6**	**31**	**Convicted**
35	6	1	28	Self Laundering
22	14	5	3	Not Self Laundering
39%	70%	83%	10%	NSL/ Convicted

37% of the indicted are still waiting for verdict. 6 acquittals.

242. The ratio of self-laundering compared to third party laundering (art. 3a and 4) indicates a positive preponderance of self-laundering cases. The Article 3b cases unsurprisingly show a large majority of third party activity (68%), which is typical for reporting violations.

Suspects, indicted and convicted in sections 3(a) and 4 compared to section 3(b)

Total	**Sec 3(b) only**	**[Sec 3(a) or Sec 4] + Sec 3(b)**	**Sec 3(a) or Sec 4 only**		
338	**117**	**47**	**174**	**Suspects**	**Suspicion**
100	**40**	**20**	**40**	**Indicted**	**Indictments**
30%	34%	43%	23%	Indicted/ suspects	
57	**20**	**6**	**31**	**Convicted**	**Convictions**
17%	17%	13%	18%	Convicted/ suspects	
57%	50%	30%	78%	Convicted/ Indicted	

37% of the indicted are still waiting for verdict. 6 acquittals.

Plea agreements	
TOTAL	
57	**Convicted**
25	**Plea agreements**
44%	**%**

243. The overall picture of indictments and prosecutions however becomes confusing when the figures above are compared to the following statistics supplied by the police:

Transfer to prosecution

Year	2003	2004	2005	2006
Suspects	20	62	55	34
Indicted	9	25	43	15

244. The statistical data on the FIU – Police interaction is highly significant:

IMPA Reports

Year	2003	2004	2005	2006
Initiated by IMPA	44	104	196	135

245. Comparison of the information on the outgoing reports from IMPA (see paragraphs 216 and 217 above) with law enforcement data indicates a low law enforcement response level, ranging from 8.5% (2003) to 24% (2005).

Customs

246. In the AML/CFT context the Customs, besides being in charge of the cross-border control of cash transportations, also actively focuses on the illegal proceeds aspect of the predicate offences under their remit. Their investigation division enquires into VAT and smuggling offences, including related money laundering. One of their main challenges are the VAT carousels involving fictitious invoicing, with the investigation also targeting the laundering aspect. Customs are also quite active in countering TF techniques and practices involving the cross-border movement of cash and goods[7]. They routinely seize the criminal assets under the Criminal Procedure statute.

[7] The example was given of importation of toys that finally were sold to be used as financing means.

Prosecution

247. The State and District Attorneys are in charge of prosecuting the ML and TF offences. Their Office follows a policy of targeting financial crime, including ML and criminal asset recovery. To that end prosecutors specialised in those matters are active in all units of the Attorney's Office, and have already secured some significant convictions, despite being faced with a very high evidential burden (see statistics and analysis under R.1).

248. The Customs legal department (actually the Tax Authority legal department, of which the Customs are part) is in charge of prosecuting customs offences, including the ML and TF component. They have provided the information in the table below.

Israel Tax Authority - Criminal proceedings data

	Year	Offences	Confiscation	Verdict
1	**2003**	Section 3(a) of the PMLL	Apartment + 2 vehicles	4.5 years imprisonment, 2 years suspended prison sentence, 200,000 NIS fine
2	**2004**	Section 3(a) of the PMLL	8,500,000 NIS Civil forfeiture	The accused escaped from Israel
3	**2004**	Section 3(a) of the PMLL		The accused escaped from Israel after filing of indictment
4	**2004**	Section 10 of the PMLL	5000 $	3 months suspended prison sentence, 250 hours of community service
5	**2005**	Section 3(a) of the PMLL	Jewelleries, house (temporary forfeiture)	The trial is in preliminary phase. * this case was handled by the State Attorney Office
6	**2006**	Section 3(a) of the PMLL		* This case was handled by the State Attorney Office.
7	**2006**	Section 3(a) of the PMLL	Real estates, vehicles and gas station estimated in 2,500,000 $. (provisional remedy)	The trial is still ongoing.
8	**2006**	Section 10 of the PMLL		8 months suspended prison sentence, 60,000 NIS fine
9	**2007**	Section 3(a) of the PMLL		The trial is still ongoing. * this case was handled with the State Attorney Office

249. In brief, between 2003 and 2006 there was only one proper ML conviction (art. 3a PMLL) secured by the Customs legal department (in 2003). 3 cases were or are being dealt with by the State Attorney's Office. 3 cases are still pending. Confiscation was pronounced in 4 cases. 2 convictions resulted from violation of the cross-border cash transportation reporting obligation (see SR.IX below). These figures should also be taken into account when viewing the law enforcement results.

250. Even if not formally and expressly regulated, there are no legal impediments against using the technique of waiving or postponing arrest or seizure. Arrest and seizure is possible in any phase of the investigation if required to attain a legitimate investigatory, judicial or public safety objective. In this context law enforcement agencies have complete discretion as to the timing of a suspect's arrest or the seizure of assets subject to confiscation, subordinate to judicial approval where necessary. In fact, legal doctrine and law enforcement practice emphasise primary evidence collection prior to arrest and seizure.

Additional elements

251. Special investigative techniques are used for law enforcement and are an established component in the IP investigative arsenal. Within the police, there is a fixed mechanism of approval and supervision regarding the use of such techniques.

252. Prosecutorial approval may be obtained when the investigation plan requires the commission of an act that is legally considered criminal (as is the case in the controlled delivery of illicit proceeds). At all stages of approval, the public interest is the determinative factor: expected enforcement benefits are constantly balanced against any legal or normative issues raised by the proposed plan of operation.

253. Proactive investigative techniques are used routinely against predicate offenders. Israel Police criminal investigations division (CID) is presently acting to increase the sophistication of special investigative techniques initiated by field units, and approved by the prosecutors' offices, for AML enforcement purposes.

254. An asset confiscation (AF) specialists group is run out of the Economic Enforcement Section in CID / HQ. When seizure of significant assets is initiated by any field unit, a member of the AF specialists group is automatically attached to the case. If needed, additional AF specialists may be assigned. Moreover, the roster of each Task Force includes at least one AF specialist.

255. There have been several AML-FT joint initiatives with foreign law enforcement agencies. In 2005, all IP liaison officers abroad were tasked with promulgating the Israeli Police's interest and capability in AML and AF enforcement among the competent authorities in the countries with which they liaise.

256. Within the newly restructured and expanded IP Economic Enforcement Section in CID / HQ, an officer has been fully dedicated to initiating AML-AF joint investigations and information exchanges with foreign law enforcement agencies.

257. Toward the end of every working year, the Intelligence Fusion Center is required to produce a joint intelligence survey - including overall trends in money laundering, to be used by the Implementation Committee as the basis for targeting offenders and phenomena, and prioritising cases, in the coming year's interagency enforcement effort.

Recommendation 28

258. There are no special provisions specifically addressing the relationship of the law enforcement authorities with the financial institutions in respect of their access to financial information and documents. The general rules of the Criminal Law Procedure Ordinance 5729-1969, chapters 3 and 4, are applicable providing the powers required to compel document production and to effect search and seizure in order to obtain documentation and information of any kind from financial institutions, businesses and individual service providers, in the context of ML/TF investigations. In principle all document production and all search and seizure actions require a judicial warrant. Search and seizure of documents from the person of a suspect is however permitted without judicial warrant when executed incidental to an arrest. The police consider the present legal framework adequately supports their capacities in this respect.

259. The legal power to take witness statements as necessary in investigations, including ML, FT and predicate offence cases, is a basic prerogative of all law enforcement authorities, including the Israeli Police and Customs. When taking a statement from a suspect, the investigator must advise him of the fact that he is a suspect and of his right to silence in view of possible self-incrimination.

Analysis and efficiency

260. All law enforcement authorities interviewed during the on-site displayed a high degree of professionalism and acute awareness of their responsibilities in carrying the burden of an effective fight against serious and organised crime. If there are any frustrations, it is not for lack of a legal arsenal but because of the size of the challenges such criminality poses, which compels them to prioritise (cases). In doing so, they have organised themselves in specialised sections that also focus on the financial aspect of criminality and asset recovery. Those task forces are structured in such way as to cover all stages of law enforcement, starting from the intelligence phase to the investigation and, to a certain extent, prosecution.

261. The same considerations go for the prosecutors active both in the State and District Attorney's Office and in the legal department of the Tax authority (Customs). Their dedication and professional quality is beyond doubt, and reflected in the results they have achieved, notwithstanding the highly challenging onus of proof they face.

262. The overall strategy is aimed at increasing the effectiveness of criminal asset recovery as an important aspect of the fight against serious crime. Beside other intelligence sources, the potential of the information supplied by the FIU is obvious in this context. The statistical figures and the information supplied during the on-site visit however reveal an underachievement in this respect. Despite the progress made in the interaction between the FIU and the law enforcement authorities, the attention given to and the exploitation of FIU generated reports is visibly low.

263. The reasons for this are diverse: apart from priority considerations, the limited response results *inter alia* from capacity and resource restrictions, but ostensibly also from the police perception that most information comes in too late to be of immediate use. This remark is not without foundation, as speed is indeed of the essence in tracing and immobilising criminal assets (see above on R.26). However, the broader picture of FIU intelligence as a starting point for investigations leading to the identification of criminal activity, individuals and organisations, is neglected by such a restrained approach. As it is, the FIU intelligence mostly tops up an existing investigation and its usefulness is mainly seen in terms of an additional or affirmative source, which reflects a minimalistic attitude. However, with the new Kingpin

Strategy and the creation of Task Forces, combined with a more speedy intervention and reporting of the FIU, the FIU/Police interaction should become increasingly productive.

Recommendation 30

Staffing and resources

Office of the State Attorney

264. The Office of the State Attorney has organised itself in the AML/CFT domain in the following way:

- The different units of the State and District Attorney's Office are budgeted for and employ prosecutors who specialize in ML, FT, and asset forfeiture enforcement to take charge of the appropriate indictments and asset forfeiture requests.
- The Implementation Committee, in charge of translating Executive Committee directives into operational mechanisms and performance measures regarding the fight against serious and organised criminal activity, has representatives from the State and District prosecutor's offices. In addition, the Deputy of the State Attorney is the head of a special committee responsible for AML.
- 15 field prosecutors specializing in asset forfeiture have been especially assigned to be members of the 6 Multi-Agency task forces. Representatives from the Office of the State Attorney participate in the Multi-Agency Task Forces, in order to support the police in the relevant investigations.

265. In all, 21 prosecutors were budgeted in the year 2007 for the struggle against criminal organisations. Out of the 21 prosecutors, 6 prosecutors were budgeted full time for asset forfeiture and combating ML.

Israel Police

266. IP structures in AML, FT and AF enforcement are multi-layered and complementary, divided between intra-agency and inter-agency structures, field and staff structures.

Full Time Specialists

267. In all, 52 police officers are budgeted on a full time basis for AML and AF activity, as follows:

Intra-agency / Field

- 19 AML Field Specialists deployed across 9 special/proactive investigations units – six Central District Units and three National Units.
- 5 AF Field Specialists working out of the Economic Enforcement Section, continuously seconded to district or national investigations units as needed.

Inter-agency / Field

- 6 AML Field Specialists across 6 Multi-Agency Task Forces – 1 in each Task Force.
- 6 AF Field Specialists across 6 other Multi-Agency Task Forces – 1 in each Task Force.

Intra-agency / Staff

12 Staff Officers divided into 3 groups, subsumed within the Economic Enforcement Section / CID HQ:

- AML Group – professional consultation, problem solving, procedural adjustment, training and IT development in support of AML Field Specialists, as well as implementing performance measurements and reassessing structure and policy for IP command consideration;
- Task Force Supervisory Group – professional consultation to Inter-Agency Task Forces in Multi-disciplinary enforcement doctrine and procedure, tracking and certifying adequate process implementation and benchmark attainment in Task Force performance, phased assessments of Task Force expectancy of success and, as needed, recommendations for Implementation Committee consideration;
- External Intel Group – responsibility for developing, operationalising and maintaining mechanisms for active large-scale AML intelligence collection, dissemination and use, from non-IP generated sources (included open and commercial databases, government registrars, foreign and international enforcement agencies).

268. An IP contingent of 4 Intelligence analysts operating, together with colleagues from the Israel Tax Authority and IMPA within the Intelligence Fusion Center.

Technical Resources and Funding

Surveillance Technology

269. All AML and AF field specialists, in the intra-agency and inter-agency structures mentioned above, have access to the complement of electronic and physical surveillance resources maintained by the IP.

Information Technology

270. Since 2002, the IP has budgeted 12 million U.S. dollars in IT development specific to AML enforcement needs. The relevant IT projects include:
- a system for on-line cross-referencing and integrated processing of information obtained from financial institutions and government databases;
- adjustments in the Criminal Intelligence System, enabling asset centered information management and analysis in relation to other assets, criminal events, offenders and third party claimants;
- continued development of an automated open sources intelligence collection system, to be linked with the Criminal Intelligence System;
- an inter-agency system for tracking forfeitable property seized by the IP.

Professional standards, integrity and confidentiality

Office of the State Attorney

271. The State and District Attorneys enjoy a strong tradition of professional independence and impartiality, and maintain a high level of ethical and professional behaviour of its staff. Specifically all prosecutors of the Ministry of Justice are appointed by competitive process. AML prosecutor candidates are interviewed by a multidisciplinary panel responsible for determining personal and professional suitability.

Israel Police

272. In addition to the vetting process applied to all IP personnel, AML field and staff officer candidates are interviewed by a multi-disciplinary panel charged with determining personal and professional suitability, and thereafter are re-interviewed and examined by Information Security officers.

Training

Office of the State Attorney

273. AML prosecutors are required to undergo continuing educational training, dealing with all the main issues of AML, FT and AF. In 2006 – 2007, in order to train the specialised prosecutors, the Office of the State Attorney sent the prosecutors for one week seminars about AML and AF. The Office of the State Attorney was also awarded additional financing for AML consultancy by a private accountancy office.

Israel Police

274. AML specialists are required to undergo a month long certification training program, covering the following subject matter:

- AML and AF related statutes, regulations and case law;
- Structures, functions, and authority of government regulators;
- Multi-agency enforcement strategies;
- Practice, procedure, typologies and case management.

275. In order to initiate investigative and intelligence personnel into AML enforcement, between 2002 and 2004 the IP undertook series of one week AML seminars to over 220 officers; in parallel, week long seminars were given in AF enforcement.

276. Currently, all major professional and command courses in the IP include AML-AF instruction modules.

277. AML officers are systematically trained in the use of all relevant police information technology by the CID Instruction Center. They followed a five day course in AML focused data-mining from open and commercial sources. FT training is interwoven in the AML training programme.

Customs

278. Since the law entered into force in 2002, Israel customs has established an extensive enforcement system based on personnel working at the border crossings. Around 1.000 Customs officers are responsible for either the border controls or the investigation of the (customs) offences, including criminal proceeds and TF aspect. These are customs inspectors, customs drugs investigators and investigators from regional investigation offices which have been authorised to handle money laundering offences under the responsibility of Customs.

279. All customs officials working in the enforcement of the Anti-Money laundering Law underwent professional training. Courses are given periodically in which topics of enforcement, legislation, investigation and typologies in the field of money laundering are incorporated. All customs officials undergo security clearance at the highest level for civil agencies, and are obliged to maintain confidentiality by law.

280. Professional training courses in the field of money laundering and terrorism financing are held on a frequent basis together with other law enforcement bodies involved. They include the following topics:

- Relevant legislation for the enforcement of reporting of monies at the borders, methods of reporting, violations of reporting – cases and responses, suspicious behavioral signs of couriers, seizing of unreported monies, investigations, monetary sanction committees and indictments.

- Relevant legislation for the enforcement of predicate offences handled by the Israel Tax Authority, money laundering investigations, confiscation of assets originating in an offence.
- Typologies of money laundering and concealment of monies. Instructors include experts from the Israel Tax Authority and colleagues from other enforcement and intelligence agencies such as the Israel National Police or IMPA.

Additional elements

281. The *Institute of Judicial Training for Judges* is an Israeli institution, responsible for advanced studies, for judges and candidate judges. The institute organises a variety of seminars, led by judges, academics and practicing lawyers. Lately the institute held two three-day seminars devoted to AML and Organised Crime-related topics. About fifty judges from both the District and the Magistrate Courts participated in these seminars.

Recommendation 32

282. As shown above, the law enforcement and prosecutorial authorities keep the appropriate statistics enabling them to evaluate their efforts and the effectiveness of the AML/CFT system. There are however some discrepancies/divergences between the common IP and FIU statistical data pertaining to their interaction. As for the Customs, the following statistics were provided:

Reports on entry / Exit of monies from Israel	
Year	**No. of Reports**
2003	980
2004	999
2005	1,526
2006	3,139

No. of Seizures of Unreported Money at the Border Crossings

2003 – 49 cases of seizures of unreported money
Amount seized – 6,115,999 NIS
Amount of monetary sanction imposed for reporting violations – 535,816 NIS

2004 – 128 cases of seizures of unreported money
Amount seized – 65,494,346 NIS
Amount of monetary sanction imposed for reporting violations – 1,371,821 NIS

2005 – 99 cases of seizures of unreported money
Amount seized – 16,284,696 NIS
Amount of monetary sanction imposed for reporting violations – 929,460 NIS

2006 – 98 cases of seizures of unreported money
Amount seized – 12,105,091 NIS
Amount of monetary sanction imposed for reporting violations – 2,960,752 NIS

Indictments for the Violation to Report at Crossings

283. Two indictments were served for the violation to report, one in 2004 and the other in 2006. In both cases the offenders were convicted.

Seizing of money connected to terrorist organisation – terrorist money

284. Two cases are on record:
- Transfer of bank cheques from one country to Israel totaling one million dollar. The source of the money was donation to an organisation connected to terrorist activity.
- Seizure of $31, 400 +1,900 Jordanian Dinars, $27,000 of which was proven to be intended for a prohibited organisation.

Additional material

Appeals to magistrate court against monetary sanction committee decisions	
2003	No appeals were filed
2004	9 appeals
2005	8 appeals
2006	4 appeals

2.6.2 Recommendations and comments

285. The Israeli law enforcement authorities involved in the AML/CFT domain are undoubtedly ready and able to meet the requirements of their legal assignment. They are well organised and have the appropriate legal resources and powers at their disposal enabling them to conduct effective investigations. As stated before, the number of convictions is not overwhelming, mainly due to the heavy formalistic burden of proof resting on the prosecution, but the right mentality and focused efforts of the public prosecutors to keep securing convictions and confiscation within their legal restrictions is recognised and appreciated.

286. It is only unfortunate that, in terms of efficiency, the FIU reports are not more fully exploited. This is clearly not due to a lack of interaction between the FIU and the IP, but results more from a different point of view on the utility of the FIU information. Realistically it should be possible, on the one hand, to speed up the reporting to law enforcement in urgent cases, especially where asset restraint and recovery is still possible, and, on the other hand, to give more attention to the effective use of such intelligence outside the context of a running investigation, but as a trigger for (further) enquiries.

2.6.3 Compliance with FATF Recommendations

	Rating	Summary of factors underlying rating
R.27	**Largely compliant**	• Effectiveness could be enhanced if opportunities for more fully exploiting FIU intelligence were considered and acted upon as appropriate
R.28	**Compliant**	

2.7 Cross Border Declaration or Disclosure (SR IX)

2.7.1 Description and analysis

287. Section 9 of the Prohibition on Money Laundering Law requires everybody crossing the Israeli border to report all "monies" to the Israeli Customs that total 80.000 NIS (approximately 15.000 € or 22.000 $) or more. This obligation applies to persons entering Israel or leaving Israeli territory with such amounts of cash by physical transportation, by mail or by any other method, including cash couriers. "Monies" is understood to include cash (in any currency), and bank and travellers' cheques. An exception to the rule is made for persons entering Israel for the first time on an immigrant's visa, according to the 1950 Law of Return: they only have to report when they import 1,000,000 NIS (approx. 185,000 € or 273,000 $) in cash.

288. The declaration form for the entry/exit of reportable cash is available in 4 languages: Hebrew, English, Arabic and Russian. It was stated that most cash had some relation to the diamond trade or was somehow connected with religious motives. Gambling activity was also mentioned as a money source.

289. The Customs are the designated competent authority to deal with the cross-border declaration system. For the purpose of implementing and enforcing the relevant provisions of the PMLL, including the cross-border declaration obligation (art. 9 PMLL), they have the powers and authority to request (additional) information, conduct investigations, call upon a suspect or others to report for an investigation, apply for search warrants, and seize assets suspected to be offence related or likely to be used as evidence in judicial proceedings (art. 27 PMLL).

290. There are two grounds for seizing assets at the border:

- In the case of non- or false declaration, a customs or police officer can seize, without a court order, the amount of non-declared money exceeding the reportable sum, whenever the reporting obligation has been violated. This conservatory measure is limited to 10 days for the purposes of further investigation in respect of the failure to report, the origin of the money and its destination. The court can extend the seizure period by ten extra days (Art. 11 - PMLL).

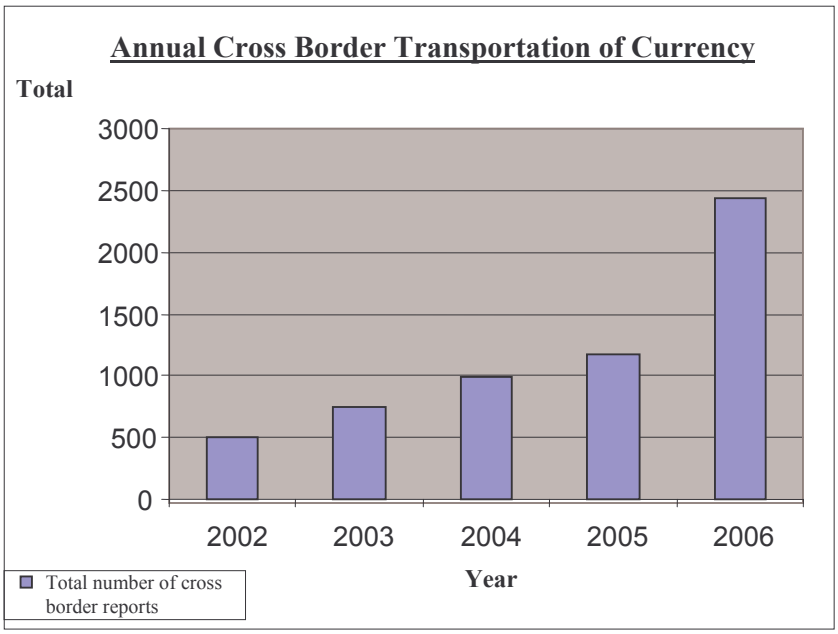
- In case of suspicion of ML or TF, assets can be seized on suspicion of infringement of art. 3(a) PMLL (for ML) or art. 8 and 9 PTFL (for TF). An application is then made by virtue of Article 23 of PMLL (applying the Articles 36(c)-36(j) of the Dangerous Drugs Ordinance (1973) to the confiscation of property). In accordance with section 36F(b) of the DDO, the validity of a temporary forfeiture order expires if an indictment is not submitted within ninety days from the day it was issued.

291. All declarations, reporting violations and other relevant information are registered into the database of the Israel Tax Authority, including information on the suspects, the amount of money seized and the final decisions (monetary sanction or indictment). Seizure information is forwarded to IMPA as well.

292. Cross-border cash reports are forwarded to the Customs Anti-Money Laundering Center, and then forwarded to IMPA in a centralized and secure manner, in accordance with the anti-money laundering Regulations (methods and times for transmitting reports to the database). In case of failure to report, the related seizure and investigation reports are also transmitted to

IMPA. They are registered in the IMPA database and made accessible for analytical purposes. An on-line reporting system is presently under consideration.

293. The following diagram demonstrates the cross-border transportation of currency reports forwarded to IMPA between the years 2002-2006:



294. Co-operation between the Israel Tax Authority, IMPA and the Israel National Police is a matter of daily practice. In this respect the Fusion Centre, a joint intelligence body, was established involving representatives of the Police, the Israel Tax Authority and IMPA, where operational information exchange between those authorities takes place in a secure way. The Israel Police or Security authorities also pass on any information to the Customs that may give an indication of cross-border cash smuggling.

295. International co-operation is recognised as a prerequisite for an adequate AML/CFT policy at Customs level. Besides being a member of the WCO, Israel Customs have signed agreements on assistance and co-operation in Customs matters with several countries. Israel Customs exchanges information and intelligence on money laundering cases with customs authorities abroad using Customs liaison officers in Europe, SE Asia and North America. Information is exchanged between the Anti-Money Laundering Centre and American Immigration and Customs Enforcement Attaché in Rome.

296. Information supplied by the Customs to IMPA is also made available to foreign FIUs in the framework of the mutual co-operation between IMPA and its counterparts (see below R.40).

297. Violation of the reporting obligation, either by way of false declaration or failure to declare, is sanctioned criminally or administratively, depending on the circumstances.

- Criminal penalty (art. 10 - PMLL): the court can impose imprisonment up to 6 months or a fine up to 202,000 NIS (art. 61(a)(4) Penal Code) or up to 10 times the unreported sum, whatever is the greater amount.

- Administrative penalty (art. 13 and 15, 3 PMLL): financial sanction Committees are established within the Israel Tax Authority, that decide on the alleged reporting

violation and which have the power to impose administrative fines up to 101,000 NIS (art. 61(a)(4) PC) or up to 5 times the unreported amount, whichever is the highest amount, and half of this amount in the case mentioned in the Money Laundering Prohibition Regulations (monetary sanctions) – 2001.

298. A distinction is made between first and repeat offenders when applying the sanctions. Both sanctions can be applied to legal persons and their representatives.

299. As for ML and TF related cross-border transportation of cash irrespective of the amount, seizure, confiscation and punishment is governed by the relevant provisions in the PMLL, PTFL and Penal Code (see R 3 above). They also apply to both natural and legal persons.

300. Finally, all measures pertaining to the freezing of suspected terrorist assets according to the relevant UN resolutions and domestic or foreign lists (see SR.III above) are valid within the cross-border transportation context.

301. According to the Israeli Customs Ordinance the entrance of gold, precious metals and diamonds must be declared at the entrance/exit into Israel using a customs entry.

302. When suspect transportations or smuggling of gold, precious metals or diamonds are discovered, the Customs will investigate, including the international aspects. Exchange of information is conducted under mutual assistance in customs matters agreements which Israel has signed with other countries, mostly with the support of the customs liaison officers.

303. Reports on cross border transportations are forwarded to IMPA in a centralised and secure manner, in accordance with the anti-money laundering regulations. The information is available for research and analysis purposes. Dissemination by IMPA to other authorities occurs within the legal confines of the PMLL. Cash deposits disclosed by the reporting entities under the PMLL are checked against the data received from the customs, and when this indicates an undeclared cross-border movement, the information is forwarded to the police and through them to the customs authority[8].

Additional elements

304. Detection of unreported money at the border is supported by technological means, such as X-Ray devices. The customs also make use of specially trained dogs to prevent drugs or money being smuggled into Israel.

305. Israel Customs have the powers and operational capabilities to detain a passenger for an inspection or receive an advance warning on the entrance/exit of a passenger from Israel at any border crossing.

306. When Israeli enforcement or security agencies, or a foreign customs agency forward information to Customs or the National Anti-Money Laundering Centre on suspicions of smuggling of monies into Israel by couriers, or when information exists in the internal databases on the smuggling of monies, the suspect will be stopped when entering/leaving Israel with the goal of detaining him for a search of the smuggled monies.

[8] An example was given of a UAR filed about cash deposits. The information was checked against the border crossing information and the relevant customs declarations, showing the account holder had frequently imported money into the country without declaring. This case was brought before the sanctions committee, which imposed a sanction of 200,000 NIS.

307. All cross-border reports are registered into IMPA's database. The database provides a major information tool necessary for establishing behavior profiles as well as for profiling certain sectors that are vulnerable to ML/FT (Such as cash couriers, diamond traders etc.). IMPA's database is available for research and analysis purposes to IMPA's researchers only. However, once the analysis is completed a paraphrase is written and disseminated to the relevant authorities, either upon request or spontaneously.

Analysis and efficiency

308. The control over the cross-border cash transportation is well organised. There is a steady increase in the numbers of such crossings over the years since 2003, with a notable rise in 2006 (x 2). The statistics show a rather modest implementation at the start in 2003, picking up speed along the way and coming to a significant number in 2006. This is clearly due to a growing awareness and experience. Beside the technical art. 9 PMLL violations (see statistics above), the declaration system also adds value to the law enforcement effort through IMPA's analysis of the information provided by the Customs, resulting in 45 reports to the IP on the suspicion of ML or TF since 2003.

309. The declaration obligation applies to all persons transporting "monies", meaning cash, bankers' drafts and travellers' cheques (art. 9(a) PMLL). The international standards have a broader application covering all bearer negotiable instruments including promissory notes and money orders *(see FATF glossary)*. It remains doubtful if those instruments are covered by the term "monies" as used in the PMLL. Beside the text of art. 9(a) PMLL, no documentary evidence on the correct interpretation of this term was supplied.

310. The 80,000 NIS threshold for the minimum amount to be declared is within the international standard when converted into Euros (15.000 €). For first immigrants under the Law of Return 5710-1950 the minimum threshold is however much higher: 1.000.000 NIS or approximately 185.000 EUR. This exceptional regime of course has its historical reasons and is not entirely devoid of logic, but it does go against the international criteria. This is not only a formal deficiency, but it also carries the risk of criminal money going unnoticed under the guise of genuine savings or starting capital.

311. Finally, the rule of seizing and confiscating undeclared money limited to the amount exceeding the threshold might raise the question of its compatibility with the standards of R 17, requiring effective, proportional and dissuasive criminal sanctions. Proportionality considerations take precedence here over effectiveness and dissuasion. Although the seizure/confiscation regime seems quite soft in comparison with the confiscation regime in many other jurisdictions where forfeiture of the entire sum is generally the rule, the administrative sanctioning measures on the contrary do appear to have a sufficiently deterrent character.

2.7.2 Recommendations and comments

312. The legal and organisational framework of the border control is comprehensive, with the customs adequately targeting asset detection and supporting the AML/CFT law enforcement effort.

313. Substantially there are two issues that need to be addressed in respect of Israel's compliance with the mandatory standards governing cross-border cash transportation control:
    - The reportable assets should explicitly include all_bearer negotiable instruments. The present list based definition of "monies" is too restricted.

- The declaration obligation should be absolute and unrestricted once the threshold is attained, allowing for no exceptions.

314. While every jurisdiction is entitled to exercise its discretion in defining the appropriate severity in its sanctioning of illegal behaviour, in an AML context the financial sanctions take a prominent place as a deterrent. Although the limitation of the seizure measure to the undeclared amount exceeding the threshold reflects a perhaps too soft approach that merits to be reconsidered, this is counterbalanced by the administrative sanctions that can be levied up to 5 times the undisclosed amount.

2.7.3 Compliance with Special Recommendation IX

	Rating	Summary of factors underlying rating
SR.IX	**Largely compliant**	• Not all bearer negotiable instruments covered. • The threshold declaration regime is too high under the immigrant rules.

3. PREVENTIVE MEASURES - FINANCIAL INSTITUTIONS

315. The Prohibition on Money Laundering Law (PMLL) was enacted in August 2000, as comprehensive legislation that addresses money laundering as a criminal offence, as well as customer identification, record-keeping, and reporting requirements.

316. The obligations on financial institutions derive from chapter 3 of the PMLL (obligations imposed on providers of financial services) "Providers of financial services" are not separately defined in the interpretation section. Section 7 (a) provides for a machinery for orders to be made imposing obligations on banking corporations. Section 7 (b) provides a similar statutory mechanism for making orders to impose obligations on the financial institutions listed in the Third schedule. Israel's AML legislation thus applies to banking corporations; members of the stock exchange; portfolio managers; insurers and insurance agents; provident funds and companies managing provident funds; the postal bank and money service business. According to the Anti Money Laundering Order of 2001, the requirements of identification and verifying of the services recipients particulars only applies to life insurance contracts. In non-life insurance the insured pays low premiums for the risks transferred to the insurance company, and receives compensation only if an insurance event occurs.

317. Seven orders and other measures were issued to each of the financial sectors that require customer identification, record keeping, and submission of UARs and CTRs, namely:

Banking corporations
• Prohibition of Money Laundering (the Banking Corporations' Requirement Regarding Identification, Reporting and Record Keeping for the Prevention of Money Laundering and Financing of Terrorism) Order, 5761-2001
• Proper Conduct of Banking Business Directive, No. 411.

Portfolio managers
• Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping of Portfolio Manager) Order, 5762-2001.
• Draft amendment to the Portfolio Managers Order 5767-2007
• Regulation of the Occupation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 5755-1995.

Stock exchange members
• Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping of Stock Exchange Member) Order, 5762-2001.
• draft amendment to the Stock Exchange Members Order
• Stock exchange by-laws

Insurer and Insurer Agents
• Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping by Insurer and Insurance Agent) Order, 5762-2001.
At the time of the on-site visit, there was a draft amendment to the Insurer and Insurer Agents Order 5768-2007.

Provident Fund and Company managing a provident Fund
• Prohibition of Money Laundering (Provident Fund and a Company Managing a Provident Fund Requirements Regarding of Identification and Record-Keeping) Order, 5762-2001.

Money Service Business

• Prohibition of Money Laundering (Money Service Business Requirements Regarding Identification, Reporting and Record-Keeping) Order, 5762-2002.

Postal Bank

• Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record Keeping by the Postal Bank) Order, 5762-2001.
At the time of the on-site visit, there was a draft amendment to the Postal Bank Order 5768-2008.

318. All relevant institutions have specified supervisory authorities such as the Bank of Israel for banks (BOI); Israel Securities Authority for securities firms (ISA); the Ministry of Finance for insurance, currency service providers and provident funds (MOF) and the Ministry of Communications for the Postal Bank (MOC).

319. The supervisors for each financial sector are granted sufficient power to take actions against financial institutions who fail to fulfil their AML/CFT obligations under the PMLL and the associated orders as well as the various supervisory acts. They also have been enhancing their supervisory oversight to ensure financial institutions' compliance with PMLL by issuing regulations, circulars, and letters that provide more details to comply with PMLL. The BOI, MOF, and Israel Securities Authority have initiated onsite inspections focusing on AML/CFT compliance using inspections manuals that were developed for AML/CFT compliance.

Bank of Israel

320. On the 25 January 2001 the governor of the BOI issued the Prohibition of Money Laundering (the Banking Corporations' Requirement Regarding Identification, Reporting and Record Keeping for the Prevention of Money Laundering and Financing of Terrorism) Order, 5761-2001 (hereafter - the Banking Order), which imposes three main requirements on the banks: identification, reporting, and retention of records.

321. In November 2006 the Knesset approved an amendment to the Prohibition on Money Laundering Order, as submitted by the Governor of the Bank of Israel, and the Supervisor of Banks issued an amended Directive (No 411) on the Prevention of Money Laundering and the Financing of Terror, and Identification of Customers.

322. The Order and Directive are additional legislative steps intended to combat the financing of terrorism.

323. The Prohibition on Money Laundering Order was expanded to cover the requirements derived from the Prohibition on Financing Terrorism Law, 5765–2004, and now includes the requirement to check the identification of parties to a transaction against a list of declared terrorists and terrorist organisations, as well as the requirement to report certain transactions by size and type: for transactions with a high risk country or territory the minimum size of transaction that must be reported was set at NIS 5,000 (~1,150$). The amendment to the Order also imposed requirements regarding identification, reporting, and retention of records on credit card companies.

324. Directive 411 issued by the Supervisor of Banks was amended in the light of the recommendations by the Basel Committee on Banking Supervision regarding ongoing customer due diligence (CDD) for banks, consolidated know your customer (KYC) risk management and the 40+9 recommendations of the Financial Action Task Force (FATF). The main points of Directive 411 are: banks are required to set CDD policy and rules, so that

they will understand their customers' activities. Banks must categorise accounts by their risk level and must operate special monitoring of high-risk accounts.

325. On the 26 December 2007 the Supervisor of Banks ordered the official publication of "The proper Conduct of Banking Business Prevention of Money Laundering and Financing of Terror, and Customer Identification – 411" according to his authority in section 5 (c2) of the Banking Ordinance 1941, after consulting with the Bank of Israel Advisory Committee and with the consent of the Governor of the BOI, thus transforming Directive 411 into "other enforceable means" (within the meaning of the FATF Methodology), which impose mandatory requirements with sanctions for non-compliance.

Israel Securities Authority (ISA)

326. As noted earlier, the Israel Securities Authority (ISA) was established under the Securities Law, 5728-1968 and its mandate, as stated in the law, is to protect the interests of the investing public. It is an independent government authority dedicated to securities regulation and is not part of either a government ministry or a unified financial markets regulator (such as the United Kingdom's FSA).

327. The Investment Advisors Department deals with the licensing and supervision of investment advisers, investment marketing agents and portfolio managers. Within the framework of investment advisor licensing, the department conducts professional examinations, handles requests for exemptions from exams, and coordinates the registration of internships. Within the context of licensee oversight, the department prepares legislation pertaining to conduct of business and enforces compliance with the law. It is authorised to investigate suspected violations, investor complaints as well as conduct inspections under the Investment Advice Law and the Law on the Prohibition of Money Laundering.

328. The ISA is the national regulator for 2 types of financial institutions with regard to the AML/CFT regime: Portfolio managers and Stock exchange members.

329. Portfolio managers: Chapter 2 of the Prohibition of Money Laundering (Duties of Portfolio Manager with regard to Identification, Reporting and Keeping Records) Order, 5762-2001 (hereafter -the Portfolio Managers Order), stipulates the duties of portfolio managers to identify & verify their customers and to report to the FIU.

330. Stock exchange members: Chapter 2 of the before mentioned Order also stipulates the duties of stock exchange members to identify and verify their customers and to report to the FIU.

Ministry of Finance (MOF)
Capital markets, insurance & savings division

331. The Capital Market Division in the Ministry of Finance is responsible for the supervision and regulation of financial services in the State of Israel, and, in particular, as noted earlier, in the insurance, pension, and provident fund markets.

332. Chapter 2 of the Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping by Insurer and Insurance Agent) Order, 5762-2001 (hereafter — the Insurance Order) and of the Prohibition of Money Laundering (Provident Fund and a Company Managing a Provident Fund Requirements Regarding of Identification and Record-Keeping) Order, 5762-2001, (hereafter — the Provident Funds Order) stipulates the duties of Insurer and Insurance Agent and Provident Fund and a Company Managing a Provident Fund to identify & verify customers and to report to the FIU.

Ministry of Finance (MOF)
Currency Service Providers Division
The Inspection and Enforcement Division

333. The PMLL regulates the field of "Money Services Businesses" (or "currency service providers") and establishes definitions, registration procedures, and powers of inspection and enforcement. These provisions apply to all those engaged in the provision of currency services, even if this is not their only occupation. The law requires the registration of all those who execute one or more of the following actions: The conversion of the currency of one country into the currency of another country; the purchase or redemption of travellers' cheques in any currency type; and the receipt of financial assets in one country against the provision of financial assets in another country. The PMLL establishes that the execution of actions for the laundering of money is a criminal offence carrying penalties of imprisonment and heavy financial fines.

334. The Currency Service Providers Division acts to develop a reliable, professional, and efficient currency services market for the benefit of consumers, outside the banking system; to fight against economic crime; and to participate in the global war against money laundering.

335. The Inspection and Enforcement Division is involved in enforcing the obligation of registration, enforcing the obligations under the Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping by Money Changers) Order, 5762-2002 (hereafter — the MSB Order), and the execution of audits of the service providers.

336. Chapter 2 of the MSB Order stipulates the duties of Money Services Businesses to identify and verify customers and to report to the FIU.

Ministry of Communication (MOC)

337. The Ministry of Communication deals with the regulation of the communication market and the post and the supervision over the activities of the companies operating in the communication and post market. The Ministry is responsible for promoting the competition in these fields. Since the Postal Bank is a financial body that transfers significant amounts of money, the Minister of Communication was authorised by the power of the postal law – 1986 to regulate the supervision and control over the Postal Bank's activity.

338. By power of the instructions in clauses 7(b) and 32(c) of the prohibition of money laundering law – 2000, and by power of the instructions of clause 48(a) of the prohibition of financing terror law – 2005, the Minister of Communication can, while consulting with the Minister of Justice and the Minister of Iinterior Security and with the approval of the Knesset's Legislation and law committee, issue a prohibition of money laundering directive.

339. Chapter 2 of the Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record Keeping by the Postal Bank) Order 5762-2001, (hereafter — the Postal Bank Order), stipulates the duties of the Postal Bank to identify and verify their customers and to report to the FIU.

Customer Due Diligence and Record Keeping

3.1 Risk of money laundering / financing of terrorism

340. Israel has not decided to disapply certain required AML/CFT measures to a particular financial sector on the basis of little or no risk of money laundering or financing of terrorism.

3.2 Customer due diligence, including enhanced or reduced measures (R.5 to R.8)

3.2.1 Description and analysis

Recommendation 5

Law, Regulation or other enforceable means

341. Criterion 5.1 of the methodology is marked with an asterisk. This means that it belongs to the basic obligations that should be set out in a law or regulation. In this context, "Law or Regulation" refers to primary and secondary legislation, such as laws, decrees, implementing regulations or other similar requirements, issued or authorised by a legislative body, and which impose mandatory requirements with sanctions for non-compliance. Separate to laws or regulation are "other enforceable means" like recommendations, guidelines, instructions or other documents or mechanisms that set out enforceable requirements, with sanctions for non-compliance, and which are issued by a competent authority (e.g. a financial supervisory authority) or an SRO. In other words: according to the Methodology, obligations set out in law or regulation as well as in other means have to be enforceable. In addition, the law or regulation has to be issued or authorised by a legislative body.

342. For the purpose of this report an obligation marked with an asterisk in the 2004 Methodology, which appears in the PMLL (in force at the time of the on site visit) meets the methodology requirements in this regard as such obligations. The obligations in the PMLL are sanctionable.

343. The seven Orders are issued by the different supervisors by virtue of the power vested under the PMLL and authorised by the Knesset Constitution, Law and Justice Committee. The obligations in the seven Orders are sanctionable, and thus constitute regulations within the meaning of the Methodology.

344. The Directives are issued by the different supervisors (for example the 411 Directive for Proper Conduct of Banking Business), are sanctionable but are not authorised by a legislative body.

345. On the 26th of December 2007 the Supervisor of Banks ordered the official publication of "The proper Conduct of Banking Business Prevention of Money Laundering and Financing of Terror, and Customer Identification – 411" according to his authority in section 5 (c2) of the Banking Ordinance 1941, after consulting with the Bank of Israel Advisory Committee and with the consent of the Governor of the BOI, thus transforming Directive 411 into "other enforceable means" (within the meaning of the FATF Methodology), which impose mandatory requirements with sanctions for non-compliance.

Anonymous accounts and accounts in fictitious names
Banking Corporations

346. Customer identification requirements are governed by the PMLL and the various orders which *inter alia* require that financial institutions shall not open an account or enter into a contract without fulfilling identification obligations.

347. The BOI informed the examiners that there are about 4,000,000 bank accounts in the Israeli Banking system, of which 5,300 are numbered accounts. Furthermore the BOI advised the examiners that numbered accounts in Israel undergo full CDD measures according to the Banking Order. Article 18 of the Directive defines how banking corporations in Israel internally have to deal with numbered accounts.

348. Article 18 in the Directive 411 determines that:

> *"(a) Numbered accounts (accounts in which the name of the beneficial owner is known to the banking corporation but is substituted by an account number or code name in some documentation) shall be subject to KYC procedures applicable to all accounts.*
>
> *(b) The identity of a customer with a numbered account shall be known to a sufficient number of officials to enable a thorough and adequate check of the customer's identity and to monitor his transactions for purposes of identifying unusual activity.*
>
> *(c) Numbered accounts shall not be used to hide a customer's identity from the compliance or supervisory authorities.*
>
> *(d) A banking corporation which takes special measures to ensure internal secrecy in regard to customers' accounts shall ensure that the accounts of these customers are examined and monitored at least as thoroughly as accounts of customers regarding whom no such special measures are taken, and shall ensure that the officer responsible and the internal auditors shall have direct access to the information in these accounts.*"

349. The existing requirements in Directive 411 with respect to numbered accounts are sufficient and effectively implemented. However Directive 411 is "other enforceable means" and criterion 5.1 should be dealt with in law or regulation.

Other Financial Institutions

350. Customer identification requirements are governed by the PMLL and the seven Orders which *inter alia* require that financial institutions shall not open an account or enter into a contract without fulfilling the identification obligations.

351. In terms of the identification, this means that financial institutions cannot keep anonymous accounts or other types of accounts where the owner or the beneficial owner is not identified and known. As with banking corporations, although there is no explicit prohibition of anonymous accounts or accounts in fictitious names in the Orders, this seems to be the logical consequence of the identification obligations.

352. Pursuant to Section 2 of the Insurance Order and Section 2 of the Provident Funds Order, an insurance company and a company managing a provident fund are not entitled to enter into an insurance contract, to open a provident fund account or to conclude a transaction therein, without their having recorded and verified the identifying particulars of all recipients of the service in the account or policy, including: name, Id Number, date of birth or incorporation and address. The obligation comprises every type of service recipient: account/ policy holder,

insured, beneficiary entitled to receive the savings moneys during the insured's lifetime, regular attorney and random attorney, whether they be individuals or whether they be corporations.

353. The identification obligations at the time of deposit apply only to accounts and policies in which the annual deposit amounts in one of the years in which the policy/ the account were in effect are in excess of NIS 20,000 (~4,600$).

354. In any instance of withdrawal, including in case of the demise of the insured, a record must be made of the identifying particulars of the withdrawing beneficiary, and if the amounts of savings in the account or the policy are greater than NIS 200,000 then the identifying particulars too must be verified. In case of the withdrawal of moneys by a corporation, a record must be made of the identifying particulars of the controlling shareholders, in accordance with an affidavit under the hand of the signing officers.

Customer due diligence

When CDD is required

355. Criterion 5.2 of the Methodology has an asterisk too. It requires all financial institutions to undertake CDD:

a) When establishing a business relationship

356. Section 2 (a) of the Bank Order determines that a banking corporation shall not open an account without recording the following identification particulars in respect of each of the account holders and authorised signatories, and in respect of anyone applying to open an account if not one of the above, and authenticating them as set forth in section 3 of the same Order: (1) name; (2) identification number; (3) for and individual – date of birth, and sec; for a corporation – date of incorporation; (4) address.

357. The other specific Orders have similar sections that determine that a 'portfolio manager shall not enter into a contract.. ', 'a stock exchange member shall not open an account..', 'an insurer shall not enter into a life insurance contract and shall not perform any transaction under a life insurance..', 'a money changer shall not change currency for a sum equivalent to NIS 50,000 or more..', 'a fund shall not open an account or perform any transaction in an account..', 'the postal bank shall not open an account'…', …without making a record of the identifying particulars and without authenticating those.

358. 'Establishing a business relationship' could include more than the above-mentioned specified activities for the different financial institutions[9].

359. Thus the different Orders have to be amended every time there is a need to bring other financial activities under the scope of the CDD measures because the choice is made to specify the financial activities in the Orders instead of using a broader concept as 'establishing a business relationship'.

360. Returning to banking corporations, the opening of an account by banking corporations is not the only banking service that can be performed. Under Israeli law the broader concept of 'establishing a business relationship' is mostly covered by the sections that deal with

[9] Regarding a portfolio Manager or a member of the stock exchange, establishing a business relationship can be done only by entering into a contract.

occasional transactions. Most of the other Orders have sections that to a certain extent are similar to the Banking Order.

361. Issuing of a credit or debit card was covered by Directive 411 since 2002. Only since 12 June 2007 it was covered in the Banking Order.

362. Furthermore investment-related insurance activities are still not covered in any form of regulation.

363. There is no regulation and supervision on lending activities of non-banking businesses (as long as they do not fall within the PMLL definition of MSB e.g. remit money, discount checks, or change currency). Certain limitations have been prescribed as to lending activities of the non-banking business in the Off Bank Loan Regularisation Law, 1993 (e.g. the maximum interest rate).

b) and c) When carrying out occasional transactions above the applicable designated threshold (US$ 15.000), including where the transaction is carried out in a single operation or in several operations that appear to be linked and occasional transfers that are wire transfers in the circumstances covered by the Interpretative Note to SR. VII.

364. In the Banking Order article 2 (f) determines that: A banking corporation shall not carry out a transaction which requires a report pursuant to the provisions of section 8 (Reporting by size of transaction) and which is not recorded in an account in which the party performing the transaction is recorded as an account holder or authorised signatory, without recording the identification particulars of the party performing the transaction. This includes party's name, identity number, date of birth and photograph.

365. Section 8 of the Banking Order obliges banking corporations to report as CTRs the following transactions to the competent authority:
    a. a deposit in an account or withdrawal of cash from it, whether in local or foreign currency, in an amount equivalent to at least NIS 50,000 (11,500$).;
    b. a cash transaction that is not performed in any customer account, including a deposit of cash for the purpose of transferring it abroad or withdrawal of cash received from abroad, other than through an account, whether in local or foreign currency, in an amount equivalent to at least NIS 50,000, and a deposit of cash or withdrawal of cash as above in an amount equivalent to at least NIS 5,000 (1,150$) performed vis-à-vis a financial institution in a country or territory specified in the Fourth Schedule (for example: Iran, Algeria, Afghanistan, the Palestine Authority, Libya, the United Arab Emirates, Malaysia, Morocco, Sudan, Somalia, Pakistan and Tunisia);
    c. the exchange of banknotes and coins, in cash, including conversion, whether in local or foreign currency, in an amount equivalent to at least NIS 50,000.
    d. the issue of a bank cheque, whether in local or foreign currency, in an amount equivalent to at least NIS 200,000 (~46,000$)., excluding a bank cheque in an amount up to NIS 1,000,000 (230,000$) issued against a housing loan;
    e. the purchase or sale of travellers' cheques or bill to bearer of a financial institution in an amount equivalent to at least NIS 50,000; if the financial institution is in a country or territory specified in the Fourth Schedule, the banking corporation shall report the said transaction if it is in an amount equivalent to at least NIS 5,000;
    f. the deposit of cheques drawn on a financial institution abroad and payment of cheques presented for payment by a financial institution abroad in an amount equivalent to at least NIS 1,000,000 (230,000$).; if the financial institution is in a country or territory specified in the Fourth Schedule, the banking corporation shall report the said transaction if it is in an amount equivalent to at least NIS 5,000;

g. the transfer from Israel to abroad or from abroad to Israel through an account in an amount equivalent to at least NIS 1,000,000; in the case of a transfer to or from a country or territory specified in the Fourth Schedule, or a transfer to or from a correspondent account of a financial institution in a country or territory specified in the Fourth Schedule, the banking corporation shall report the said transaction if it is an amount equivalent to at least NIS 5,000.

366. Moreover article 2 (g) determines that: A banking corporation shall not carry out a transaction which does not require a report by size of transaction and which is not recorded in an account in which the party performing the transaction is recorded as an account holder, authorised signatory or guarantor, without identifying the party performing the transaction and recording the name and the identity number in accordance with the identification certificate as provided above.

367. "Transaction" in article 2 (g) means a transaction in cash involving NIS 10,000 (~2,300$) or more, or another transaction involving NIS 50,000 (11,500$) or more.

368. Section 16 (b) of Directive 411 requires banking corporations to record the identity of the transactor in transactions involving sums below the threshold cited in Article 2 (g) of the order.

369. This means that for the establishment of ***business relations*** other than opening an account by banking corporations identification is necessary under Israeli law. However, 16 (b) is part of Directive 411 and therefore not law and regulation.

370. The Postal Bank Order has a section comparable to article 2 (f) in the Banking Order (but with three differences) that result in the following:
- Identification of transactions of payments of taxes below NIS 100.000 is not required. For transactions above the threshold identification and recording is required, verification is not.
- Identification of other transactions below NIS 50.000 is not required. Between NIS 50.000 and NIS 200.000 identification and recording is required. Above the threshold of NIS 200.000 identification, recording and verification is required.
- The thresholds in the related section that obliges the Postal Bank to report certain transactions are NIS 200.000 instead of NIS 50.000 for cash transactions compared to article 8 a) and b) of the Banking Order[10].

371. The Postal Bank Order has no section comparable to article 2 (g) in the Banking Order. This means that if no report is required, no CDD measures are taken by the Postal Bank[11]. In the case of an unusual activity report, the Postal Bank takes CDD measures regardless of the amount of the transaction.

372. The Portfolio Manager Order has no sections directly comparable with article 2 (f) and (g) in the Banking Order other than the provision that "a portfolio manager shall not enter into a contract.., without recording and authenticating the following identifying particulars…". However, a portfolio manager has a duty to perform the procedure of becoming acquainted with the customer under section 12 of the Regulation of the Occupation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 5755-1995 (hereafter — the Advice Law). This section imposes a duty on the portfolio manager to ascertain from the customer the purposes of the investment, his financial situation, including his securities and

[10] Except for the payments of taxes the thresholds are adapted to the level as mentioned in the Banking Order in the amendment to the Postal Bank Order of 27 December 2007.

[11] An article like 2 (g) is mentioned in the amendment to the Postal Bank Order.

financial assets, and all of the other circumstances that are relevant to the case, to the extent that the customer agrees to provide information on these subjects.

373. In a draft amendment to the Portfolio Managers Order, it is proposed to broaden the requirement of becoming acquainted with the customer in the Portfolio Managers Order (section 1A of the amended Portfolio Managers Order), and to add to it an obligation for the portfolio manager to ascertain the source of the money, the occupation of the customer, his public standing, etc.

374. The Stock Exchange Member Order has similar sections as article 2 (f) and (g) in the Banking Order. In the draft amendment to the Stock Exchange Members Order, it is proposed to extend in the Order the issue of becoming acquainted with the customer (section 1A of the amended Order), and to add to it, *inter alia*, an obligation for the stock exchange member to ascertain the source of the money, the occupation of the customer, his public standing, etc.

375. There are no specific provisions for occasional transactions in the Money Changers Order. MSB's do not keep accounts but provide currency services. These services include currency exchange, check cashing and money transfers. These are qualified as 'occasional' transactions and therefore a threshold of NIS 50.000 for identification is applicable. If the check is cashed into a counter check, the threshold is NIS 500.000. This threshold is in line with the methodology.

376. There are no specific provisions for occasional transactions in the Insurers and Insurance Agents Order. With respect to the general identification obligation one threshold exists. The identification obligations at the time of deposit apply only to policies in which the annual deposit amounts in one of the years in which the policy was affected are in excess of NIS 20.000. Those transactions seem not be occasional, and therefore a threshold is not in line with the methodology.

377. With regard to insurance activity, according to Tax Regulations, contributions to insurance contracts and to provident funds accounts which, accumulate to 20,000 NIS per year, have tax benefits. That is the reason for the threshold. However, it should be noted that an insurer shall not pay insurance benefits on any contract (including contracts where the annual premium is less than 20,000 NIS) without recording the identifying particulars of the beneficiary. In case the savings contributions exceed 200,000 NIS there are also authenticating requirements (also if the annual premium is less than 20,000 NIS).

378. The examiners are satisfied that all the applicable thresholds include single operations or several operations that appear to be linked. Activities that appear to have been performed in order to circumvent the reporting requirements are deemed to be unusual transactions and have to be reported.

379. Although CDD measures for occasional wire transfers are also caught under under 2 (f) and (g), the different Orders do not specify the lower limit of USD 1,000 except for the countries mentioned in the Fourth Schedule. However, section 16 (b) of Directive 411 requires identification and recording of transactions with third parties in sums below the threshold. Furthermore section 27 (a) of the same Directive requires banking corporations to obtain the particulars of any party that transfers funds, irrespective of the sum.

Conclusion

380. Taking CDD measures for *occasional transactions* above the threshold of NIS 10.000 for transactions in cash or another transactions involving NIS 50.000 is mandatory for banking corporations, stock exchange members and others. Directive 411 creates for banking corporations the obligation to identify also below the threshold. However, the combination of 2 (f) and (g) in the Banking Order and 16 (b) in the Directive creates a complicated legal structure.

381. For the Postal Bank there is – if no CTR report is required - no obligation to take CDD measures below the applicable thresholds, which vary from NIS 50.000 to NIS 1.000.000 depending on the types of transaction.

382. The activities of the Insurers and Insurance Agents, for which the thresholds of NIS 20.000 is applicable and seem not to be occasional. A threshold is therefore not in line with the Methodology. Currently there seems to be no identification obligation for Insurers and Insurance Agents in effect when opening an account.

383. There are no provisions for occasional transactions in the Provident Fund Order. Except for investment-related insurance activities and some lending activities all other financial activities seem to be covered by the provisions for recording identifying particulars.

384. Although CDD measures for occasional wire transfers are also caught under under 2 (f) and (g), the different Orders do not specify the lower limit of USD 1,000 except for the countries mentioned in the Fourth Schedule. However, section 16 (b) of Directive 411 requires identification and recording of transactions with third parties in sums below the threshold. Furthermore section 27 (a) of the same Directive requires banking corporations to obtain the particulars of any party that transfers funds, irrespective of the sum.

d) When there are suspicions of money laundering or financing of terrorism, regardless of any exemptions or thresholds that are referred to elsewhere under the FATF Recommendations.

385. The Banking Order and all the other Orders require that financial institutions shall report to the competent authority transactions by a service recipient that seem to the financial institution to be unusual in view of the information in the financial institution's possession. Furthermore, the Orders present, without prejudice to the generality of the above described requirement, a list of transactions that may be deemed unusual transactions. The Banking Order has the largest list of transactions that may be deemed unusual transactions. The Orders also state that reporting a transaction pursuant to section 8 (in the case of the Banking Order: reporting requirements by size of transaction) does not provide exemption from the obligation to report pursuant to this section. The requirements for the particulars in the report in the several Orders imply that identification and recording of the identifying particulars is an obligation..

386. Article 9 (c) of Directive 411 determines that a banking corporation which has cause to believe that an applicant has been refused banking services by another bank corporation for reasons related to the prohibition of money laundering or the financing of terror shall apply enhanced diligence procedures in opening an account for that customer. However, this article only refers to 'refused banking services by another bank' and not to actual money laundering and financing of terrorism suspicions not related to refused banking services.

387. Thus, the examiners consider that Section 9, 11 and the Second Schedule of the Banking Order together imply identification when there is a suspicion of money laundering and financing of terrorism, also when below the threshold. Similar provisions appear in all the

other Orders. Because the sections must be read together, it is recommended that this requirement is worded more specifically.

e) the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data

388. Article 9 of the Banking Order obliges banking corporations to report unusual transactions. In schedule 2 several transactions are described that are deemed to be unusual. One of those is declarations that appear to be incorrect. In addition section 15 of Directive 411 requires several controls and monitoring for high risk clients. The Israeli authorities made clear that clients whose verification of data is in doubt are considered high-risk clients.

389. The amended 411 Directive will refer to enhanced activity of customer due diligence: The banking corporation shall conduct enhanced due diligence. These checks may be made through additional information on the customer, use of independent sources of information, or public information, or commercial databases; all according to the level of exposure to risk. On the other hand, the banking corporation may take simple know-your-customer steps when the customer risk is low. As mentioned earlier the Directive 411 is other enforceable means.

390. It further determines that: A banking corporation shall regard activity that fits examples (called: "red flags") in the Appendix as an obligatory suspicion of irregular activity. In a situation where there is suspicion of irregular activity the banking corporation shall exercise enhanced due diligence in order to refute or strengthen the suspicion. In exercising its judgment, when diagnosing an activity as one that carries an obligation to report, the banking corporation shall take into account, *inter alia*, the nature and quantity of the red flags found. The 411 amendment includes this situation as a red flag of Activity in Money Laundering or Financing of Terror as follows:

- Inconsistent, partial, false, or suspicious information supplied by the customer.
- Customer who supplies information or suspicious documents that cannot be confirmed.
- Customer's evasion (or non-co-operation) in supplying information or documentation required to understand his business, his activities, the source of money or the personalities involved in his account (controlling owners, beneficiaries).
- Letters sent to the customer are returned and phone numbers supplied by the customer are disconnected.
- An address given is for a party unconnected to the account.
- The customer refuses to meet bank officials at the place where he conducts his business activities.
- Change of account owners.

391. The Postal Bank Order, the Stock Exchange Member Order, the Insurer and Insurance Agents Order, the Provident Fund Order and the Money Changer Orders have no requirements in this respect.

392. Section 13 of the Investment Advice Law imposes a duty to revise and document the identification particulars and details of the customer and his needs and instructions, at any time that the customer notifies him of any change in these. If the customer does not initiate a change on his own, the portfolio manager has a duty to initiate revisions once a year.

Required CDD measures

393. Criteria 5.3 and 5.4 (a) are both marked with an asterisk. Under 5.3 financial institutions are required to identify permanent or occasional customers (whether natural of legal persons or legal arrangements) and verify the customers' identity using reliable independent source documents, data or information. Criterion 5.4 (a) provides that financial institutions should be required to verify that any person purporting to act on behalf of the customer is so authorised and verify the identity of that person. Criterion 5.4 (b) requires to verify the legal status of the legal person or legal arrangement.

394. Section 2 of the Bank Order imposes a duty on the bank corporations to record the following identity particulars of the account holders and authorised signatories, and in respect of anyone applying to open an account if not one of the above:
a) name;
b) identification number;
c) for an individual –date of birth, and sex; for a corporation –date of incorporation
d) address.

395. Section 3 of the Order imposes a duty to authenticate the identity particulars of the service recipient in a banking activity as stated in by means of identity documents as set out in the section. The section specifically sets out the methods of identification for all types of customer:

• An individual who is an *Israeli resident* — the particulars should be recorded with an identity card or a certified copy of it and authenticated vis-à-vis the Population Register at the Ministry of the Interior.
• An individual who is a *foreign resident* — the particulars should be authenticated by means of a foreign passport or laissez-passer, or a certified copy of it and a comparison should be made with another document containing a photograph and identity number, or in the absence thereof — with a document containing a name or identity number as well as an address or date of birth.
• A corporation *registered in Israel* - the registration certificate or a certified copy of it; if one of the said particulars does not appear in the certificate, the recording of the particulars shall be affected in accordance with an attorney's certification. The bank is obliged to keep a certified copy of the corporation's registration certificate; certified copies of the corporation's foundation documents establishing the corporation; an attorney's certification of the corporation's existence, its name and identity number; alternatively, the banking corporation may authenticate the corporation's registration vis-à-vis the relevant registers; a certified copy of a resolution of the competent organ in the corporation to open an account, or an attorney's certificate that such a resolution was duly passed; a certified copy of a resolution of the competent organ in the corporation as to the authorised signatories in the account, or an attorney's certificate as to the authorised signatories in the account;
• A corporation that is *not registered in Israel* — the identification particulars should be authenticated by means of a certified copy of a document testifying to its registration, in so far as these particulars appear in the document; if one of the aforesaid particulars is missing from the document — by means of a confirmation by a lawyer; the banking corporations should obtain a document that testifies to the registration of the corporation and certified copies of the basic documents of the corporation; confirmation from a lawyer of the existence of the corporation, its name and identity number, or alternatively the banking corporations may authenticate the fact that the corporation is registered in the appropriate registers; a certified copy of a resolution of the competent organ of the corporation to open a managed bank account, or a confirmation from a lawyer that such a resolution was duly passed; a certified copy of a resolution of the competent organ of the corporation regarding the authorised signatories for the account, or a confirmation of a lawyer concerning the authorised signatories for the account; for

a corporation that was incorporated in a country that does not require registration for corporations of that type, the banking corporations should obtain a confirmation of a lawyer to the effect that the country where the corporation is incorporated does not require registration;
• A *public institution and a foreign statutory corporation* — authentication of the name should be done by means of a declaration of the customer, and for a statutory corporation by means of the legislation under which the corporation was established, or a confirmation from a lawyer concerning the existence of the legislation; the banking corporations should obtain a certified copy of a resolution of the competent organ of the corporation to open a managed account, or a confirmation from a lawyer that such a resolution was duly passed, and a certified copy of a resolution of the competent organ of the corporation regarding the authorised signatories for the account, or a confirmation of a lawyer concerning the authorised signatories for the account;
• A *recognised body* — authentication of the name and address should be done on the basis of the customer's declaration, after the banking corporations is satisfied, on the basis of a document, that the person who wishes to enter into an agreement with him is competent to act on behalf of the recognized body.

396. In the event that steps were taken to open the account abroad, the banking corporation may record the identification particulars according to the usual identification certificates in the banking system in the country in which the identification was made, provided that in the said country legislation exists which requires customer identification.

397. The Postal Bank Order, the Security Exchange Members Order, the Portfolio Members Order and the Money Changers Order have similar sections.

398. The Insurer and Insurance Agent Order and the Provident Fund Order also have similar sections, but contain a threshold for verification of NIS 20.000[12]. Both Orders also contain a threshold for identification of NIS 20,000.

399. In life insurance contracts and provident fund accounts in which the annual premiums in any given year exceed 20,000 NIS, identifying and verifying the service recipient's identity is required prior to executing the deposit. On the other hand, accounts and contracts in which the amount of deposits or premiums is lower then 20,000 NIS, the identification and verifications are required while the withdrawal of the money is taking place. In case the deposits/ premiums in each one of the years in which the account/ contract is valid is lower than 20,000 NIS and the accumulated amount of saving is lower than 200,000[13] then an identification is required, though verification is not required. (3(b)) In case the deposits/ premiums in each one of the years at which the account/ contract is valid is lower than 20,000 NIS and the accumulated amount of saving exceeds 200,000 then an identification and verification is required. According to the insurance order and the provident funds order an insurer and provident fund shall not pay insurance benefits / savings on any contract/account (including contracts where the annual premium is less than 20,000 NIS) without recording the identifying particulars of the beneficiary. In case the savings contributions exceed 200,000 NIS there are also authenticating requirements.

400. The Money Changers Order obliges the person conducting transactions above the designated threshold (NIS 50.000) to sign a declaration in which he states he is acting on his own behalf. If he declares he is acting on behalf of someone else, he is required to present a document, empowering him to act on behalf of that person (this could also be a company, partnership, or other form of legal arrangement). In this case, a copy of the incorporation documents or ID certificate is required.

[12] This threshold is changed in the Draft amendments to NIS 50,000 for insurers and insurance agents.

[13] The threshold is changed in the Draft amendments to NIS 50,000 for insurers and insurance agents.

Beneficial owner

401. Criterion 5.5 is marked with an asterisk and requires financial institutions to identify the beneficial owner and to take reasonable measures to verify the identity.

402. In article 7 (a) (1) (a) of the PMLL the 'beneficiary' is defined as "*a person for whom or for whose benefit the property is held or the property transaction is performed, or who is capable of directing a property transaction, all either directly or indirectly*". In the Banking Order there is an addition to this definition that if the beneficiary is a corporation, the corporation and the holders of the controlling interest in it shall be considered beneficiaries. Taken together the definition of beneficiary broadly coincides with the FATF definition of "beneficial owner".

403. Under section 4 of the Bank Order, banking corporations have the duty, before opening an account, to receive from the customer a declaration bearing an original signature stating whether he is acting for himself or on behalf of another. If the applicant declares that he is acting on behalf of another, the declaration shall include the name and identity number of the beneficiary of the account. Under section 2 of the Order, banking corporations should record the name and identity number of the beneficiary of the account in accordance with his declaration.

404. Verification of those identifying particulars is not an obligation under the Banking Order, although the addition of an original signature on the declaration can be seen as a first level or measure of verification. This requirement was only recently introduced and came into effect from 12th of June 2007 for banking corporations.

405. Section 3(b) of the Supervisor's circular dated 30 August 2004 states that "…although the banking corporation need not check whether the declaration is correct, (but) it is not absolved from checking whether the declaration seems to be reasonable".

406. The Israeli authorities referred the evaluators to a relevant decision of the Sanctions Committee for banking corporations. In this case it was noted: "declarations were received by a banking corporation that there is no holder of a controlling interest, although it could be seen that there was. This was despite what was written in Circular N° 2138-06 of 30 August 2004 and in the Banking Supervision inspection report that warned about this". The Committee decided to impose a fine of NIS 350.000 (not only for this infringement).

407. This Circular which was issued by the supervisor, is sanctionable (as the example shows), but was not authorised by a legislative body. This Circular can therefore be qualified only as 'other enforceable means'.

408. With respect to bearer shares, the weaknesses in the verification measures of beneficial ownership are exacerbated by the weaknesses described under Recommendation 33 and are thus noted here.

409. In conclusion, this means that although verification of beneficial owners or holders of controlling interests is not an obligation in 'law or regulation', there may be some level of effective implementation in practice by the banking corporations of the verification obligation. Nevertheless the evaluators were concerned that the separate concepts of identification and verification in higher risk situations are not completely understood and fully reflected in practice.

410. The Postal Bank Order, the Security Exchange Order and the Portfolio Managers Order contain similar provisions that oblige the financial institutions to obtain a declaration –

currently not required to bear an original signature[14] – stating whether the customer is acting for himself or on behalf of another. If the applicant declares that he is acting on behalf of another, the declaration shall include the name and identity number of the beneficiary of the account. The financial institutions should record the name and identity number of the beneficiary of the account in accordance with his declaration. Verification is not required.

411. The Insurer and Insurance Order and the Provident Fund Order have a general threshold for identification and verification of NIS 20.000, and this also applies for beneficiaries. The threshold is not in line with the Methodology.

412. According to the Insurance Order, an insurer shall not pay insurance benefits to a beneficiary that is a corporation without recording the particulars of the controlling persons, by demanding the declaration of the authorised signatories on the identifying particulars - 2(f).

413. Pursuant to Section 2(G) of the Insurance Companies Order and Section 2(F) of the provident funds Order, payment of the benefits to the beneficiary is prohibited, also in life insurance policies (not enumerated above), unless identifying particulars of the withdrawing beneficiary have been recorded; and if the amount of the savings is in excess of NIS 200,000 it is also obligatory to authenticate the identifying particulars of the withdrawing beneficiary.

414. According to the Provident Funds Order a fund shall not perform any transaction in an account after the death of the member under an instruction given by a beneficiary who is a corporation, without recording the particulars of controlling shareholders, by demanding the declaration of the authorised signatories or the identifying particulars.

415. The Money Changers Order also obliges a declaration of the applicant of the service. In the case of a transaction which is carried out by person other than the beneficial owner, MSBs are required to keep records of the empowering document, such as a power of attorney. They should also keep records of the controlling shareholders' identification details where a company is involved.

Controlling shareholders

416. In the case of a corporation, there is also an obligation to record: (a) the names of the *controlling shareholders* and their identity numbers; (b) if the banking corporation does not possess such an identity number, after having taken reasonable measures to obtain one, it may instead record the date of incorporation (c) the country of citizenship. Banking corporations are not obliged to verify those identity particulars.

417. The Postal Bank Order, the Security Exchange Members Order, the Portfolio Managers Order and the Money Changers Order have similar sections with regard to controlling shareholders.

418. Insurers and the Provident Funds have to record the identifying particulars of the controlling shareholders in case of the withdrawal of moneys by a corporation. Those identifying particulars should be in accordance with a declaration of the signing officers of the corporation.

419. The definition of "control" is derived from the Securities Law: "The ability to direct the activity of a corporation, excluding an ability deriving merely from holding an office of director or another office in the corporation, and a person shall be presumed to control a corporation if he holds half or more of a certain type of means of control of the corporation".

420. The definition of 'means of control' in a corporation is any one of the following:

[14] This is going to be amended in the various draft Orders.

(1) The right to vote at a general meeting of a company or a corresponding body of another corporation.
(2) The right to appoint directors of the corporation or its general manager.

421. With regard to the verification of controlling shareholders the previously mentioned Circular of 30 August 2004 is in effect.

Purpose and nature

422. Criterion 5.6 requires financial institutions to obtain information on the purpose and intended nature of the business relationship.

423. Section 4 of the 411 Directive requires the board of directors of banking corporations to set a policy with regard to 'Know-your-customer'. In formulating the policy, factors such as the customer's background, his links to Israel and the location of the branch of the banking corporation, his public status, accounts related to his account, the extent of his business activities and the source of his wealth and/or income, etc. shall be taken into consideration. Together with obligations in section 13 (retention of documents related to type of customer and expected extent of activity in the account) and section 14 (ongoing monitoring of consistency of activity with expectations and the customer's profile) these requirements ensure that purpose and nature is assessed in practice.

424. In the 411 amendment the Israeli authorities intend to add to those details obligations to record the purpose of opening the account and the extent and type of the client's expected account activities.

425. The Postal Bank Order also requires a KYC policy, but without the specific details, as required in the methodology.

426. The Portfolio Managers Order requires that a portfolio manager should carry out a procedure of becoming acquainted with the customer under section 12 of the Investment Advice Law, which provides that a portfolio manager has a duty to ascertain from the customer the purpose of his investment goals, his financial status, including his securities and financial assets, and all of the other circumstances that are relevant to the case, to the extent that the customer agrees to provide information on these subjects.

427. In an amendment to the Orders, it is proposed to provide in section 1A of the Orders a *duty* to ascertain particulars, *inter alia*, also with regard to the customer's business.

428. The Insurer and Insurance Agents Order, the Provident Fund Order and the Money Changers Order do not contain specific requirements in this respect.

Ongoing Due Diligence

429. Criterion 5.7 (ongoing due diligence) is marked with an asterisk.

430. Article 14 of the 411 Directive refers to ongoing monitoring. Article 14 (a) provides that a banking corporation shall monitor activity in a customer's account to assess whether it is consistent with its expectations. Article 14 (b) provides that a banking corporation shall operate a computerised system to detect unusual activities in all its customers' accounts. This can be done by setting limits for certain categories of accounts. The banking corporation shall examine thoroughly whether there is an economic or commercial reason for complex transactions or transactions constructed in an unusual manner. Unusual activities may include transactions that appear to lack economic or business sense**,** or that involve large sums of

money, particularly large cash deposits not consistent with the expected activity in the account.

431. Article 15 prescribes that a banking corporation shall include in its procedures rules for defining high risk customer accounts graded by four types of factors into at least two levels.

432. The ongoing due diligence seems to be at an acceptable level, but will be improved in the 411 amendment that *inter alia* gives more attention to risk profiles:

433. *As part of the Know-your-customer (KYC) policy and risk management.* The board of directors of a banking corporation shall set a policy with reference to this: The manner and frequency that the banking corporation will conduct control operations over its customers' activities, according to the customer's risk level, in order to ensure that the transactions carried out in the accounts are consistent with the information on the customer held by the banking corporation.

434. *As part of Supervision and Control of Customer Activity and Reporting of Irregular Activity and On-going monitoring of activity***.** Detection may be conducted by defining warnings in the system that are triggered by activities that deviate from the customer's usual profile (a profile that comprises the customer's financial behaviour, information available to the bank and its expectations of the customer's activity), or by habits of activity that arouse suspicion of money laundering or financing of terror, or by comparing the customer's activity with that of activities in accounts of other customers from the same sector. Monitoring may be conducted in real time, at the time of the actual transaction, or soon after the activity, by periodic cheques on all the activities conducted in the account. A banking corporation grades the warnings of unusual activities at least according to the three risk categories (low, medium, high).

435. The Postal Bank Order and the other Orders do not have specific sections in this respect. Those Orders impose duties on the financial institutions to report to the competent authorities any unusual transactions.

436. The Israeli authorities take the view that this reporting obligation implies that the activities of the customers should be monitored in order to see whether there are activities that are uncharacteristic of his usual manner of conducting himself.

437. The evaluators take the view that this reporting obligation does not give clear guidance as to what such a monitoring process exactly means in practice and how often the on-going due diligence process should take place. In addition, as concluded before Directive 411 is other enforcable means.

438. The different Orders are in the process of being amended and will include an obligation for monitoring.

439. Criterion 5.7 furthermore requires that information is kept up-to-date, based on reviews particularly of higher risk customers.

440. Article 13 (a) of Directive 411 requires banking corporations to establish procedures for the retention of information essential for authenticating customers' identity and their type of business, relating to the source of the information, the period for which it should be retained, the type of customer (individual, company, etc.), and the expected extent of activity in the account. The information shall be retained in a manner which will make it readily available and enable efficient retrieval.

441. Furthermore, Article 13 (b) requires that a banking corporation shall undertake reviews to ascertain the existence of adequate and updated information and that the reviews shall take place at times and on occasions determined by the banking corporation in its procedures, such as when a significant transaction is about to take place, or when the requirements relating to customer documentation change, or when the way the account is managed alters significantly. Under Article 13 (b) (3) if a banking corporation discovers that certain significant information about a customer is lacking, it shall take steps to ensure that it obtains the missing information as soon as possible (Article 13 (b) (3).

442. For Portfolio Managers section 13(d) of the Advice Law imposes a duty to revise the identification particulars and details of the customer and his needs and instructions, at any time that the customer notifies him of any change in these. If the customer does not initiate a change on his own, the portfolio manager has a duty to initiate revisions once a year.

443. The other Orders do not have sections in this respect.

Risk

444. Criterion 5.8 requires financial institutions to perform enhanced due diligence for higher risk customers.

445. As noted, Article 15 (a) of the 411 Directive requires banking corporations to include in their procedures rules for defining high risk customer accounts with regard to the prohibition on money laundering and the financing of terror. To do so the banking corporation shall grade the following factors into at least two levels:
(1) The type of business (e.g. a cash-intensive business);
(2) The location of the customer's activity (e.g. a high-risk country, lack of links to Israel;
(3) The types of services required by the customer (e.g. electronic transfers of large sums);
(4) The type of customer (e.g. a prominent public figure, an entity with a complex ownership structure).

446. Furthermore, Article 15 (b) requires banking corporations to operate appropriate intensified systems for monitoring these customer's accounts and shall follow up on high-risk accounts by setting key indicators for such accounts, taking note of the background of the customer, the country of origin of the funds, and the type of transactions involved. Article 15 (c) of the 411 Directive requires a banking corporation to operate an adequate information system to provide officers responsible with timely information needed to analyze and effectively monitor high-risk customer accounts. Such reports shall include unusual transactions performed via the customer's account, information on the relationship between the banking corporation and that customer over time, and also information on missing account-opening documentation. Significant transactions which customers categorised as high risk wish to perform shall require the approval of a senior manager (Article 15 (d)).

447. Specific high-risk categories included in the Directive 411 are: private banking, numbered accounts, shares in bearer form and third-party accounts. For example, with respect to third-party accounts banking corporations are required to take steps to understand the relationships between the parties related to accounts managed by a trustee (e.g., a legal guardian, liquidator, executor, receiver, attorney, or accountant). In the case of a trust which is not established by law, the banking corporation shall record the identification particulars of the trust's founders.

448. The draft 411 amendment explicitly contains the following principles :

a. Relating to Know-your-customer (KYC) policy and risk management a bank should set a 'know-your-customer' policy in the framework of its risk management system and internal control with reference to the definitions of types of customer likely to represent high, medium and low risks.

b. Enhanced due diligence for higher risk customer: The banking corporation shall conduct enhanced due diligence. These cheques may be made through additional information on the customer, use of independent sources of information, or public information, or commercial databases; all according to the level of exposure to risk.

c. Financial activities vis-à-vis Banks Operating in High-Risk Countries – see recommendation 7 beneath.

449. The other Orders contain no reference to types of customers with different risks, but this issue is addressed in the amendments to the Orders.

450. Criterion 5.9 gives countries the opportunity to apply simplified or reduced CDD measures for identifying the customer and the beneficial owner when there is lower risk or publicly available information or adequate cheques and controls elsewhere in the national system. One of the examples that is given in the methodology is the following: Beneficial owners of pooled accounts held by DNFPB provided that they are subject to requirements to combat money laundering and terrorist financing consistent with the FATF Recommendations and are subject to effective systems for monitoring and ensuring compliance with those requirements..

451. Section 5 of the Banking Order 5761-2001 determines events with partial exemption from registering a beneficiary. One of those exemptions is an account which an attorney, a rabbinical pleader, or an accountant wishes to open for his clients, provided that the balance in the account at the end of every business day shall not exceed NIS 300,000 (~69,000$), and no transaction in the account shall exceed NIS 100,000 (~23,000$). The opening of such an account is conditional on a declaration bearing an original signature of the applicant who wishes to open an account that this is his only account of this type.

452. The bank official checks the declarations and also checks whether the amounts exceed the relevant thresholds.

453. Although perhaps the risk is minimised because of the thresholds, this exemption raises concerns, particularly as more than one of these accounts may be held with a number of currently unregulated professionals. Specifically this last element prevents the evaluators' acceptance of this exemption.

454. The other Orders currently do not contain such an exemption, but the draft amendments to those Orders contain similar sections.

455. According to section 3(7) of the Banking Order, if steps are taken to open an account for foreign entities abroad, the banking corporation may record the identification particulars according to the usual identification certificates in the banking system in the country in which the identification was made, provided that in the said country legislation exists which requires customer identification. The Bank of Israel explained to the evaluation team that this section should be interpreted in the way that banking corporations always have to follow the highest applicable standard, except when this is practically impossible: for example, when proof of identification is available in the foreign country but foreign laws prohibit that this information is transferred to Israel.

456. The Insurer and Insurance Agents Order, the Provident Fund Order and the Postal Bank Order contain similar sections.

457. Sections 9(b) and (c) of Directive 411 specify that the banking corporation shall take all reasonable steps to determine the true identity of the account holder, other beneficial owners, and proxies, and shall apply enhanced due diligence if it has cause to believe the customer has been refused banking services by another banking corporation for reasons related to the prohibition on money laundering and the financing of terrorism. Furthermore the banking corporations must check the reasonability of any declaration it has received in accordance with the Banking Order. If the banking corporation considers that the declaration is false, it must submit a report to the competent authority.

458. In the near future banking corporations will be permitted to determine the extent of the CDD measures on a risk sensitive basis. The draft amendment to the 411 Directive includes the requirement to exercise enhanced customer due diligence for high-risk customers, while on the other hand it will require simple customer due diligence for low-risk customers. The draft will require banks to determine characteristics of customers and transactions that constitute increased risk from the aspect of prohibition on money laundering and terrorist financing.

Timing of verification

459. All banking corporations are required to perform identification and authentication of particulars and to obtain a declaration regarding beneficiaries before opening an account.

460. Pursuant to Section 3 of the Insurer and Insurance Agents Order and the Provident Funds Orders, the recording and verification of identifying particulars shall take place prior to date of conclusion of a transaction or within 30 days of the making of the contract or the opening of the account, but in any event, prior to the withdrawal of moneys from the account or from the policy.

461. The other Orders all oblige the financial institutions to fulfil the identification and verification procedures before entering into a business relationship.

Failure to satisfactorily complete CDD

462. Criterion 5.15 requires that where the financial institution is unable to comply with 5.3 to 5.5 it should not be permitted to open the account, commence business relations or perform the transaction. Furthermore financial institutions should consider making a suspicious transaction report. Section 9(b)(3) of Directive 411 prohibits banking corporations from opening an account for a client who acts on another's behalf and refuses to furnish his/her identification particulars.

463. Section 24 of Directive 411 states with respect to non-co-operation by a customer: *a refusal by a customer to provide details required to enable compliance with the Order, this regulation or the procedures deriving from it, and reasonable grounds for assuming that a transaction is connected with money laundering or the financing of terror, shall be considered reasonable cause for refusal to open and/or manage an account according to the Banking Law*. The Bank of Israel explained that not providing the required details is considered as a reasonable ground for assuming that a transaction is connected with money laundering or the financing of terror. This section is also applicable to existing customers.

464. The draft amendment to 411 will also require a report on a customer's failure to provide particulars. Also the other amendments to the Orders contain sections that require a report in these situations.

Existing customers

465. According to section 17 of the Banking Order, the banking corporation shall not carry out any transaction in accounts that were opened prior to the commencement of the Order, unless the provisions of identification and verification have been fulfilled, except for the withdrawal of the existing balance and closure of the account, and repayment of debts. In an account of a resident and a company registered in Israel, examining the identification particulars vis-à-vis the appropriate registers shall be deemed verification pursuant to section 3 of the Banking Order. Banks were obliged to carry out these obligations by 17 August 2003.

466. The other Orders also contain sections that oblige financial institutions to identify and verify old customers within 12 or 18 months after commencement of those Orders.

467. Section 17 is also applicable to previously opened numbered accounts.

Effectiveness

468. The extent to which the existing regulations are effectively implemented in the various sectors differ. The current information with respect to the guidance by the different supervisors (Recommendation 25), the number of UARs and CTRs reported to IMPA in relation to the number of financial institutions as described above, the number of investigations commenced or concluded and the sanctions applied so far seem to show less effective implementation of the standards by the Postal Bank, Insurance sector, Provident Funds and Money Service Businesses.

European Union Directives

Article 7

469. According to Article 7 of the Second European Union AML Directive, member States shall ensure that financial institutions refrain from carrying out transactions which they know or suspect to be related to money laundering until they have apprised the competent authorities. In addition, these authorities may, under conditions determined by their national legislation, give instructions not to execute the operation which has been brought to their attention by an obliged person who has reason to suspect that such operation could be related to money laundering. The evaluators could not find any provision in Israeli law, or in the Orders and Directives which required financial institutions to refrain from carrying out transactions which they know or suspect to be related to money laundering until they have apprised the competent authorities. Similarly the different provisions do not give the competent authorities the power to stop the execution of a transaction.

Article 3(8)

470. According to Article 3, para. 8, of the European Union Directive, institutions and persons subject to this Directive shall carry out identification of customers, even where the amount of the transaction is lower than the threshold laid down, wherever there is a suspicion of money laundering. The examiners consider that Section 9, 11 and the Second Schedule of the Banking Order imply identification where there is a suspicion of money laundering/financing of terrorism below the threshold. Similar provisions appear in all the other Orders.

Recommendation 6

471. As noted earlier, Section 21 (a) of the Directive 411 obliges banking corporations to check whether the customer is a politically exposed person, though in limited terms. Firstly, there is a definition of a politically exposed person. The term "public figure" is used in the text of the Directive. Public figures in this context are non-residents who hold important public positions abroad. While spouses and companies under their control are covered, family members generally and close associates are not. The obligation to check whether a person is a public figure applies only to account opening. Criterion 6.1 is wider and requires there to be in place appropriate risk management systems to determine whether a customer is a PEP irrespective of the type of business relationship to be established.

472. In practice, the evaluators were advised that most banking corporations use computerised systems to check on an ongoing basis whether their customers fit into this category.

473. The Orders relating to securities contain no reference to PEPs. The Capital Market, Insurance and Savings Division at the Ministry of Finance were preparing a draft circular, which would be enforceable, containing provisions in relation to PEPs. There were similarly no instructions relevant to PEPs for the Postal Bank.

474. The requirement for senior management approval for establishing a business relationship with a PEP is covered so far as banking corporations are concerned to an equally limited extent in Section 21 of Directive 411, though is confined only to account opening, and not for establishing business relations generally. There is no provision in Directive 411 covering the obtaining of senior management approval for continuing a relationship with a customer who is subsequently found to be or becomes a PEP. There are no other relevant Orders or provisions on this point for other parts of the financial sector.

475. Under Section 21 (b) of Directive 411 banking corporations are required to clarify the source of monies that will be deposited in accounts before an account of a public figure is opened, but no similar provisions applied at the time of the on-site visit for other parts of the financial sector.

476. The requirement to conduct enhanced on-going monitoring on PEPs is partially covered by Section 21 (d) and Section 15 of Directive 411, whereby a public figure will be defined as a high risk customer which requires enhanced monitoring. No similar provisions applied in other parts of the financial sector concerning this aspect of recommendation 6.

477. In practice, the evaluators found that, despite the shortcomings which need correcting in the Directive to place Israel in formal compliance with Recommendation 6, operationally there was generally satisfactory organisation within the banking corporations of Directive 411 on PEPs so far as it went at the time of the on-site visit.

Additional elements

478. There were plans to extend Directive 411 for banking corporations to PEPs who hold prominent public positions domestically.

479. Israel signed the United Nations Convention against Corruption on 29 November 2005 and is expected to complete the ratification process shortly.

Recommendation 7

480. Criteria 7.1 to 7.4 of the Methodology cover cross-border banking and other similar relationships (gather sufficient information about a respondent institution, assess the respondent institution's AML/CFT controls, obtain approval from senior management for new correspondent relationships, document the AML/CFT responsibilities of each institution).

481. Correspondent banking relationships are addressed under section 22 of Directive 411 (which, as noted above, is "other enforceable means"). It provides for examination and understanding of the nature of the respondent bank's business. As part of the said examination, the banking corporation shall obtain information regarding the respondent bank's main business activities, their location, its efforts to prevent money laundering and terrorist financing, the purpose for which the account was opened, the condition of banking regulation and supervision in the respondent's country with special reference to the fight against money laundering and the financing of terror. Accordingly criteria 7.1 and 7.2 are mostly covered. In the English translation, the exact wording of the Methodology does not seem to meet the Criterion which requires an explicit obligation for assessment of the respondent AML/CFT controls and for ascertaining that they are adequate and effective., The Israeli authorities advised nonetheless that the Hebrew text appears to cover the Methodology requirements.

482. The requirement for obtaining approval from senior management when opening a correspondent relationship, as required under criterion 7.3, is not provided for, though it was understood that it would be covered in the amended Directive 411.

483. Criteria 7.4 and 7.5 are not addressed by law, regulation or other enforceable means.

484. Criteria 7.1 to 7.5 potentially apply to financial institutions other than banks. The Methodology contains an example of similar relationships being established for securities transactions and fund transfers. Nevertheless they are not addressed by law, regulation or other enforceable means and there is no guidance on this issue as well. In Israel, the evaluators were advised that correspondent relationships are not relevant in the insurance industry and to portfolio managers. This Recommendation is potentially relevant to stock exchange members, though most of them will be covered as banking corporations. There are 9 stockbrokers with correspondent relations with their counterparts abroad. A proposed amendment was planned to cover these market participants.

485. Given the relative size and importance of the banking sector, and the limited relevance of this Recommendation to other parts of the financial sector, the evaluators consider that this Recommendation is largely applicable in practice only to the banking sector. They observed a broadly efficient implementation of the the major elements of this Recommendation.

Recommendation 8

486. Criteria 8.1 to 8.2.1 of the Methodology cover policies to prevent the misuse of technological developments in money laundering or financing of terrorism schemes and policies and procedures to address any specific risks associated with non-face to face customers, including effective CDD procedures to address the specific risks associated with such customers.

487. Under section 3a of the Directive 411 the board of directors of a banking corporation is required to set a policy with regard to the prohibition of money laundering and terrorist financing, which shall include "reference to the monitoring of the threats of money laundering and financing of terror that arise from modern technology (among others those that enable transactions to be performed without face-to face contact, such as internet and cellular

phones)". Banking corporations are therefore required to institute measures for the removal of these threats.

488. Furthermore, under section 6 (a) of Order 5761-2000 banking corporations are required to: identify the account holder and authorised signatory by means of an identification certificate pursuant to Section 3 by means of the face-to-face identification procedure stipulated in Section 6 before the first transaction by each of them in the account.

489. Banking corporations which receive instructions by post or by electronic means must conduct the normal CDD under the Banking Order.

490. It is worth noting that although banks currently provide services over the internet, they do not allow the opening of accounts over the internet. There are no internet banks in Israel.

491. Any mechanism which circumvents face to face contact between the institution and the client inevitably poses difficulties for customer identification. Caution has to be exercised when dealing with clients' applications to open an account, which are received through the mail. It has to be ensured that, as a minimum, the procedures mentioned under the Order 5761-2000 have been followed in all respects.

492. The evaluators were not presented with any guidelines on new technological developments from banks, although, as noted, CDD procedures for non-face to face customers are included in the Order.

493. There are no instructions on Recommendation 8 for the Postal Bank, though the Israeli authorities indicated that in general there are no transactions of this kind in the Postal Bank except for payments made by telephone on behalf of the government.

494. Criteria 8.1 to 8.2 are potentially applicable to financial institutions other than banks. Nevertheless they are not addressed by law, regulation or other enforceable means and there is no guidance on this issue. As with banking corporations, Portfolio Managers and Stock Exchange Members are also required to identify their customers face-to -face (section 6(a) of the Orders, though the Orders are not "other enforceable means").

3.2.2 Recommendations and comments

495. Directive 411 can be qualified as 'other enforceable means' since 26 December 2007 but not as 'law or regulation'. The Directive is sanctionable but not authorised by a legislative body. Criterion 5.1 of the methodology is marked with an asterisk. This means that it belongs to the basic obligations that should be set out in a law or regulation. The sections in Directive 411 in themselves are sufficient with respect to anonymous accounts. However the evaluators recommend that they be implemented in law as currently they are incorporated in other enforceable means.

496. Moreover, some other issues (described above) are only covered by Directive 411 where the Methodology specifically requires coverage by law or regulation. The evaluators recommend that the Israeli authorities take these requirements into account in the planned amendments to the Orders.

497. As a general comment, the different Orders have to be amended every time there is a need to bring other financial activities under the scope of CDD measures because the Israeli authorities have chosen to regulate financial activities in the Orders instead of providing overarching requirements in the law "such as CDD when establishing a business relationship". The examiners advise that this legislative approach to basic CDD requirements should be

revisited. Subject to this general comment, the examiners have beneath made recommendations as to how the relevant Orders should be amended to bring them into line with international standards.

498. The evaluators recommend to bring the applicable thresholds in the relevant Orders into compliance with the FATF standards or formulate them in a more coherent manner.

499. The evaluators recommend that investment-related insurance activities and unsupervised lending in the relevant Order be covered.

500. Currently, there is no law or regulation in place that requires financial institutions to pursue enhanced due diligence if it has doubts about the veracity or adequacy of previously obtained customer identification data, except for Banking corporations and Portfolio Managers. The evaluators recommend that this should be covered by amendments to the relevant Orders.

501. Financial Institutions currently are not required by law or regulation to take reasonable measures to verify the identity of the beneficial owner. They should be so required and the examiners recommend that this is provided for as a matter of urgency in the amendments of the relevant Orders.

502. Financial institutions should be required to obtain information on the purpose and intended nature of the business relationship in a more explicit way. The evaluators recommend the Israeli authorities take this into consideration in the amendments of the relevant Orders.

503. There are requirements in place for banking corporations for ongoing due diligence in other enforcable means, but not for the other financial institutions. The evaluators also recommend that the Israeli authorities take this into consideration in the amendments of the relevant Orders.

504. There are requirements in place for banking corporations for enhanced due diligence, but not for the other financial institutions. We recommend to take this into consideration for the amendments of the relevant Orders.

505. Currently the Banking Order has an exemption from registering a beneficiary if an account which an attorney, a rabbinical pleader, or an accountant wishes to open for his clients, where the balance in the account at the end of every business day does not exceed NIS 300,000 (~69,000$), and no transaction exceeds NIS 100,000 (~23,000$). This exemption raises concerns, particularly as more than one such account may be held with a number of currently unregulated professionals. Therefore the evaluators recommend the Israeli authorities remove this exemption at least until there is an effective framework for DNFPB.

506. The extent to which the existing regulations are effectively implemented in the various sectors differ. The current information with respect to the guidance given by the different supervisors, the number of STRs reported to IMPA, the number of investigations done and the applied sanctions so far seem to show less effective implementation of the standards by the Postal Bank, Insurance sector, Provident Funds and Money Service Businesses. The evaluators recommend that the amendments of the Orders for the different sectors should be coordinated at a senior level to ensure the same standard of regulation across the whole financial sector. Effective implementation of the standards generally could also be improved by a greater degree of coordination between the different supervisors and particularly between the Bank of Israel and the Ministry of Communication.

507. The Israeli authorities should review current provisions regulating PEPs issues in the banking sector in order to put those provisions in full compliance with the respective FATF

recommendation. They should also implement adequate measures concerning PEPs in the non-banking sector.

508. As far as cross-border correspondent relationships are concerned, revision of the banking legislation is needed, particularly in respect of meeting the requirements of the essential criteria in 7.4 and 7.5 which are not covered. Where applicable, the Israeli authorities should also implement adequate measures concerning the correspondent banking relationships for the non-banking sector.

509. In respect of Recommendation 8, it was not clear that the established procedures in accordance with Section 3 (a) of the Directive 411 with regard to internal policies had yet been effectively implemented by all banking corporations, let alone other financial institutions. The Israeli authorities need also to implement adequate measures concerning the threats of money laundering and terrorist financing that arise from the use of modern technology for the non-banking sector.

3.2.3 Compliance with Recommendations 5 to 8

	Rating	Summary of factors underlying rating
R.5	**Partially compliant**	• Requirement in respect of numbered accounts are presently covered by Directive 411 but need to be in law or regulation. • The issuing of a credit or debit card has been covered by Directive 411 since 2002. Only since 12 June 2007 it was covered in the Banking Order (law and regulation issue). • Investment-related insurance activities so far have not been covered by any regulation. • The Postal Bank has –if no CTR report is required- no obligation to take CDD measures below the applicable thresholds that vary from NIS 50.000 to NIS 1.000.000 depending on the type of transaction. • As the activities of the Insurers and Insurance Agents (for which the threshold of NIS 20,000 is applicable) seems not to be occasional, the threshold is not in line with the Methodology. • Although CDD measures for occasional wire transfers are also caught under article 2 (f) and (g) of the several Orders, the Orders do not specify the lower limit of USD 1,000 except for some specified countries mentioned in the Order. For the banking sector it is also covered below the threshold. • Currently, there is no requirement in law or regulation in place that requires financial institutions to pursue due diligence if it has doubts about the veracity or adequacy of previously obtained customer identification data, except for portfolio managers. • The Insurer and Insurance Agent Order and the Provident Fund Order contain designated thresholds above the FATF limits for verification of NIS 20,000. • Verification of beneficial owners or holders of controlling interests is not an obligation in law or regulation. • The evaluators are concerned that the separate concepts of identification and verification in higher risk situations are not fully reflected in practice.

		• No sufficiently explicit obligation for financial institutions to obtain information on the purpose and intended nature of the business relationship. • Requirements for ongoing due diligence not in place for the financial institutions other than banking corporations, for which they are in other enforceable means, but not in law or regulation. • No requirements in place for enhanced due diligence other than banking corporations. • The Banking Order has an exemption regarding registering a beneficiary if an account which an attorney, a rabbinical pleader, or an accountant wishes to open for his clients. Although the risk is minimised by the existing thresholds, the exemption raises concerns, particularly as more than one such account may be held with a number of currently unregulated professionals. • Less effective implementation of R.5 by the Postal Bank, Insurance sector, Provident Funds and Money Service Businesses.
R.6	**Partially compliant**	• The limited Israeli definition of a PEP is applicable only to banking corporations. • Family members and close associates of PEPs are not covered. • Establishing business relationships with PEPs by banking corporations not fully covered (limited only to account opening). • Senior management approval for establishing business relationships with PEPs only partly covered in respect of banking corporations. • No provisions for banking corporations (or any other part of the financial sector) to seek senior management approval where a customer is subsequently found to be a PEP or becomes a PEP.
R.7	**Largely compliant**	• Although high risk situations are covered for other situations no requirement for obtaining approval from senior management for new correspondent relationships. • As far as banking corporations are concerned essential criteria 7.4 and 7.5 are not covered.
R.8	**Largely compliant**	Israel has not implemented adequate measures for the non-banking sector.

3.3 Third Parties and introduced business (Recommendation 9)

3.3.1 Description and analysis

510. Recommendation 9 permits financial institutions in jurisdictions to rely on intermediaries or other third parties to perform elements of the CDD process or to introduce business provided certain criteria are met. In Israel there is no legislation that authorises such activity. In practice also this situation does not occur.

511. So far as the banks are concerned, Section 3 of the Banks Order requires the banking corporations to obtain original identification documentation. Face-to-face identification shall be carried out by the banking corporation or the people / entities specified in Section 6a of the Order. For these purposes, face-to-face identification also includes the following cases:

1. Identification by a representative or agent of the banking corporation;
2. Identification by an attorney licensed to practice law in Israel;
3. Identification by an Israeli diplomatic or consular Representative abroad;
4. Identification by an authority as per Section 6 of the Convention to Abolish the Legalisation requirement[15];
5. Any other method of identification approved by the Supervisor of Banks.

512. The findings of the evaluators were that the above mentioned provisions (which deal solely with the identification part of the CCD process), taken collectively, all relate to the issue of certification of identification (in the same way that notaries perform their notarial functions). All notaries in Israel are lawyers. Apart from MSBs, for which there is no face-to-face identification, all the other Orders have similar sections as described. Moreover, there is no practice of introducing business. Therefore the examiners have concluded that Recommendation 9 is not relevant in the context of Israel.

3.3.2 Recommendations and comments

513. The Recommendation is not applicable.

3.3.3 Compliance with Recommendation 9

	Rating	Summary of factors underlying rating
R.9	**Not applicable**	

[15] According to the Annex to the Convention, the designated competent authorities are: the Ministry of Foreign Affairs of the State of Israel, and Registrars of the Magistrates' Courts and civil servants appointed by the Ministry of Justice under the Notaries Law 1976.

3.4 Financial institution secrecy or confidentiality (R.4)

3.4.1 Description and analysis

514. The bank-client relationship is of a contractual nature and is covered by a civil obligation of confidentiality. Concepts of financial secrecy or confidentiality do not inhibit the ability of the competent authorities in Israel from gaining access to the information they require to properly perform their AML/CFT functions:

- The collection of evidence by the police within financial institutions is governed by the general rules of the Criminal Law Procedure Ordinance 5729-1969, Chapter 3 and 4.

- Subject to the concerns raised about the width of Sect. 31(c)PMLL (see 2.5 above), IMPA authority to request information from the reporting entities, including banking institutions, that it requires for its analysis of UARs. Sect. 30 (f) PMLL allows IMPA to use this power in the international cooperation context (see sect. 6.5.1)

515. Of particular importance in this context is Chapter Four (2) of the PMLL entitled "Inspectors and their powers. Under this Chapter the relevant supervisory authorities are required to appoint inspectors. An inspector may, in turn, a) require any person to hand over information and documents (including computer material and print outs) which relate to the compliance of the entity with its obligations under the PMLL; b) enter any place where the inspected entity is operating, require the presentation of documents and conduct an examination on the spot; and, c) seize documents if necessary to prevent a breach of certain provisions of the law (section 11N(b)).

516. It is of importance to note that by virtue of section 11N(d) PMLL where a Supervisor has powers of inspection over an entity by virtue of any other law these may be used in respect of an AML/CFT inspection.

517. Once the supervisory authority is in possession of relevant information it may utilise the sectoral gateway provisions to which it is subject for the purposes of domestic and international information sharing. By way of illustration section 15 (a) 1 of the Banking Ordinance empowers the Supervisor of Banks to forward information to a supervisory authority in another country Section 15(a)2 empowers the same supervisory authority to forward information to its Israeli counterparts. Section 31 (c) PMLL grants IMPA the authority to demand any information from the reporting entities, including banking institutions, that it requires for its analysis of UARs. Sect. 30 (f) PMLL allows IMPA to use this power in the international cooperation context (see sect. 6.5.)

518. There is no banking secrecy law in Israel which inhibits the sharing of information between financial institutions where this is required by Recommendation 7, Recommendation 9 and SR.VII.

3.4.2 Recommendations and comments

519. The evaluators consider that this Recommendation is fully met, though reference is made here to the hesitations expressed in 2.5 about the FIU's ability to obtain additional information.

3.4.3 Compliance with Recommendation 4

	Rating	Summary of factors underlying rating
R.4	**Compliant**	

3.5 Record keeping and wire transfer rules (R.10 and SR. VII)

3.5.1 Description and analysis

Recommendation 10

520. According to the Methodology, Recommendation 10 has numerous asterisked criteria. They need to be covered by a law or regulation. Financial institutions should be required by law or regulation to:

- maintain all necessary records on transactions, both domestic and international, for at least five years following the completion of the transaction (or longer if properly required to do so) regardless of whether the business relationship is ongoing or has been terminated;
- maintain all records of the identification data, account files and business correspondence for at least five years following the termination of the account or business relationship (or longer if necessary) and the customer and transaction records and information;
- ensure that all customer and transaction records and information are available on a timely basis to domestic competent authorities upon appropriate authority.

521. Transaction records are also required under Criteria 10.1.1 (which is not asterisked) to be sufficient to permit reconstruction of individual transactions so as to provide, if necessary, evidence for the Prosecution. This needs to be required by other enforceable means (and be sanctionable).

522. Identification data and transaction records are covered in Order 5761-2000 (which as noted earlier, constitutes a Regulation within the meaning of the Methodology).

523. Section 7 of the Order requires banking corporations to retain the identification certificates (i.e. identification data) or photocopies thereof for at least seven years after the account is closed or a transaction has been carried out. Section 14 (b) of the Order requires banking corporations to retain the documents attesting to the instruction to the banking corporation to carry out a transaction for the same period in two cases: (a) when the transaction was reported to the competent authority and (b) when the value of the transaction was equivalent to at least NIS 10,000.

524. There is no obligation to keep other documents reflecting other details of the transaction carried out by the client. There is no specific guideline or other enforceable requirement mandating banking corporations to keep all documents, which record the details of all transactions carried out by the client in the course of an established business relationship.

525. Identification certificates must be kept for a period of at least seven years after closing the account or after a transaction has been carried out, when it is subject to reporting.

526. Criterion 10.2 with respect to business correspondence is not fully covered for all parts of the financial sector. Arguably Directive 411 covers business correspondence for the banks.

527. Article 13 (a) of Directive 411 requires banking corporations to establish procedures for the retention of information essential for authenticating customers' identity and their type of business, relating to the source of the information, the period for which it should be retained, the type of customer (individual, company, etc.), and the expected extent of activity in the account. The information shall be retained in a manner which will make it readily available and enable efficient retrieval.

528. Furthermore, Article 13 (b) requires that a banking corporation shall undertake reviews to ascertain the existence of adequate and updated information and that the reviews shall take place at times and on occasions determined by the banking corporation in its procedures, such as when a significant transaction is about to take place, or when the requirements relating to customer documentation change, or when the way the account is managed alters significantly. Under Article 13 (b) (3) if a banking corporation discovers that certain significant information about a customer is lacking, it shall take steps to ensure that it obtains the missing information as soon as possible (Article 13 (b) (3). Nonetheless, this requirement is not in law or regulation, as the Methodology requires.

529. The documents which attest instructions to the banking corporation for carrying out a transaction must be kept for a period of at least seven years starting with the date on which the transaction was recorded in the banking corporation books.

530. There is not a general requirement to keep documents longer than 5 years if requested by a competent authority or banks or any other financial institution.

531. Section 14 of the Portfolio Managers Order 5762-2001 imposes a duty to keep all documents relating to the report to the competent authorities for a period of at least seven years from the date of the report. Section 15 of the Order 5762-2001 imposes a duty on a portfolio manager to keep every document relating to the execution of a transaction in an amount of NIS 50,000 or more for a period of at least seven years from the day of the transaction. In addition Section 25 of the Investment Advisers Law imposes a duty to keep for a period of 7 years records of all transactions that a portfolio manager carries out for a customer.

532. Section 13 of the Stock Exchange Members Order imposes a duty for stock exchange members to keep all documents in relation to a reported transaction for a period of at least seven years from the date of the report. Section 14 of the Order imposes a duty on a stock exchange member to keep the documents containing instructions to carry out a transaction in an amount of NIS 50,000 or more for a period of seven years from the day of the transaction and it requires him to keep a computerized database with the customers' identity details. Also stock exchange members are obliged under the rules and regulations of the Tel Aviv Stock Exchange (TASE) to record and keep information (including documentation and electronically stored data regarding business operations) and to maintain these records for seven years, disregarding the amount of the transaction (Rule 19).

533. Pursuant to Section 9 of the Insurance Order and Section 9 of the Provident Funds Order, insurance companies and provident funds are required to retain the documents of a transaction reported to the competent authority for a period of at least seven years from the end of the year in which the transaction was concluded. Pursuant to Section 10 of the Insurance Order and

Section 10 of the Provident Funds Order, insurance companies and provident funds are required to set up a computerized database which shall contain the identifying particulars of all recipients of the services in the accounts or policies (name, Id Number, age, gender and address). Likewise, they are required to retain in accessible form, information on any monetary transaction concluded by virtue of a life insurance policy for a period of seven years from the end of the year in which the liability of the insurance company expires (as provided by the life insurance contract) or the provident fund account was closed.

534. The evaluators would advise that in practice banking corporations should keep all records linked with all transactions performed, both domestic and international, for the purposes of banking supervision and tax purposes for seven years.

535. Concerning money service providers, the evaluators were advised that documentation on transactions above the reporting threshold (including customer identification details) have to be kept at least 7 years, contained in the Postal Bank Order clauses 8, 14 and 15 (b).

536. The Decree on Post Bank (Section 14 and 15) provides for the bank to keep all documents relating to reporting for a period of at least seven years from the date of the report. It also imposes a duty on the bank to keep the documents containing instructions to carry out an operation exceeding NIS 50,000 for a period of seven years from the day of the operation. It requires the bank to keep a computerized database with the customers' identity details.

537. There is no guidance providing details of the types of transaction document to be kept (credit/debit slips, cheques, reports, client correspondence). The Israeli authorities may wish to consider issuing such guidance in order to ensure that data recorded and kept by the reporting entities is sufficient to allow reconstruction of individual transactions. The investigating or enforcing authorities need to be able to compile a satisfactory audit trial for suspected money and they have to be able to establish a financial profile of any suspect account.

SR.VII

538. Under Criterion SR.VII.1, the Methodology requires, for all wire transfers, that financial institutions obtain and maintain the following full originator information: name of the originator; originator's account number (or unique reference number if no account number exists); the originator's address (though countries may permit financial institutions to substitute the address with a national identity number, customer identification number, or date and place of birth) and it must be verified that such information is meaningful and accurate. Under VII.2 full originator information should accompany cross-border wire transfers, though under VII.3 (domestic wire transfers) it is sufficient for solely the account number or unique identifier to accompany the message.

539. According to section 27(a) of Directive 411, which applies to banking corporations, every cross-border transfer of cash, securities or other financial assets (including by electronic means such as SWIFT) must include the name of the account holder and the number of the account (in the case of a transfer other than from an account, only the name of the transferor shall be recorded) and the name and account number of the payee. There is no threshold.

540. There is no such obligation for domestic wire transfers. The Israeli authorities advised the evaluators that they intend to include domestic transfers within the scope of the aforementioned requirement.

541. In addition to that, section 27 (b) of Directive 411 requires banking corporations to operate a computerized database of money transfers from and to high-risk countries. The Israeli

authorities may wish to consider similar requirements for all wire transfers as a tool to maintain information on the originators of wire transfers.

542. Under section 3 (f) of the Prohibition on Money Laundering (the Postal Bank's Requirements Regarding Identification, Reporting, and Record Keeping) 2002 Order, the Postal bank is allowed to carry out a transaction without identifying the party performing the transaction and recording the name and identity number of that party if the value of the transaction is less than NIS 50,000.0016 or the transaction does not require a report pursuant to the provisions set out in section 9.

543. While there is no formal requirement for the Postal Bank to include full originator information in the message or payment form accompanying the wire transfer, in practice the evaluators were advised that the Postal Bank has the full information and details in the case of wire transfers.

544. To comply with SR VII countries should take measures to force financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on cross-border funds transfers and related messages. Financial institutions have only to include the account number or a unique identifier for domestic wire transfers, provided that full and accurate originator information is made available within three business days. As was stated above, only banks are covered by the obligation to include full originator information. This obligation does not cover domestic wire transfers even taking into account the exceptions of SR.VII.3.

545. The Interpretative Note to SR VII describes the roles and procedure of the ordering, intermediary and beneficiary financial institutions. No such roles or procedures are required by the Israeli authorities.

546. SR VII states that intermediary and beneficiary financial institutions in the payment chain should be required to ensure that all originator information that accompanies a wire transfer is transmitted with the transfer. There is no such requirement provided by law, regulation or other enforceable means.

547. According to SR.VII.5 beneficiary financial institutions should be required to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information. No such requirement has been adopted by the Israeli authorities, although it is obligatory for banks and stock exchange members to report in such cases (unusual transaction reporting obligation). In the view of the Israeli Authorities this, together with the obligation in s.27 (b) and (c) in Directive 411, create an obligation to apply a risk-based approach towards transfers in which the transferor's particulars are missing..

548. The Bank of Israel monitors banks for compliance with Directive 411 but it is unclear whether the parts of SR.VII which are currently provided for in that Directive have been checked and/or whether any sanctions have been issued.

Additional elements

549. There is no requirement that all incoming cross-border wire transfers (including those below USD/Euros 1,000) contain full and accurate originator information. There were plans that the amended Directive 411 would require banks not to accept cheques for collection in NIS or foreign currency presented by banks operating in the Palestinian Authority without

[16] Approx. $ 10,700.

obtaining details of the account in which the cheque was deposited and identity details of the account holders.

550. There is no clear requirement that all outgoing cross-border wire transfers below USD / Euros 1,000 contain full and accurate originator information. The different Orders do not specify the lower limit of USD 1,000 except for the countries mentioned in the 4th schedule. As noted earlier, this deficiency is mitigated by Section 27(a) of the Directive, which requires banking corporations to record the particulars of transferor and transferee (names and account number) in any transfer of funds or securities abroad.

3.5.2 Recommendations and comments

551. The established thresholds for minimum retention of the transaction documents (other than reported transactions) should be deleted.

552. There should be a requirement to keep all documents, which record details of transactions carried out by the client in the course of an established business relationship, and a requirement to keep all documents longer than 5 (or 7 years if requested to do by a competent authority).

553. Record keeping requirements for the Post Bank should be in Law or Regulation.

554. For cross-border wire transfers of the Postal Bank and other relevant non-banking institutions "full" originator information should be required.

555. Intermediary and beneficiary financial institutions in the payment chain should be required to ensure that all originator information that accompanies a wire transfer is transmitted with the transfer.

556. Measures should be taken to ensure that effective risk-based procedures for the identification and the handling of wire transfers that are not accompanied by complete originator information are adopted by the financial institutions.

3.5.3 Compliance with Recommendation 10 and Special Recommendation VII

	Rating	Summary of factors underlying rating
R.10	**Partially compliant**	• Established thresholds for retaining of the documents should be removed. • No requirement to keep all the documents recording the details of all transactions carried out by the client in the course of an established business relationship. • Criterion 10.2 in respect of business correspondents are not fully covered in law or regulation. • No general requirement in Law or Regulation to keep documentation longer than 5 years if requested by a competent authority. • Decree on Post Bank not in Law or Regulation.

SR.VII	**Partially compliant**	• No "full" originator information required to accompany cross-border wire transfers for the Postal Bank and other relevant non-banking institutions. • The Postal Bank's lower threshold of NIS 50,000 is too high to exempt cross-border transfers from the requirements of SR.VII. No requirement on each intermediary and beneficiary financial institution in the payment chain to ensure that all originator information that accompanies a wire transfer is transmitted with the transfer. • No requirement to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information.

Unusual and Suspicious Transactions

3.6 Monitoring of transactions and relationships (R.11 and 21)

3.6.1 Description and analysis

Recommendation 11

557. Section 4 of Directive 411 obliges banking corporations to set a KYC policy with reference to risk factors from the aspect of the prohibition on money laundering and financing of terrorism.

558. Article 14 of the 411 Directive provides for ongoing monitoring. Under Article 14 (a) a banking corporation shall monitor activity in a customer's account to assess whether it is consistent with its expectations. Under Article 14 (b) a banking corporation shall operate a computerised system to detect unusual activities in all its customers' accounts. This can be done by setting limits for certain categories of accounts. However, Article 14 (b) states that: "The banking corporation shall examine thoroughly whether there is an economic or commercial reason for complex transactions or transactions constructed in an unusual manner". Unusual activities may include transactions that appear to lack economic or business sense, or that involve large sums of money, particularly large cash deposits not consistent with the expected activity in the account. Thus, some of the language in Criterion 11.1 receives some coverage in Article 14 of the Directive.

559. Article 15 prescribes that a banking corporation shall include in its procedures rules for defining high risk customer accounts into at least two levels.

560. The ongoing due diligence, general in banking corporations, seems to be at an acceptable level but should be improved by the planned 411 amendment which also includes these principles but gives more attention to risk profiles. The draft amendment states:

- *a part of the Know-your-customer (KYC) policy and risk management* - The board of directors of a banking corporation shall set a policy with reference to this: The manner and frequency that the banking corporation will conduct control operations over its customers' activities, according to the customer's risk level, in order to ensure that the transactions carried out in the accounts are consistent with the information on the customer held by the banking corporation.
- *a part of Supervision and Control of Customer Activity and Reporting of Irregular Activity and Ongoing monitoring of activity* - The detection may be conducted by

defining warnings in the system that are triggered by activities that deviate from the customer's usual profile (a profile that comprises the customer's financial behaviour, information available to the bank and expectations of activity), or by habits of activity that arouse suspicion of money laundering or financing of terror, or by comparing the customer's activity with that of activities in accounts of other customers from the same sector. Monitoring may be conducted in real time, at the time of the actual transaction, or soon after the activity, by periodic cheques on all the activities conducted in the account. Moreover A banking corporation shall grade the warnings of unusual activities according to at least the three risk categories (low, medium, high).

561. The current Banking Order and the draft amendment to the 411 Directive contain a list of instances which indicate money laundering or financing of terrorism activity, and which, if they occur, require discretionary enhanced due diligence measures and reporting.

562. By contrast, the Postal Bank Order and the other Orders (covering portfolio managers, stock exchange members, insurance companies, provident funds, and many service businesses) do not have specific sections with respect to ongoing due diligence. Those Orders impose a duty on the financial institutions to report to the competent authorities any unusual transactions. The different Orders contain small lists of instances that indicate money laundering or financing of terrorism activity. The draft amendments set forth examples of unusual transactions. The draft amendments to the Portfolio Managers and Stock Exchange Member orders obliges them to set policies with reference to risk factors from the aspect of prohibition on money laundering, including KYC and also obliges them to do ongoing monitoring of the customers accounts (section 1A).

563. The Israeli authorities take the view that this reporting obligation implies that the activities of the customers should be monitored in order to see whether there are activities that are uncharacteristic of the client.

564. The evaluators take the view that this reporting obligation does not give clear guidance as to what this monitoring process exactly should mean and require in practice and how often (or how ongoing) this due diligence process should take place. In the examiners' view, ongoing monitoring goes further than reporting.

565. Furthermore, criterion 11.2 requires examination as far as possible of the background and purpose of complex, unusual large transactions or unusual patterns of transactions that have no apparent or visible economic or lawful purpose.

566. Section 14 (c) of Directive 411 requires that banking corporation shall provide for detailed procedures setting out the channel of communications regarding unusual transactions. The procedures should incorporate full documentation of the decision making process from the first revelation of the unusual transaction to the formulation of a decision as to whether to report to the competent authority. The Israeli authorities advised that, together with obligations in section 13 (retention of documents related to type of customer and expected extent of activity in the account) and section 14 (ongoing monitoring of consistency with the expectations and the customers profile) these requirements ensure that purpose and nature is assessed in practice.

567. The draft amendment to 411 will include an obligation that in a case which arouses suspicion of unusual activity the banking corporation shall exercise enhanced due diligence to establish whether the activity requires submission of a report by the banking corporation and will take into consideration inter alia the type and number of red flags detected. The banking corporation will be entitled to clarify any additional information with the customer or his representative about the unusual activity.

568. The other Orders do not have sections that require active examination of the background and purpose of such transactions and the setting out of findings in writing.

569. Criterion 11.3 requires financial institutions to keep such findings available for competent authorities and auditors for at least 5 years. As noted, section 14 (c) of Directive 411 requires that banking corporations shall provide detailed procedures setting out the channel of communications regarding unusual transactions. The procedures should incorporate full documentation of the decision making process from the first revelation of the unusual transaction to the formulation of a decision as to whether to report to the competent authority. Most Orders contain sections that require financial institutions to preserve the document of instruction for performance of a transaction which is reported to the competent authority for a term of at least seven years.

570. In summary, although the requirements in Israel for examining large complex transactions does not specifically address the objetive of Recommendation 11 the scope of Recommendation 11 is partially addressed.

Recommendation 21

571. Recommendation 21 requires financial institutions to give special attention to business relationships and transactions with persons from or in countries which do not, or insufficiently, apply the FATF Recommendations. This Recommendation should be required by law, regulation or other enforceable means and be sanctionable. It places an obligation on financial institutions to pay close attention to any country that fails or only insufficiently applies FATF Recommendations (and not just countries designated by FATF as non-co-operative [NCCT] countries).

572. Section 15 (a) (2) of Directive Regulation 411 requires banking corporations in their procedures for defining high risk customer accounts the grading of a number of factors into at least two levels. One of these levels refers to the location of the customer's activity (e.g. "a high-risk country, lack of connection to Israel") According to s.15 (b) of Directive 411 heightened monitoring is required of activity in the accounts of high-risk clients with reference *inter alia* to the country to which the funds are being transferred. Furthermore, s.27 (b) of the Directive requires the AML officers' approval of any transfer of funds from one high-risk country to another. A list of high-risk countries and territories is appended to the Order and Directive 411. This contains a reference to the FATF NCCT list (which now no longer has any countries on it), a reference to relevant domestic legislation and several specified jurisdictions, specifically designated for AML/CFT purposes by the Bank of Israel on the recommendation of the FIU. It was unclear if this appendix had been updated since the issue of Directive 411. Article 13a(3) of the Banking Order, since September 2007, has required banks, when dealing with transactions with countries specified in the Annex, to also check against the list of designated terrorist organisations. Additionally for the banking sector all transactions with designated countries above 500 NIS have to be reported as CTRs to the FIU. The other parts of the financial sector have no guidance on this issue, though some proposed amendments to orders and circulars were in train, including in the insurance sector where there were proposals to make wiring money to or from a non-co-operative State a trigger for suspicion.

573. There is no explicit provision requiring financial institutions to examine - as far as possible - the background and purpose of transactions with no apparent economic or visible lawful purpose falling within the scope of Recommendation 21 and to set forth their findings in writing and to make them available to assist competent authorities. Articles 14 (b) of Directive 411 (as noted above) and (c) (which covers the internal channel of communication regarding unusual transactions leading to a decision to report to the competent authority) go some way to

meeting this requirement. There are also no relevant requirements with regard to this aspect of Recommendation 21 for the rest of the financial institutions.

574. The approval of transfers of funds from one high-risk country to another could amount to a counter-measure being taken against countries which do not, or insufficiently, apply FATF Recommendations, though Israel has no legal authority to take more intrusive measures such as limiting business relationships or financial transactions with indentified countries or persons within those countries, except with regard to enemy countries.

3.6.2 Recommendations and comments

575. There should be a provision specifically requiring portfolio managers, stock exchange members, insurance companies, provident funds, money service businesses and the Post bank to pay special attention to all complex, unusual large transactions, or unusual patterns of transactions, that have no apparent or visible economic or lawful purpose.

576. There should be a provision requiring all financial institutions to examine as far as possible the background and purpose of complex, unusual large transactions or transactions with unusual patterns and to set forth their findings in writing. Furthermore we recommend to make existing sections in the Banking Order more explicit.

577. There should be a provision specifically requiring financial institutions to keep findings available for competent authorities or auditors for at least 5 years.

578. While Directive 411 and the Banking Order go a considerable way to meeting some of the requirements of Recommendation 21 for banking corporations, a clear requirement to pay special attention to business relationships and transactions with persons from countries that do not or insufficiently apply the FATF Recommendations should be introduced for all financial institutions. A mechanism needs putting in place to alert financial institutions generally (and not just banking corporations) of concerns about AML/CFT systems in other countries and a clear procedure for appropriate counter-measures should be put in place where relevant. The range of countermeasures available in respect of countries which insufficiently apply FATF measures should be reviewed. The background of transactions from such jurisdictions which appear to have no apparent economic or visible lawful purpose should be examined and written findings should be kept to assist competent authorities. Enforceable obligations need promulgating to the rest of the financial sector other than banks covering each of the criteria under Recommendation 21.

3.6.3 Compliance with Recommendations 11 and 21

	Rating	Summary of factors underlying rating
R.11	**Partially compliant**	• While there are requirements in place for banking corporations for ongoing due diligence, there are no such requirements for the others (portfolio managers, stock exchange members, insurance companies, provident funds, money service businesses and the Post Bank). • The requirements in place for banking corporations imply examination of purpose and intent. The other Orders do not have sections that require active examination.

		• Most Orders (other than the Banking Order) only contain sections that require financial institutions to preserve the document of instruction for performance of the transaction reported to the competent authority for a term of at least seven years. This does not cover the obligation of criterion 11.3 (to keep the findings of the examination available for competent authorities for at least five years) completely, for sectors other than banking.
R.21	**Partially compliant**	• Only banking corporations are covered. • No clear requirement to examine as far as possible the background and purpose of transactions with such countries with no economic or visible lawful purpose • There are no specific requirements for financial institutions to set forth their findings in writing and to keep the findings available to assist competent authorities. • Limited range of counter-measures available.

3.7 Suspicious transaction reports and other reporting (Recommendations 13, 14, 19, 25 and SR.IV)

3.7.1 Description and analysis

Recommendation 13

579. The essential criteria set out in 13.1, 13.2 and 13.3 need to be implemented by law or regulation. There is a general obligation imposed on banking corporations and other financial institutions under Section 7 PMLL to report (to IMPA) as specified in Orders made pursuant to PMLL. The various Orders relevant to the financial sector contain broadly similar obligations which can be characterised as unusual transaction reporting. As noted earlier in this report, the Orders, having been through a procedure involving a Committee of the Knesset comprise regulations for the purposes of the Methodology. The unusual transaction reporting regime makes no reference to whether funds are the proceeds of a criminal activity or of a particular predicate offence.

580. Section 8 of the Bank Order (5761-2001) provides for reporting linked to the size of the transaction (currency transaction reporting). Within Section 8 there are different thresholds established for reporting depending on the type of transaction. Section 10 of the Order provides for exemptions from currency transaction reporting for certain institutions, including transactions by banking corporations themselves and the Postal Bank.

581. Section 9 (a) of the Bank Order provides for unusual transaction reporting, regardless of threshold. A banking corporation shall report to the competent authority "transactions by a service recipient that seem to the banking corporation to be unusual on the basis of the information in the banking corporation's possession". Without prejudice to the generality of Section 9 (a) a list of transactions which may be deemed unusual is set out in the second schedule. The list is indicative only, and not mandatory or indeed comprehensive. Thus the banking corporations are free to evaluate all transactions in order to decide whether they may amount to unusual transactions or not. Whether this language is wide enough to encompass all transactions, and all funds which are the proceeds of all relevant predicate offences under Recommendation 1, as the criterion requires, was open and the subject of discussions with the

Israeli authorities. The Israeli authorities pointed to a Bank of Israel circular dated 30 August 2004 (Circular 2138-06 of the Banking Supervision Department) which was intended to assist banks in understanding their obligations: "the word "unusual" is to be construed so that there is reason to believe that a connection with money laundering exists, even though the banking corporation has neither knowledge nor suspicion of a connection between the activity and the predicate offence, then it should be reported". Similar guidance was issued in an ISA circular of 7 January 2008.

582. Under Section 9 (c) of the Bank Order reporting under Section 8 does not provide an exemption from reporting under Section 9. The examiners noted, with approval, that the exemptions for certain institutions, referred to above from reporting currency transactions under Section 8 do not apply to section 9 unusual transaction reporting. The exemptions do not compromise the currency transaction reporting regime.

583. As far as the other financial institutions are concerned, the reporting obligation is regulated in a broadly similar way. The Orders issued by the ISA and the Postal Bank do not provide general restrictions on the amounts of the transactions that require reporting but several of the examples are limited by amount, though proposed amendments were planned to delete these amounts.

584. According to criteria 13.3 all suspicious transactions, including attempted transactions, should be reported regardless of the amount of the transaction. There is no financial threshold in relation to unusual transaction reporting as far as banking corporations are concerned. With regard to other financial institutions the regulations are not clear. Several examples of unusual transactions which mention thresholds will be deleted in amendments) (e.g. Orders issued by the ISA and for the Postal Bank). For money service businesses it is stated that reporting obligations for cross-border transactions cover only transactions above the threshold of NIS 1,000. The existence of (various different) thresholds is a continuing weakness of the regime.

585. The Israeli Authorities advised that attempted unusual transactions were in practice covered in Article 9 of the Banking Order. The translation with which the evaluators were presented in respect of Article 9 refers to unusual transactions. The team was informed that the Hebrew original version ("peula") refers to activities (including actions). In this way the Israeli Authorities understand that the notion of attempted transaction is included and this is reinforced by the practice of reporting entities. Moreover, the second schedule includes a number of examples which arguably embrace attempted activities/transactions.

586. Recommendation 13, as well as requiring financial institutions to immediately report to the FIU if they suspect or have reasonable grounds to suspect that funds are the proceeds of a criminal activity, also requires the obligation to apply to funds where there are reasonable grounds to suspect or they are suspected to be linked or related to, or to be used for terrorism, terrorist acts or by terrorist organisations or those who finance terrorism. Such reports also need to be reported to IMPA. Such a reporting obligation needs to be in law or regulation.

587. Section 48 of the Prohibition on Terrorist Financing Law 5765-2004 applies the PMLL to terrorist financing. S.48(a) specifically applies s.7 of the PMLL, which grants to the Governor of the Bank of Israel and to the Ministers powers to issue orders for the purpose of the PTFL as well. S.48(b) PTFL provides for reports to be received pursuant to PTFL to be preserved in the IMPA database.

588. The Prohibition on ML (The Banking Corporations' Requirement regarding Identification Reporting and Record-keeping for the Preventation of Money Laundering and the Financing of Terrorism Order) 2001 as amended on 8th November 2006 is now specifically issued both

under the PMLL and PTFL. S.9 of the Order is the mandatory unusual transaction reporting obligation to the competent authority (IMPA) for the banks. Moreover, in 2004 the Bank of Israel issued a clarification of the s.9 unusual reporting obligation (Annex VII) specifically then relating to ML in which, as noted above, it is stated "any activity that gives reason to believe that it is connected to ML is irregular/unusual activity". The reporting regime on unusual transactions and the 2004 guidance on it now applies *mutatis mutandi* to TF.

589. The examiners had difficulty in construing s.10 (b) PTFL in the light of the s.48 regime. S.10 (a) and (b), which the Israeli authorities advised should be read together, essentially creates an additional terrorist financing reporting obligation to the police. S.10 (b), which states that one who is obligated under s.7 PMLL may submit reports to IMPA, caused the evaluators particular uncertainty. The Israeli authorities advised that the legislative intention, perhaps ill expressed, was to avoid double reporting. The Israeli authorities also advised that the legislative intention was that s.10 (b) should in no way override the s.48 reporting obligation to the FIU. Nonetheless, it is very confusing and s.10(b) should be revisited by the Israeli authorities as matter of some priority (something which the Israeli authorities have indicated they are prepared to do). The evaluators had expressed their concerns to the Israeli authorities at the time of the on-site visit on this point and the Israeli authorities have since issued further guidance on 7 January 2008 to the effect that the clarification given in 2004 also applied to TF. The Israeli authorities stated that this had always been clear to them but that this latest clarification was issued for the avoidance of doubt.

590. Given the comments made above in relation to the lack of reference to funds which are the proceeds of criminal activity in the unusual reporting obligation under the Orders, it is considered there is no prohibition on reporting where tax matters are involved. One bank which had argued that a reason for not filing a report was that they considered the case was one of tax evasion had been sanctioned by the Banking Corporations Sanctions Committee for not filing a report.

Additional Elements

591. As the reporting obligation does not specifically address the source of offences, there is nothing in theory to prevent a report being made in respect of all criminal acts that would constitute predicate offences domestically, if, but only if, they can be identified as unusual transactions from the information in the financial institutions' possession.

European Union Directive

592. Article 6, para. 1, of Directive 2001/308/EEC establishes that the reporting obligation covers facts which might be an indication of money laundering, whereas FATF Recommendation 13 places the reporting obligations on suspicion or reasonable suspicion that funds are the proceeds of criminal activity. The reporting obligation under relevant Israeli legislation covers only transactions but not facts. The Israeli authorities advised that the reporting obligation covers both the transactions particulars and all facts and relevant information that are known to the reporting institution.

593. Article 7 of the Second Directive requires States to ensure that institutions and persons subject to the Directive refrain from carrying out transactions which they know or suspect to be related to money laundering, until they have apprised the authorities (unless to do so is impossible or likely to frustrate efforts to pursue the beneficiaries). There is no such requirement in relevant Israeli legislation.

Special Recommendation IV

594. Under Criterion IV.1 a financial institution should be required by law or regulation to report to the FIU a suspicious / unusual transaction report, when it suspects or has reasonable grounds to suspect that funds are linked or related to or to be used for terrorism, terrorist acts or by terrorist organisations or those who finance terrorism. This should be a direct mandatory obligation.As noted earlier in this section, the reporting obligation on financing of terrorism derives from s.48 (a) PTFL. The second schedule to the PMLL, which lists a number of types of transaction which may be deemed unusual transactions (and thus capable of reporting under the various orders), includes references to financing of terrorism (see paragraphs 3, 4, 4a, 19 of Schedule 2). The examiners noted that the FIU had received unusual transaction reports based on financing of terrorism, and that one person in the FIU is specifically designated to deal with unusual transaction reports based on financing of terrorism alone. Statistics have been compiled for the years 2004 – 2008. The table beneath has now been provided:

Statistics regarding UTR TF related reports to IMPA

	2004	2005	2006	2007	2008
Number of TF related reports to IMPA by the Financial Institutions referring to suspicion of Terror Financing including unusual activity related to Terror Financing and financial activity that can be reasonably related to suspicion of TF.	10	23	25	48	24

595. It was also noted by the evaluators that the Banking Corporations Sanctions Committee decided that a banking corporation violates its duty to report when a bank has not reported its suspicions that a bank customer was linked in some way to terrorist activities. Reference has been made earlier to the examiners' initial concerns on the clarity of the financing of terrorism reporting obligation given the wording of s.10 (b) PTFL. The Israeli authorities have informed the evaluators that, notwithstanding the fact that they considered mandatory reporting to the FIU on the FT issue is clear, they carefully considered this issue in the two month period after the on-site visit. The Deputy Attorney General wrote on 2 January 2008 encouraging the different regulators to clarify in circulars that the duty of reporting unusual transactions under the various orders implementing Section 7 PMLL includes the duty to report on terrorist financing. Circulars were issued on the 7th, and 8th of January 2008 by the Bank supervisor, the Israel Securities Authority and the Ministry of Communications respectively clarifying the various reporting obligations under their respective orders. Again, these advisories were considered by the Israeli authorities to be issued only for the avoidance of any doubt.

596. In any event, it seems to the evaluators that the precise language of SR.IV could be clearer in the s.48 PTFL regime. The financial institutions should still be clear that they are required to apply a subjective or an objective judgment as to whether the activity is connected to financing terrorism (or adopt either approach).

597. It follows from the comments under Recommendation 13 that attempted transactions related to financing of terrorism are not covered. It was noted earlier also that some thresholds appear in some of the Orders, which may send the wrong signals with regard to unusual transaction reporting.

598. As also noted earlier, there is no specific problem about reporting where, among other things, tax might be involved.

Safe Harbour Provisions (Recommendation 14)

599. Section 24(a) of the PMLL provides that disclosure or reporting or any other act or omission performed in good faith under the provisions of the PMLL shall not constitute a breach of the obligation of confidentiality and trust or any other breach under the provisions of any law or agreement, and any person who acts or fails to act as stated shall not bear criminal, civil or disciplinary liability for the act or omission. This is understood to apply to directors, officers and employees (permanent and temporary) alike.

Tipping off (Recommendation 14)

600. Section 31 A of the PMLL provides for a confidentiality obligation. It states that a person who receives information pursuant to the law in the course of his duties or in the course of his employment, shall keep it confidential, and shall not disclose it to any other person and shall not make any use of it except in accordance with the provisions of this law or pursuant to a court order. Violations are punishable by imprisonment of three years or a fine. Violations by negligence are also punishable by one year's imprisonment or a fine. This covers disclosure of confidential information but not the fact that a report has been made.

601. However, according to Section 12 of Order 5761-2001, banking corporations are prohibited from disclosing the existence or non-existence of reports and any other relevant information. Section 12 prohibits disclosure of the formulation, existence, non-existence or contents of a report and of the existence of a complementary report, the existence of a request for the said report or the content of it. Any inspection of the documents attesting to a report is prohibited, except to duly authorised persons allowed to be privy to such information for the purpose of fulfilling her/his function in the banking corporation, the supervisor or person authorised by a supervisor, the competent authority or pursuant to a court order.

602. The tipping off issue is regulated, in a broadly similar manner, in the rest of the financial sector. Prohibition on the disclosure of the existence or non-existence of a report is provided for. As far as portfolio managers and stock exchange members, and other non-banking financial institutions are concerned, there is, however, uncertainty, that the prohibition is also applicable to all "related information", specifically to disclosures with regard to the fact of preparation of a report, or the actual contents of a report or any supplementary report or indeed the existence of a request for such a supplementary report or the content of it. The Israeli authorities advised that they consider that disclosure of all the information regarding the existence or non-existence of a report, including all relevant information and documentation is forbidden in all cases for all financial institutions. A breach is said to be a criminal offence carrying one year's imprisonment.

Additional elements

603. Regarding the confidentiality by the FIU of the names and details of staff of financial institutions that report, Section 25 of the PMLL provides that the identity of any person who has reported under Section 7 PMLL should not be disclosed (except to the inspector appointed). According to section 31A of the PMLL anyone who discloses information intentionally or due to his negligence and was not authorised to provide such information is subject to a fine and up to 3 years of imprisonment if found guilty.

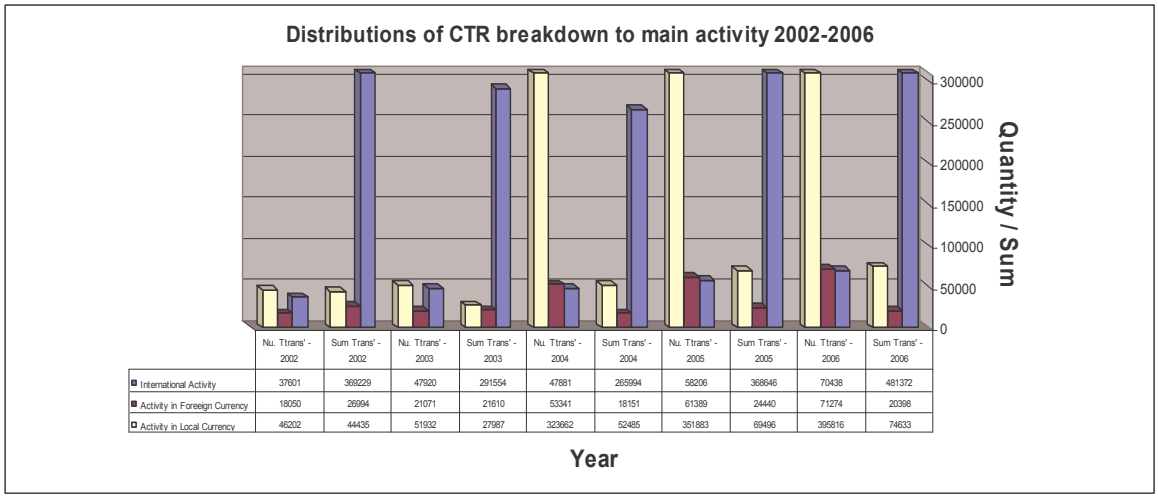
Recommendation 19

604. According to section 7 of the PMLL and the Orders, financial institutions are obliged to report to the FIU transactions in currency above fixed thresholds. The threshold is fixed in accordance to the relevant sectors and the risk that may arise. For example, the threshold for a

purchase or sale transaction of travellers' cheques or a bill to bearer of a financial institution abroad in an amount equivalent to at least NIS 50,000; if the financial institution is in a high risk country or territory, the banking corporation shall report the said transaction if it is in an amount equivalent to at least NIS 5,000. For a full list of all the transactions above fixed thresholds, which have to be reported to the competent authority see Section 8 of the Bank Order, Section 8 of the Portfolio Managers Order, Section 8 of the Stock Exchange Members Order, Section 6 of the Insurance Order, Section 6 of the Provident Fund Order, clause 9 of the Decree of the Postal Bank.

605. As noted earlier, a large number of CTRs are reported to the IMPA data collection Centre (by hand). They are recorded on optical or magnetic media. Batched reports are entered and validated by the IMPA data-entry subsystem and inserted into computerized database. This CTR data is made available exclusively to analysts in IMPA.

606. CTRs are reported in local currency. However the type of the transaction and original currency are defined. The threshold for most of the transactions is now 50,000 NIS. Most of the volume of transactions reported to IMPA from the banks are international in nature and classified as such, though a significant number are transactions in local currency (NIS) with local customer accounts. The tables beneath are intended to supplement the information provided in Section 2.5.

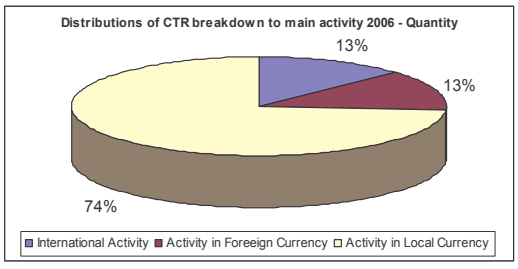


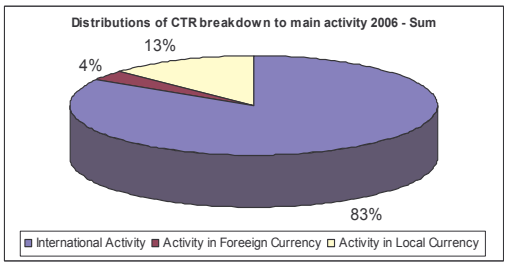
	Nu. Ttrans' - 2002	Sum Trans' - 2002	Nu. Ttrans' - 2003	Sum Trans' - 2003	Nu. Ttrans' - 2004	Sum Trans' - 2004	Nu. Ttrans' - 2005	Sum Trans' - 2005	Nu. Ttrans' - 2006	Sum Trans' - 2006
International Activity	37601	369229	47920	291554	47881	265994	58206	368646	70438	481372
Activity in Foreign Currency	18050	26994	21071	21610	53341	18151	61389	24440	71274	20398
Activity in Local Currency	46202	44435	51932	27987	323662	52485	351883	69496	395816	74633

607. The sums in the table above are in millions of NIS. The numbers received significantly from 2004 when the threshold was generally lowered to 50,000 NIS.

608. The 2006 breakdown of CTRs received are further explained by the charts beneath:

International wire transfers of one million NIS (approximately 250,000 USD).





Additional elements

609. As noted above, CTRs are stored in a computerised database and are subject to strict safeguards as set out in the Prohibition on Money Laundering (Rules for Conduct of Database and Protection of Information therein) 5762-2002. Security in IMPA is in accordance with the strictest standards of the Israeli security Agency.

Recommendation 25
(Criterion 25.2)

610. IMPA provides each reporting entity with feedback regarding its unusual activity reports. They have daily contact with the compliance officers of the reporting institutions. They monitor the quality of the reports received. They provide professional training and lectures to the reporting institutions. An instruction manual with "red lights" and typologies has been sent to all the banks and trust companies.

611. In meetings with representatives of the banks and regulators, the following are regularly discussed:

- general feedback (statistics on the number of disclosures to IMPA for the different groups of banks (e.g. Large banks, small banks, mortgage banks, etc.) with appropriate breakdowns;
- information on current techniques, methods and trends;
- sanitised examples of actual money laundering cases.

612. IMPA gives some specific case by case feedback. It acknowledges receipt of the report but does not provide feedback directly as to what has been done with the report. The examiners encourage IMPA in conjunction with the law enforcement to build on what is already done perhaps to include a notification when a report has been passed to law enforcement and in respect of significant steps in the investigative and prosecution process.

3.7.2 Recommendations and comments

613. The evaluators accepted that in practice attempted transactions appeared to be covered by the Banking Order (and the other Orders). However, it is recommended that for the avoidance of doubt the Israeli Authorities take an appropriate opportunity to make this obligation explicit.

614. Some of the thresholds in some of the Orders need removing, as they may send the wrong signals that only transactions above particular thresholds should be reported.

615. Given that banks are the main reporting entities, the evaluators have generally accepted, in the specific context of Israel, that the "unusual" transaction reporting regime broadly embraces the concepts involved in a suspicious transaction reporting regime in view of the specific guidance issued by the Bank of Israel on s.9 of the Banking Order (in August 2004). It will be recalled that this states "any activity that gives reason to believe that it is connected with money laundering is irregular (/unusual) activity".

616. Given the issue of timeliness that was raised in the law enforcement context, affecting the efficiency of the reporting system, an important question arises in respect of the promptness of the reports to the FIU. The reporting system is organised in such way that the preventive effect of IMPA's intervention is weakened. As a rule all UARs are made *a posteriori*. Neither the PMLL, nor the relevant Regulations, feature a proactive STR system whereby disclosures are

made to the FIU prior to the execution of the suspicious transaction. Even in case of "exceptional acts" the Regulations impose reporting "as soon as possible …. after execution of the act or the recording thereof".

617. Even though the FATF standards do not impose a system of a priori disclosures[17], there is an issue of effectiveness. Not surprisingly there are critical remarks from the police authorities as to the usefulness of delayed post factum reports as a trigger for investigations, but more importantly such a system is not favourable to the recovery of criminal assets, which is one of the main priorities of any AML/CFT effort, and also an Israeli priority (see e.g. the Government Decision of 1 Janaury 2006 on the multi-agency strategy). It may be that over the years some best practices of timely reporting have evolved, but consideration of the a priori rule by the Israeli Authorities would assist the effectiveness of the unusual transaction reporting regime.

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

619. The evaluators were generally satisfied that those parts of the banking sector covered by the Bank of Israel were reporting satisfactorily. Attempts are being made by IMPA to improve the quality of reports in some sectors (mortgage banks, credit card institutions) through feedback meetings with compliance officers and training lectures.

620. Whereas financial institutions are not required to specify the precise indicator in the second schedule which is the basis of their UAR report, it seems that the majority of the reports are linked to those indicators. It should be noted, however, that some of the indicators use very general language and encompass a large variety of suspicious and unusual scenarios based on the institutions' independent assessment of their client's unusual behaviour. It was consequently unclear to the examiners what proportion of the reports that were received simply followed the indicators in the second schedule or whether any / many of the UTRs were wholly based on the financial institutions' independent assessment of unusual behaviour

621. As indicated earlier, the language in Section 10 (b) PTFL, which causes difficulties with regard to the terrorist financing reporting obligation, should be removed or amended appropriately. It would be helpful also to clarify in PMLL that the reporting of unusual property transactions to the FIU under Orders made pursuant to Section 7 PMLL relates also to terrorist financing in the broad way it is covered in SR.IV.

622. The safe harbour provisions are satisfactory, but the tipping off provisions, other than for banking corporations, need greater precision to cover all related information.

623. Though the FIU provides some useful feedback, more case-specific feedback could usefully be considered.

3.7.3 Compliance with Recommendations 13, 14, 19, 25 and Special Recommendation SR.IV

	Rating	Summary of factors underlying rating
R.13	**Largely compliant**	• Some thresholds in some of the Orders may send the wrong signals that only transactions above particular thresholds should be reported.

[17] Article 7 of the 2nd EU Directive however does contain such obligation.

		• Low number of reports from non-bank financial institutions. • Concerns on the overall effectiveness in relation to the timeliness of the reporting system.
R.14	**Largely compliant**	• Tipping off only covered with regard to the existence or non-existence of the report for all financial institutions but not to all related information outside of banking corporations.
R.19	**Compliant**	
R.25 (Criterion 25.2)	**Largely compliant**	• More case-specific feedback could be undertaken.
SR.IV	**Largely compliant**	• S.10 (b) PTFL needs revisiting to avoid any confusion as to the mandatory nature of STR reporting on FT to the FIU, as provided for in s.48 PTFL. • Attempted transactions not explicitly covered; • Some thresholds in some of the Orders.

Internal controls and other measures

3.8 Internal controls, compliance, audit and foreign branches (R.15 and 22)

3.8.1 Description and analysis

Recommendation 15

Generally

624. Recommendation 15, requiring financial institutions to develop a programme against money laundering and financing of terrorism, can be implemented by law, regulation or other enforceable means. The type and extent of measures to be taken for each of the requirements in the Recommendation should be appropriate having regard to the risk of money laundering and financing of terrorism and the size of the business.

625. The starting point for consideration of Recommendation 15 is Section 8 of the PMLL which provides:

" *(a) A corporation bound by the obligations under the provisions of section 7 shall appoint a person to be responsible for fulfilment of such obligations;*

(b) A person responsible for the fulfilment of the obligations shall ensure compliance with the obligations imposed on the corporation under the provisions of section 7, by training the employees to comply with the foresaid obligations and supervising the fulfilment thereof. "

626. In addition to this, specific obligations upon banking corporations have been imposed to establish and maintain internal procedures, policies and controls to prevent money laundering and financing of terrorism and to communicate these to their employees (sections 3a, 4, 5, 8, 14(c), and 23 in Directive 411) Similar guidelines for stock exchange members have been issued in specific stock exchange regulations in accordance with in the stock exchange bylaws (August 2007), and for the Insurance sector in a directive of January 2002.

627. In addition internal rules and procedures are settled in the banking corporations addressing these issues. They mostly follow from the obligations imposed by Directive 411 dealing with

the development of a "know your customer" policy and risk management principles. In this context, the Israeli authorities pointed especially to Section 6 (KYC) of Directive 411 which provides as follows:

" (a) The management of a banking corporation shall determine KYC procedures in accordance with the policy set by the Board of Directors and with its risk assessment, which will ensure ethical and professional standards that will prevent the banking corporation from being exploited intentionally or unintentionally, by criminal elements.

(b) The procedures shall cover, among others, the subjects in this regulation, the reporting system and the staff authorised to handle the reports, the types of record that shall be retained relating to customer identification and to specific transactions, and the period of their retention."

628. For banking corporations the officer responsible for compliance with the PMLL is required under Section 7 of Directive 411 to be a member of the management of the banking corporation or responsible directly to a member of the management (which also broadly satisfies criterion 15.1.1 so far as banks are concerned).

629. The Ministry of Finance Capital Markets Division had issued in January 2002 several Directives to insurance companies for handling AML/CFT issues which included the need for establishing written procedures as regards internal reporting processes, training and co-operating with the competent authority, but the examiners have not seen them. They are said to be enforceable.

630. As noted above, banking corporations are obliged to appoint compliance officers either at management level, or responsible to management, but there is no such similar obligation for the non-banking financial sector to appoint at management level (Section 8 PMLL is silent on this point). In practice, compliance officers have generally been appointed. The Israeli authorities advised that all insurance companies and provident funds had appointed compliance officers of senior rank (usually they are managers of life insurance divisions). The Ministry of Finance confirmed that they specifically cover this issue in inspections of insurance companies and provident funds. The ISA has also confirmed that their examinations include the issue of whether a compliance officer has been appointed and that all non-bank Stock Exchange members have appointed a compliance officer. A compliance officer has also been appointed in the Postal Bank. For MSBs, failure to appoint a compliance officer is said to attract sanctions, though there is no requirement for the responsible officer to be at management level.

631. The requirement that the AML/CFT compliance officers and other appropriate staff should have timely access to customer identification data and other CDD information, transaction records and other relevant information appear generally to be implicit in the requirement to appoint a compliance officer under Section 8 PMLL. The Israeli authorities pointed to examples in the Banking Directive 411 which makes explicit the need for the staff and the "officer responsible" to have direct access to information (Section 14(b) 15(c) and 18 (d) of Directive 411). Directive 308 requires banking corporations to appoint a compliance officer who holds the rank of senior executive. This officer is responsible for centralising compliance with consumer directives and in addition to AML/CFT issues (including the PMLL and the Banking Order). Directive 308 stresses the independence of the compliance officer, e.g., the officer may not be removed from his/her position without his/her consent, she/he may not hold another position that creates or may create a conflict of interest, and she/he or those acting on his/her behalf shall be allowed to access all units and assets of the banking corporation and all records and information at the banking corporation at any time. Furthermore, in March 2008 the Supervisor of Banks issued guidelines on enhanced corporate governance in banking

corporations. In this document, the Supervisor acknowledged the crucial nature of independent and proper compliance in the corporate-governance process. At three of Israel's five large banking corporations, the compliance officer is also the AML officer; at the other two banking corporations, both officers report to one senior manager (the banking corporation's legal advisor or chief risk manager). With respect to the ISA and the MoF it was stated that approval as compliance officers by these authorities (in respect of the insurance and securities industries) is accorded solely to those having access to all the policies and accounts subject to the provisions of the respective Orders. In the case of one insurance company where the compliance officer did not have appropriate access the company was asked to replace him by the supervisor. While this was not done, the employers could have been sanctioned under Section 8 of the PMLL and the relevant order. With regard to money service business providers and the Postal Bank, it was asserted that the requirement of access to relevant data was implicit in the need to appoint a compliance officer. The Israeli authorities advised that in practice, the compliance officer of the Postal Bank has full access to customer identification information.

632. Banks have internal audit requirements and the Israeli authorities indicated that compliance with the Directives prohibiting money laundering was within the remit of internal audit. Section 14e(b) of the Banking Ordinance states: "The internal auditor shall examine, *inter alia*, the soundness of the banking corporation's operations from the standpoint of upholding the law, ethical standards, economy and efficiency, and proper banking management, and shall also ascertain compliance with the directives of the Supervisor of Banks." In December 2007, the Supervisor of Banks published a draft concerning the banking corporations' internal- audit function. The draft stated that the audit activity includes "examination of systems that assure compliance with laws, regulatory requirements, rules of conduct, and the implementation of the banking corporation's policies and procedures." It follows that an important share of the internal-audit work involves checking for compliance with the provisions of the PMLL, the PTFL, the Order, and Directive 411. An examination of the level of internal-audit resources that the large banking corporations assign to AML/CFT found that audits are performed every one to two years and take between 35–60 hours. Stock exchange members are also obliged to appoint internal auditors, (see section 6 (9) the Stock Exchange By-laws).

633. With regard to ongoing employee training on AML/CFT issues by financial institutions, again the basis of this obligation found in Section 8 (b) PMLL. With respect to banking corporations, it was noted that the Sanctions Committee had determined that banks violated Section 8 PMLL when training sessions for employees were considered inadequate. The Israeli authorities also pointed to Section 23 of Directive 411 which requires employee training distinguishing between new staff and others. This provision mandates ongoing training but is limited to KYC issues, and not AML/CFT. The situation regarding MSBs on this issue is unclear.

634. The Israeli authorities advised that training programmes existed in other financial institutions and in the Postal Bank based on Section 8 PMLL but, again, there is no requirement to provide ongoing training programmes. The Israeli authorities advised that the Postal Bank provides ongoing training for staff. The situation regarding MSBs was unclear.

635. There is no clear provision which the evaluators have seen requiring financial institutions to put in place screening procedures to ensure high standards when hiring employees.

Recommendation 22

636. Recommendation 22 requires financial institutions to ensure that foreign branches and subsidiaries observe AML/CFT requirements consistent with home country requirements and FATF recommendations to the extent that local laws and regulations permit.

637. Some Israeli banking corporations have foreign branches, mainly situated in Switzerland, Luxembourg, UK, US, Turkey, Romania, Uzbekistan, the Cayman Islands, the Bahamas, and Latin America. The Postal Bank does not have branches outside Israel. The Recommendation is not currently relevant to portfolio managers and stock exchange members, insurance companies and provident funds, and money service providers.

638. Article 2 of the Banking Directive 411 (other enforceable means) generally applies the Banking Directive on all branches of Israeli banks as well as on all foreign subsidiaries.

639. The Israeli authorities specifically pointed to Article 3A (a) and (b) of the Banking Directive 411 which obliges banking coporations in general, to determine policies, including the basic KYC policies on a group basis. Article 3A (b) relates specifically to the setting of AML/CFT policies on a group basis, with the required changes, and shall apply to overseas offices, provided that the policy "does not conflict with the local regulations on these subjects". This is interpreted to mean that Israeli group policies should prevail where the Israeli standard is the stricter standard. Otherwise the higher foreign standard will apply.

640. It was noted that in March 2006 as a matter of ongoing policy, the supervisor of banks required all banking corporations to conduct an AML/CFT audit of their subsidiaries and branches abroad, including checks with compliance with the group policy, local legislation and Directives. Most of these checks have now been completed.

641. The evauluators were advised that the inspection reports that were forwarded to the Bank of Israel contained nothing which in their opinion was exceptional and which would require theirimmediate intervention. The Israeli authorities provided this brief summary of the main findings of reports that were received from 90 percent of the branches:

- under-allocation of resources for this area of activity (part-time AML officer, manual checks against a list of terrorist organizations and public figures).
- insufficiency of checks of client files and updating of KYC particulars.
- failures to report suspicious activity, and errors in reporting.
- mismatch between branch policy and group policy (e.g. no computer system to detect irregular transactions).

642. Criterion 22.1.1 requires financial institutions to pay particular attention that this principle is observed with respect to their branches and subsidiaries in countries which do not or insufficiently apply the FATF Recommendations. The Israeli authorities advised that Israeli banks currently have no branches in high risk countries. Nonetheless there is no such obligation to pay particular attention to this principle; if such circumstances were to occur it is implied through Artice 3b regarding group policy.

643. There is no specific requirement for financial institutions to inform the home country supervisor when a foreign branch or subsidiary is unable to observe appropriate AML/CFT measures. However, under group policies the compliance officer must inform the home country.

Additional elements

644. As noted, Article 2b of the 411 Directive requires CDD measures to be applied at the Group level.

3.8.2 Recommendations and comments

Recommendation 15

645. The basis for implementing R.15 is Section 8 of the PMLL which requires the appointment of compliance officers (but not at management level) and training of staff. There is no general obligation to establish and maintain internal procedures, policies and controls to prevent money laundering and financing of terrorism and to communicate these to employees. This is however more clearly specified in the Banking Directive 411. There is no similarly comprehensive requirement for the non-banking financial sector. Banks are required to appoint Compliance Officers at management level. In practice this is fully implemented in the banking sector. In the non-banking sector there are no clear requirements for Compliance Officers at management level though Compliance Officers at senior level do exist in insurance corporations and provident funds. Internal audit departments in banks are obligated and have tested AML/CFT systems but there are no similar requirements in the non-banking financial sector. The ongoing training programs are both required and more developed in the banking sector, but there is no general requirement for ongoing training in the non-banking financial sector. The Israeli authorities need to ensure that Recommendation 15 in all its aspects is clearly required by law, regulation or other enforceable means, all of which requirements should be capable of being sanctioned.

Recommendation 22

646. Such obligations as there are related only to banking corporations. Though none of the other parts of the financial sector have foreign branches currently they may in the future and the requirements of Recommendation 22 should be of general application.

647. So far as banking corporations are concerned Article 3 b of Directive 411 goes some way to meeting criterion 22.1 though it would be clearer if the article made reference to the need to observe AML/CFT requirements of the home country and the FATF Recommendation to the extent that local regulations permit. Criterion 22.1 needs also to apply to all financial institutions.

648. There should be a binding obligation on all financial institutions:

- to pay particular attention to the principle with respect of countries which do not or insufficiently apply FATF Recommendations;
- where the minimum AML/CFT requirements of home and host country differ to apply the higher standard to the extent that host country laws permit;
- to inform the home country supervisor when a foreign branch or subsidiary is unable to observe appropriate AML/CFT measures.

3.8.3 Compliance with Recommendations 15 and 22

	Rating	Summary of factors underlying rating
R.15	**Partially compliant**	No general enforceable requirements to: • establish and maintain internal procedures, policies and controls to prevent money laundering and to communicate them to employees in non-banking sector;

		• designate compliance officers at management level in the non-banking financial sector; • ensure compliance officers in the non-banking financial sector have timely access to information; • maintain an adequately resourced and independent audit function to test compliance with AML/CFT procedures, policies and controls in the non-banking financial sector; • establish ongoing employee training outside banking corporations; • put in place screening procedures; • ensure high standards when hiring employees.
R.22	**Partially compliant**	• No general obligation for all financial institutions which ensures their branches and subsidiaries observe AML/CFT measures consistent with home requirements and the FATF Recommendations to the extent that host country laws and regulations permits; • There is no requirement to pay particular attention to situations where branches and subsidiaries are based in countries that do not or insufficiently apply FATF Recommendations; • Provision should be made that where minimum AML/CFT requirements of the home and host countries differ, branches and subsidiaries in host countries should be required to apply the higher standard to the extent that local (i.e. host country) laws and regulations permit; • No general obligation to inform the home country supervisor when a foreign branch or subsidiary is unable to observe appropriate AML/CFT measures.

3.9 Shell banks (Recommendation 18)

3.9.1 Description and analysis

649. Article 4 of the Banking Licensing Law prescribes that the Governer of the BOI may at his discretion and, after consultation with the Licences Committee, issue a bank licence to a foreign corporation, being a bank in a foreign state. This bank should be registered in Israel.

650. Section 123 of the Company Law obliges foreign corporations which are registered in Israel to have a registered office in Israel, to which it can send messages and in which offices all registration documents and protocols must be kept. This provision in itself does not make it completely clear that, legally, establishment of banks in Israel is impossible without having a physical presence in their place of operation (Israel) and have a mangement with an independent board.

651. Nevertheless BOI unwritten policy is to allow only leading and supervised international banks which hold high international ratings to open branches in Israel. The BOI advised the examiners that currently there are only three international banks and one subsidiary of a foreign national bank which have branches in Israel. The Bank of Israel advised that a bank (or country of origin of a bank) with low ratings and without substantial international activity and branches will not receive a licence to act in Israel.

652. The evaluation team was consequently advised that no shell banks therefore operate in Israel. Some banks in Israel operate branches abroad without any physical presence abroad (for example, the Bahamas and Virgin Islands). All the financial statistics are consolidated in the banking corporations' financial reports in Israel and the parent company operates to fulfil

its duties regarding the prohibition of money laundering and financing of terrorism, in the framework of Section 7(b) of Directive 411. This section obliges the officer responsible in the banking corporation's policy and procedures regarding the prohibition of money laundering and the financing of terror are implemented on a group basis. Therefore these branches are not defined as shell banks.

653. Thus, while shell banks are not part of Israeli practice, this practice is not fully embodied in any formal way.

654. Section 22 (c) of Directive 411 obliges banking corporations not to engage in correspondent banking with a bank registered in a jurisdiction where the respondent bank does not have physical presence (a 'shell bank') unless it is connected with a supervised banking group.

655. There is no specific directive 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.

3.9.2 Recommendations and comments

656. Israel should review its laws, regulations and procedures and implement a specific requirement that covers in a formal way, the prohibition on the establishment or the continued operation of shell banks.

657. There should be an enforceable obligation on financial institutions to reassure themselves that a respondent financial institution in a foreign country does not permit its accounts to be used by shell banks.

3.9.3 Compliance with Recommendation 18

	Rating	Summary of factors underlying rating
R.18	**Largely compliant**	• Measures to prevent the establishment of shell banks are not sufficiently explicit. • There is no specific enforceable obligation that requires financial institutions to satisfy themselves that respondent financial institutions in a foreign country do not permit their accounts to be used by shell banks.

Regulation, supervision, guidance, monitoring and sanctions

3.10 The supervisory and oversight system - competent authorities and SROs / Role, functions, duties and powers (including sanctions) (R. 23, 29, 17 and 25)

3.10.1 Description and analysis

Authorities / SROs roles and duties and structure and resources R.23.1 and 23.2, R.30

658. The overall supervisory framework is depicted in the table at para. 44 above, and for ease of reference is reproduced here.

Number of Israeli financial institutions and their current supervisory arrangements

Financial Institutions	Supervisor	No. of Registered Institutions
Banking Corporations	Bank of Israel – The Supervisor of the banks	21
Trust Co.	Bank of Israel - The Supervisor of the banks	8
Portfolio Managers	The Securities Authority	132
Provident Funds	The Administrator of the Capital Market, Ministry of Finance	89 holding companies, 482 funds
Stock Exchange Members	The Securities Authority	13
Insurance	Supervisor of Insurance, Ministry of Finance	21 companies (of this 3 are governmental companies, 7 are licensed for non–life business only, 11 are composite)
MSB's Money and Currency Changing	The Registrar of Providers of Currency Services, Ministry of Finance	1,153
Postal Banks	Ministry of Communication	1/650
Debit and Credit Cards Companies	Bank of Israel - The Supervisor of the banks	3

659. Criterion 23.1 requires that countries should ensure that financial institutions are subject to adequate AML/CFT regulations and supervision and are effectively implementing the FATF standards. Criterion 23.2 requires countries to ensure that a designated competent authority (or authorities) has responsibility for ensuring AML/CFT compliance.

660. As already stated, Israeli AML/CFT legislation applies to banking corporations, members of the stock exchange, portfolio managers, insurers and insurance agents, provident funds and companies managing provident funds, the Postal bank; and providers of currency services. There is no single regulatory act introducing AML/CFT requirements to these entities. Seven orders were issued by different authorities to each of the financial sectors that require customer identification, record keeping and submission of UTRs and CTRs. Although that approach could be interpreted as allowing more flexibility in order to reflect the peculiarities of each of the financial businesses, in the evaluators' opinion it may cause differences or unevenness in the implementation of the same AML/CFT standards within the different financial sectors.

661. Section 2(B) of the Insurance Control Law and Section 39(B) of the Provident Funds Law empower the Commissioner of Insurance and the Capital Market Commissioner respectively to issue directives pertaining to the modes of activity and the proper management of companies (which are managing provident funds), insurers and insurance agents, office holders therein and of whoever is employed by them.

662. Competence for supervision on compliance with AML/CFT requirements does not lie with a single authority in Israel. The respective authorities responsible for prudential supervision and licensing of the financial institutions are responsible for AML/CFT compliance supervision as a part of prudential supervision. The Bank of Israel is responsible for AML/CFT supervision of banks; the Israel Securities Authority for the securities industry; the Ministry of Finance for insurance companies, currency service providers, and provident funds; and the Ministry of Communication for the Postal bank. At the time of the on-site visit, procedures for oversight of the Postal Bank were only in the final stages of development.

663. Under Israeli legislation it is permissible to outsource supervisory powers to an external entity on the base of a contract. Contracted external entities are usually private companies with a specialisation in performing such functions. That approach is taken by the supervisory units of the Israel Securities Authority, the Capital Division of Ministry of Finance and the Ministry of Communication. Ministerial units mostly rely on outsourcing to fulfil the performance of their on-site inspection powers (as a part of their prudential supervision function in general and their AML/CFT supervision function in particular).

664. Representatives of both ministries told the evaluators that outsourcing is a good way to involve well experienced and well trained experts in the process of their supervision activities and to compensate for the lack of staff in the respective ministerial units.

665. Although there is no international standard requiring a single AML/CFT regulator or supervisor, it must be noted that divergence in supervision and regulatory matters could be an obstacle to ensuring the effectiveness of the preventive AML/CFT system in Israel (especially in the absence of an efficient coordination mechanism).

666. The respective supervisory authorities can require the provision of documents and information as they deem necessary in fulfilling their responsibilities. If supervisory responsibilities are outsourced to a contracted external body – even if that is a private entity – it has the power to require provision of relevant documents or information.

667. There is no requirement for supervisors or contracted external entities to file UTRs with the IMPA on suspicious transactions encountered in the course of their supervisory work. However such suspicions (discovered during supervisory inspection) are in fact communicated to IMPA. Upon identifying a suspicious or unusual transaction the supervisors instruct the inspected financial institution to immediately file a UTR with IMPA. Furthermore, if and when the financial institution is brought before the Sanctions Committee because of failure to report the suspicion to IMPA, the FIU representative in the Sanctions Committee is again made aware of the suspicious activity.

668. According to the relevant law on the Bank of Israel, it is independent of government and other bodies. The strategic management of and public accountability for the Bank of Israel is vested in its Governor. He is appointed by the President of the State of Israel for five years. The Banking supervision department is subordinated directly to the Governor and it is operating independently. The Banking Supervision Department of BOI have 8 supervision staff. Supervision of banks is not outsourced.

669. Although the Israel Securities Authority is closely linked with the Ministry of Finance, the ISA is an independent authority. It is not obligated to report to the Finance Ministry and the Finance Ministry is not authorized to oversee its actions, to dismiss its chairman or to give it instructions. The respective units of the Ministry of Finance responsible for insurance, currency service providers, and provident funds are an integral part of it with operational independence. The Capital market, insurance and savings division at the Ministry of Finance has two supervision departments that employ 19 staff members. The division compensates the understaffing by outsourcing the on-site inspections to audit firms. It is customary that the staff members from the division accompany the outsourced auditors during the on-site visits. The division aims to train the staff members during those visits in order to raise their expertise so that in the future the division will relinquish out sourcing on-site inspection.

670. The unit within the Ministry of Communication responsible for the Postal Bank was recently established. The unit within the Ministry of Communication responsible for the supervision of the Postal Bank has 4 employees (two of them are auditors) and the unit buys in services from KPMG auditors. The staff of KPMG include 17 employees who deal with the supervision of the Postal Bank. Understaffing is an issue relevant to Ministry of Communication and Ministry of Finance supervisory bodies.

671. Another important problem is the low level of AML/CFT expertise among the employees of the supervisory units within the Ministry of Finance and the Ministry of Communication. A lack of sufficient training, resulting in underestimation of the importance of AML/CFT issues could be an obstacle to the proper management of outsourced on-site inspections and effective implementation of AML/CFT requirements in the respective financial businesses. It is important to understand that contracted external entities perform a purely technical role in the AML/CFT compliance process, while policy issues and overall responsibility for the AML/CFT system in general remain with the respective competent authorities.

672. The confidentiality is properly regulated and observed. Staff involved in supervisory and regulatory work are required to hold degrees/diplomas in accountancy/law/economics. The employees generally receive training in special areas on a regular basis.

673. Contracted external entities are subject to the confidentiality rules that apply to the employees of the respective supervisory authority, when they undertake outsourced on-site inspections.

Authorities Powers and Sanctions – Recommendation 29 and 17

Recommendation 29

674. Criterion 29.1 requires that supervisors should have adequate powers to monitor and ensure compliance by financial institutions with the respective requirements to combat money laundering and financing of terrorism.

675. Section 5 of Banking Ordinance 1941 assigns the inspection and general supervision of every banking corporation to the Supervisor of Banks. The Supervisor of Banks is granted the power to request from banking corporations the delivery of information and documents in their possession that are related to the business of the banking corporation and every corporate body under their control (or to enable her/him to examine any such document).

676. Under Section 11N of the Prohibition on Money Laundering Law, the Supervisor is granted powers to require banking corporations to provide any document that relates to their compliance with the obligations under that law. The supervisors' powers relate to on-site and off-site inspections, access to all relevant records and information needed to check compliance, including information on accounts or business relations, as well as to all procedures the bank carried out to identify unusual transactions. The Supervisor's authority with regard to access for supervisory purposes to records and information in the bank does not require a court order.

677. The Banking Supervisor has adequate powers to establish if financial institutions require their foreign branches and majority owned subsidiaries to observe AML/CFT measures effectively but foreign branches are not a subject of on-site supervisory inspection.

678. The Insurance Law and the Provident Funds Law regulate the powers of the Commissioner of Insurance and the Commissioner of the Capital Market.

679. Section 50 of the Insurance Law and Section 39 (C) of the Provident Funds Law, empower the Commissioner of Insurance and the Capital Market Commissioner to require of an insurer, an insurance agent, a managing company and any office holder therein, any information and document pertaining to its respective business.

680. Pursuant to Section 92 of the Insurance Law and Section 48 of the Provident Funds Law, the Commissioner of Insurance and the Capital Market Commissioner are entitled to impose on a company managing provident funds, an insurance agent, an insurance company or an office holder therein a financial sanction or civil fine in respect of the breach of the provisions of the Insurance Law or the Provident Funds Law or the directives of the Authority issued by virtue thereof. The amount of a civil fine may reach as much as NIS 484,000.

681. Pursuant to Chapter G of the Insurance Law and Section 39 (C) of the Provident Funds Law, if the Insurance Commissioner or the Capital Market Commissioner are persuaded that the capability of an insurer of a managing company to fulfil their responsibilities is suspect, they are entitled to remove office holders from office, to render contingent or to restrict the power of an office holder, to appoint a licensed administrator or a special supervisor.

682. Section 11N of the Prohibition of Money Laundering Law provides for supervision and audit powers for supervisors appointed by the Ministry of Finance, the ISA and the Ministry of Communications.

683. Under the Postal law of 1986, the Minister of Communication is authorised to supervise the Postal Bank's and the postal companies' activities within the framework of a general

licensing and the supervising regime. There are no specific provisions providing for the ministry's general financial supervisory powers. However, for the supervision of AML/CFT the provisions of Sections 11 N and M of the PMLL and S. 48 (D) and (E) of the PTFL are relevant. The same provisions apply to all other supervisory authorities.

684. All supervisors have the authority to conduct inspections of financial institutions including on-site inspections in order to ensure compliance with AML/CFT requirements. They are allowed to review policies, procedures, books and records. This impliedly includes powers to perform sample testing, which the evaluators were advised takes place in practice.

685. On-site inspections can either cover general aspects on all activities of the entity under inspection or can be targeted at specific operations triggered through off-site monitoring. Routine on-site inspections cover all factors which may have an impact on the performance of the entity. These inspections broadly cover the main areas of the organisation.

686. There is no evidence that, when problems in the AML/CFT policy or system of the entity under inspection are discovered in the course of an on-site inspection, that the supervisors routinely investigate the reasons for the problems and report them to the FIU.

687. The Evaluators formed the view that there is no general practice of discussions with senior management subsequent to the on-site inspection in respect of the findings. Nevertheless, a follow–up letter detailing the supervisors' findings is sent to the managers and they are requested to give feedback including a proposed plan of action, in which clarification (or remedial action) must be proposed. The evaluators did not find a provision requiring managers to reply to the letter within a given timeframe.

688. The FIU itself is not involved in the process of presenting the findings or in the follow up work.However, FIU representatives are members of the Sanctioning Committee.

689. A court order that requests financial institutions to provide information or documents to the supervisors is not needed.

690. Sections 8A and 8C to 8E of the Banking Ordinance 1941 empower the Supervisor of Banks to order a banking corporation to rectify defects that were found in its management, which likely impair its ability to meet its obligations or the proper conduct of its business. If the banking corporation does not rectify the defects, the Supervisor is empowered to propose the imposition of sanctions on it. The manager of the banking corporation who fails to take all reasonable steps to secure compliance with the requirements of the Order is personally liable. The Sanctions Committee chaired by the Supervisor of Banks is empowered to impose financial sanctions on a banking corporation that has breached the legislative provisions (Sections 12 and 13 of the Prohibition on Money Laundering Law).

691. Section 8C of the Banking Ordinance, 1941 enables the Supervisor of Banks to suspend, restrict or remove office holders of a banking corporation from their post, if, among other things, the banking corporation has not rectified defects, which were notified to it or if it did not prevent their adverse consequences.

692. The Ministry of Finance (in its role as the money services providers' regulator) has the power to sanction entities that fail to comply with the law and other requirements. The Registrar of Currency Services has the power to revoke the registration in case of certain AML violations (namely Sections 3 and 4 and other serious criminal offences). With regard to non-compliance with the reporting and identification requirements, the Registrar has the power to propose significant fines, up to 2 million NIS. The decisions whether to impose a fine and the amount are made by the Sanctions Committee. The Israeli FIU is involved in the

work of the Committee, as a legal representative of IMPA represents the Ministry of Justice on the Committee.

Recommendation 17

Criminal sanctions

693. As previously noted there are some criminal sanctions available in various parts of the AML/CFT legislative architecture. The confidentiality obligations discussed above in the context of Recommendation 14 attract criminal penalties under Section 31 A and B PMLL of 3 years or a fine, or one year or a fine, if committed negligently.

694. Disclosures with regard to reports under Section 7 (c) of the PMLL (which in some respects covers tipping off) attract a criminal penalty of one year's imprisonment. No criminal proceedings have been brought for this against individuals and/or corporations.

695. Failing to report does attract criminal penalties under Section 10 PMLL or a fine at the rate stated in Section 61 (a) (4) Penal Law or ten times the amount which was not reported on. However, Section 9 of the Banking Order provides for unusual transaction reporting and appears to have been the subject of financial sanctions under the administrative procedure (see table beneath). Failing to comply with AML/CFT obligations (e.g. reporting to the FIU) by a financial institution is subject to a financial sanction by an Administrative Sanctions Committee, set up under the PMLL (see Section 14 PMLL). In cases where there is evidence of criminal intent to avoid reporting to IMPA it is possible to charge the relevant person (e.g. the person performing the financial activity or the person withholding the relevant CDD information) with criminal charges according to section 3(b) of the PMLL before a criminal court.There have been several indictments and convictions under section 3(b) of the PMLL including cases involving reporting financial entities and their employees (see analysis under Recommendation 1).

Administrative sanctions

696. Section 14.H of the Banking Ordinance 1941 enables the Supervisor of Banks in the BOI to impose financial sanctions on banking corporations if he has reasonable grounds to assume that it violated the proper conduct of the Banking Business Directive. Section 8.C of the Banking Ordinance 1941 enables the Supervisor of Banks to suspend, restrict or remove an office holder if, inter alia the banking corporation has not rectified defects notified to it or prevented their adverse consequences.

697. Under the PMLL a system is set up of Sanctioning Committees (see beneath). Sections 12-20 PMLL enable the Banking Sanctions Committee to impose financial sanctions on a banking corporation that violates the requirements of Section 7 PMLL (which sets out the main AML/CFT obligations including the reporting obligation) and Section 8 PMLL (dealing with the appointment and the duties of a compliance officer), and/or the Banking Order.

698. With regard to the ISA, Ministry of Finance and the Postal Bank, under Section 14 PMLL, the Financial Sanctions Committee is competent to impose financial sanctions on a person or corporation that does not appoint a compliance officer or that does not comply with Section 7 of PMLL and the Orders. The MSB Registrar has similar powers to propose sanctions.

699. A Committee for Imposition of Financial Sanctions, composed of varying members, depending on the nature of the corporation in question, imposes the sanctions. The Minister of Justice shall lay down working arrangements for the Committee and criteria for imposing of

financial sanctions after he consulted with the Governor of the Bank of Israel as well as the Minister responsible for the respective entity.

700. Each Committee is composed of three members and consists of a supervisor, a person from the supervisor's staff appointed by her/him and a lawyer appointed by the Minister of Justice, who is an attorney from the FIU. The Supervisor should be:

- The Supervisor of banks – in the case of banking corporations
- The Chairmen of the Securities Authority - in the case of a member of the Stock Exchange and a portfolio manager
- The Superintendent of Insurance - in the case of an insurer
- The Commissioner of the Capital Market - in the case of a provident fund or a company managing a provident fund
- The Minister of Communication or a public servant authorised by her/him - in the case of the Postal Bank
- The Registrar for Providers of Currency Services – in the case of a provider of currency services

701. It is possible to impose sanctions under PMLL and PTFL on any reporting entity that violates the rules. The supervisors have additional powers to enforce their orders against directors and senior managers for violating any of the law or directives including AML/CFT. Administrative sanctions have been imposed on the reporting entities (e.g. Banking corporations, Portfolio managers, Insurance co, Money service providers etc.). In some cases criminal charges were brought against individuals (money service providers (or their employees) or bank employees in according with section 3 (b) of the PMLL.

702. The Registrar of MSB is empowered under s. 11 (i) PMLL to demand the termination of employment of a senior manager in the case of an indictment for an AML violation either in Israel or in a third country.

703. The sanctions that exist in the PMLL for breach of provisions in the law are applied flexibly and include financial sanctions up to NIS 2,020,000, according to the parameters set by the Prohibition of money laundering (Financial Sanctions) Regulation 5762-2001. There is no specific provision in the PMLL for the revocation of a licence. This situation would be dealt with under the general powers of the Bank of Israel or any other regulator under s. 11N (D) PMLL.

704. As will be seen from the tables beneath, the highest fine imposed prior to the on-site visit was on a banking corporation for a variety of AML/CFT breaches and a 1,000,000 NIS fine was imposed. It was also noted that on January 7, 2008, the Committee for the Imposition of Financial Sanctions decided to impose NIS 5.5 million (total) in financial sanctions against two banking corporations.

705. The Israeli authorities have provided the following information on imposed AML/CFT sanctions; all these decisions have arisen from specific AML/CFT supervisory action and were imposed by the relevant Sanctions Committee.

Banks

Institution	Date of the decision of the sanction committee	Section violation in the law	Section violation in the order	Section violation in the Regulations	The fine imposed in NIS	comments
Bank	29.5.2003		2,3,4,7,9,10,14	4(a)(2)	warning	
Bank	2004				warning	
Bank	4.4.2004		2,3,4,6,7,10	4(a)(2)	warning	
Bank	4.4.2004		2,3,4,7,9,11,14	4(a)(2)	350,000	
Bank	4.4.2004		2,3,4,6,7,8,9,10	4(a)(2)	100,000	
Bank	4.4.2004	8	2,3,4,7,9,11,14		750,000	
Bank	4.4.2004		2,3,4,6,7,8,9,14		warning	
Bank	4.4.2004		2,3,4,6,7,8,10,11,14,17		warning	
Bank	4.4.2004	8	3,7,9,11,14		warning	
Bank	4.4.2004	8	2,3,6,7,9,11,14	4(a)(2)	1,000,000	
Bank	4.4.2004		2,3,4,7,8,14,17		warning	Was closed
Mortgage Bank	4.4.2004		2,3,4,7,9		warning	
Mortgage Bank	4.4.2004	8	2,3,4,7,14		350,000	
Bank	20.9.2004	8	2,3,4,7,9,14	4(a)(2)	100,000	Was closed
Trust Company	25.12.2005		3,14,17		warning	
Trust Company	25.12.2005		3,4,8,9,11,14		350,000	
Trust Company	25.12.2005		2,3,4,7,8,9,11,14		500,000	
Bank	31.7.2007		2,3,4,8,9,11,14,17	4(a)(2)	425,000	

Stock Exchange members and portfolio managers

Sanctions that were imposed in 2003

Portfolio management company	The violations	The fine imposed
	Sections 2,3,4	NIS 15,000
	Sections 2,3,4 and 18	NIS 15,000
	Sections 2 and 3	NIS 20,000

2004 — 12 cases (11 portfolio managers and one stock exchange member) came before the committee; in 10 cases a financial sanction was imposed (in nine cases on portfolio management companies and in one case on a stock exchange member). In two cases a warning letter was sent to a company.

Fines that were imposed in 2004

Portfolio management company	The violations	The fine imposed
	Sections 8(5), 18	NIS 15,000
	Sections 2,3,4, 7, 15 Sections NIS 200,000 2,3,4,6,7,8(5), 18(a)	NIS 15,000
	Sections 2,3,18	NIS 40,000
	Sections 2,3,7, 18	NIS 25,000
	Sections 2,3,7,15(a),18(a)	NIS 25,000
	Sections 2,3,7'9' 15(a), 18(a)	NIS 30,000
	Sections 8(5), 18	NIS 100,000
	Sections 8(5)' 18	NIS 10,000
	Section 3	NIS 30,000

2005 — 3 cases (1 portfolio managers and two stock exchange members) came before the committee; in the three cases a financial sanction was imposed.

Fines that were imposed in 2005

Portfolio management company	The violations	The fine imposed
	Section 6	NIS 100,000
	Sctions 2, 3, 6	NIS 50,000
	Sctions 2, 3, 4	NIS 10,000

2006 — 4 cases (portfolio managers) came before the committee; in the four cases a financial sanction was imposed on the company.

Fines that were imposed in 2006

Portfolio management company	The violations	The fine imposed
	Sections 2,3,4,6,7	NIS 3,000
	Sections 3,4,7,8,15	NIS 5,000
	Sections 3,4,6,7,15	NIS 10,000
	Sections 2,3,4,7	NIS 30,000

Money Service Businesses

The year	Institution	Order sections violated	law Section violated	The fine imposed
2003	MSB	Sections 2,3,4,5,6,9 of the order	7	N.I.S.50,000
2004	MSB	Sections 2,3,4,6 of the order	7	N.I.S. 10,000
2004	MSB	Sections 2,3,5, 6,7,9 of the order	7	N.I.S. 50,000
2004	MSB	Sections 2,3,5,6,7,9 of the order	7	N.I.S. 50,000
2004	MSB	Sections 3,6,7,of the order	7	N.I.S. 10,000
2004	MSB	Sections 3,4,6 of the order	7,8	N.I.S. 10,000
2004	MSB	Sections 2,3,4,6 of the order	7	N.I.S. 30,000
2004	MSB	Sections 2,3,4,5,6,7,9 of the order	7	N.I.S. 18,000
2004	MSB	Sections 2,3,4,6,9 of the order	7,8	N.I.S. 70,000
2004	MSB	Sections 2,3,4,6 of the order	7	N.I.S. 80,000
2004	MSB	Sections 3,6,7 of the order	7	N.I.S. 10,000
2004	MSB	Sections 2,6 of the order	7	N.I.S. 60,000
2004	MSB	Sections 2,3,4,6,9 of the order	7,8	N.I.S. 250,000
2004	MSB	Sections 2,3,4,6,9 of the order	7	N.I.S. 80,000
2004	MSB	Sections 2,3,4,6,9of the order	7,8	N.I.S. 210,000
2004	MSB	Sections 2,3,4,6,9 of the order	7	N.I.S. 130,000
2004	MSB	Sections 2,3,4,6,9 of the order	7	N.I.S. 10,000
2004	MSB	Sections 2,3,4,5,6,9 of the order	7,8	N.I.S. 130,000
2005	MSB	Sections 2,3,4,6,7,9 of the order	7	N.I.S. 35,000
2005	MSB	Sections 2,3,4,6,9 of the order	7	N.I.S. 60,000
2005	MSB	Sections 2,3,6,9 of the order	7,8	N.I.S. 300,000
2005	MSB	Sections 2,3,4,6,9 of the order	7	N.I.S. 120,000
2005	MSB	Sections 2,3,4,6,9 of the order	7	warning
2005	MSB	Sections 2,3,4,9 of the order	7	warning

2006	MSB	Sections 2,3,4,6,9 of the order	7,8	N.I.S. 60,000
2006	MSB	Sections 2,3,4,6,7,9 of the order	7	warning
2006	MSB	Sections 2,3,4,6,7,9 of the order	7	N.I.S. 50,000
2006	MSB	Sections 2,3,4,7,9 of the order	7	warning
2004	insurance	Sections 2,3,4,5,10 of the order		warning
2004	insurance	Sections 2,3,4,5 of the order		warning
2006	insurance	Sections 3,4 of the order	8	N.I.S. 50,000
2006	insurance	Sections 2,3,4,6,10 of the order	7,8	N.I.S. 100,000
2006	insurance	Sections 3,4 of the order	7,8	N.I.S. 30,000

Total fines imposed on MSB's – N.I.S. 2,063,000
Total fines imposed on insurance companies- N.I.S. 180,000

Data regarding Inspections and of Financial Sanctions – 2007

Financial Institutions	No. of inspections	No. of Committees	The total sanction were imposed
Banking Corporations	5 * 2 reports were transmitted to the banks for response.	3	5,925,000 NIS (1,550,000$)
Stock Exchange Members	33 * Part of the committees will take place at 2008	11	94,000 NIS
MSB's Money and Currency Changing	15	8	220,000 NIS
Provident Funds	7	* financial sanctions committees are expected to be held at 2008	———
Postal Banks	1	———	———
Customs		47	846,000 NIS
Total			**7,085,000 NIS**

Market entry

706. Criteria 23.3.1 requires directors and senior management of financial institutions subject to the Core Principles should be evaluated on the basis of "fit and proper" criteria including those relating to expertise and integrity.

707. The law provides for measures to ensure that the authorities should be aware of the beneficial owners and those with controlling interests in a financial institution, as well as those holding management functions in a financial institution. The relevant requirements are contained respectively in the Banking (Licensing) Law, the Investment Advice Law, and the Provident Funds Law.

708. In accordance with Section 34 of the Banking (Licensing) Law, 5741–1981, a person shall neither acquire more than five percent of a particular category of the means of control of a banking corporation nor acquire control of a banking corporation (save under a permit issued by the Governor of the Bank of Israel). Such permit is issued only after a thorough examination, which covers the applicant's integrity and criminal convictions.

709. Section 8(b)(3) of the Investment Advice Law provides that a person, who has been convicted of an offence on the list of offences in section 1 of the law (see AnnexVII), may not hold office as an officer in a company that is a licensed portfolio manager. In addition, section 8(b)(2) of the law provides that a company may only employ a person in portfolio management, who is himself licensed for portfolio management. A condition for receiving a personal licence is that the individual has not been convicted of the aforesaid offences. Section 8(c)(2) of the Investment Advice Law provides that the Israel Securities Authority is entitled to refuse to give a licence to a company if one of the officers of the company or one of the controlling shareholders of the company is not fit to be a licencee (the fit and proper test). Under section 10 of the Investment Advice Law the Israel Securities Authority is competent to revoke or suspend the licence of a person that no longer complies with the terms of the licence, including someone who was convicted of an offence.

710. Sections 5 and 6 of the first section of the Tel Aviv Stock Exchange members' guide provide that one of the conditions for a stock exchange membership of a company, which is not a banking corporation, is that the controlling person(s) and the senior managers are of good reputation and have not been convicted of an offence involving ignominy (e.g. fraud and deceipt). In addition Section 75 of the guide provides that the stock exchange board of directors may prohibit a member from engaging in certain transactions or in trade on or off the stock exchange should an indictment be filed against the member or its controlling person(s); this serious step may be taken according to the indictment's gravity. Furthermore, the board of directors may suspend a member in such cases (Section 76 of the guide) or revoke a member's membership if he has been convicted of an offence involving ignominy (Section 78 of the guide).

711. In accordance with Section 32 of the Insurance Law and Section 10 of the Provident Funds law, a person shall not acquire more than five percent of a particular category of the means of control of an insurance company or provident funds under a permit issued by the commissioner of insurance. Such permit is issued only after a thorough examination, which covers the applicant's integrity and lack of criminal convictions.

712. "Fit and proper" requirements for money service businesses include cheques of criminal records of every applicant, the controlling shareholders and the branch manager. The police criminal record database is used for that purpose.

713. The Postal bank is a governmental company (100% state owned). The directorate is appointed by the governmental companies' authority with approval of the Minister of Finance and Minister of Communication. Under section 1b(f) of the Post law, the Minister of Communication has been given the authority to determine conditions for the holding, transferring or purchasing of a controlling interest over the Postal bank. These terms were determined in the licence which came into force on 15th January, 2008. according to which any purchase or holding or transferring of controlling interests means from 5% upwards and requires the approval of the Minister of Communication. Nevertheless "fit and proper" requirements remain unclear to the evaluators as well as the extent to which they are applied in practice.

714. The Banking Ordinance was amended in 2004, to the extent that a banking corporation intending to appoint a director, a general manager, an internal controller and holder of any office that the Supervisor of Banks may determine (the Supervisor shall determine, for each banking corporation, which of its officers require the approval of their appointment), shall notify the Supervisor of Banks of such intent. The Supervisor may object to this nomination for reasons – among others – of the candidate's lack of integrity. Additionally, the Supervisor has published a questionnaire which a candidate must complete as part of the fit and proper procedure. Section 11 of the Ordinance lists individuals not eligible to participate in the management of banking corporations.

715. Section 11 C of the PMLL provides for mandatory registration by the Registrar of Currency Services within the Ministry of Finance of a subject in the following cases:

(1) conversion of the currency of one country into the currency of another country;
(2) sale or redemption of travellers' cheques in any currency;
(3) receipt of financial assets in one country against the availability of financial assets in another country; for the purposes of this section "financial assets" – cash, travellers' cheques, cheques, bills of exchange, promissory notes, tradable securities, credit or money deposits;
(4) exchange of currency notes;
(5) discounting of cheques, bills of exchange promissory notes.

So far, 15 MSB applicants have been refused.

716. Section 8(c)(2) of the Investment Advice Law provides that the Israel Securities Authority is entitled to refuse to give a licence to a company if one of the company's officers or one of the controlling shareholders is not fit to be a licensee (the fit and proper test).

717. Specific regulation on the fit and proper test are provided for in the Stock Exchange rules (the stock exchange being a self-regulatory body). Persons holding controlling interests and senior managers have to be of good reputation and must not have been convicted of an offence involving ignominy. In addition, the transfer of controlling interest requires approval by the stock exchange's board of directors. Furthermore, the board of directors may suspend a member or revoke a member's membership if he has been convicted of an offence involving ignominy.

718. Sections 41 of the Insurance law and 10 of the Provident funds law stipulate that an insurer or provident fund intending to appoint a director, a general manager, an internal controller or other managers, shall notify the Commissioner of Insurance. The Commissioner may object to this nomination for reasons including the candidate's integrity.

719. Clause 1b(f) of the Post law gives the Minister of Communication the authority to set terms for the appointment of function holders and directors. In the supervision regulations draft conditions of qualification for function holders are set out and among them is a requirement to consider the criminal records of an applicant for appointment.

On-going supervision and monitoring – R.23 (criteria 23.4, 23.6 and 23.7)

720. All licensed institutions are subject to on-going supervision by the respective authority. Banks themselves report to the supervisor of the Banks in the Bank of Israel on a regular basis. These reports are of various types and range from reports that must be filed immediately to reports which are made on a half monthly, monthly, quarterly, semi-annual and annual basis. The supervisor of the Banks in the Bank of Israel conducts on-site inspections in the banks for the purpose of authentication of reports, as well as other matters, in order to ensure proper management. The inspections include inspections of data and inspections of the reasonableness of information provided.

721. The major banks are assessed individually and supervisory visits are conducted by the Bank of Israel according to the different risks to which the major banks are exposed. The areas which are covered during inspections include credit, treasury, internal audit, risk management, deposit accounts, prevention of money laundering, etc. Assessment of risk management in banking corporations includes risk management in terms of prohibition of money laundering and financing of terrorism. Supervision activities include on a standard basis subsidiaries and branches of banking corporations outside Israel. Such supervisory activities are conducted on an off-site basis.

722. The Licensing and Supervision Department of the Israel Securities Authority deals with supervision of investment advisers and investment portfolio managers pursuant to the Investment Advice Law. It also deals with supervision of stock exchange members that are not banks pursuant to the provisions of the Prohibition of Money Laundering Law. Within the framework of its supervision, the department conducts audits under the Investment Advice Law and the Prohibition of Money Laundering Law.

723. The Israel Securities Authority also outsources its supervisory practice. Of 16 audits in 2006, 8 were carried out by external auditors; of 16 audits in 2007, 11 were carried out by external auditors. In 2006 fines were imposed in 4 cases, for AML violations.

724. Providing a money or value transfer service, or a money or currency changing service is covered by the term "Money services businesses" under Israeli law. The Ministry of Finance is responsible for these businesses. The respective unit was recently established. It does not consist of experienced employees. The unit outsources its supervisory practice. All on-site inspections are carried out by contracted private audit companies. AML/CFT issues are not among the areas covered by these inspections.

Statistics

725. The respective supervisory bodies keep detailed statistics covering on site examinations. There are separate statistics of AML on-site inspections.

Guidelines – Recommendation 25 (Guidance for financial institutions other than on STRs)

726. Following the enactment of the PMML and the Order the supervisor of banks issued the "Proper Conduct of Banking Business Directive N° 411", which deals with specific subjects, and gives general directives to the banking corporations with regard to the implementation of the Law and the Order. It will be recalled that the second schedule to the Order provides an indicative list of transactions that must be deemed to be unusual. The supervisor has also issued general circulars on specific subjects which clarify certain issues which arose in connection with the implementation of the Law and the Order and which arose from inspections e.g. the circular of August 30, 2004. Moreover, at the time of the on-site visit, all regulators were publishing in full the results of sanctioning protocols. The Israeli authorities

pointed out that the Bank of Israel is in regular contact with the banks, either directly or via the Association of Banks, and holds regular meetings to clarify issues.

727. The ISA published circulars and questions and answers for portfolio managers when the relevant Order came into effect in respect of duties under the Order. Again, without prejudice to the generality of the unusual transaction reporting regime, examples of transactions which must be deemed unusual are provided. Additionally in 2002, the ISA held 2 study days for portfolio managers in which the provisions of the law and the duties under the Law and the Order were discussed. This exercise was repeated on one occasion in 2004. Since 2006, every new company that receives a licence for portfolio management is obliged to undergo personal training with a supervisor of the ISA on their duties under the PMLL.

728. No guidance has been issued by the Ministry of Finance to the insurance industry on the PMLL. Some information on PMLL was issued by the Registrar of Currency Services in the Ministry of Finance to the MSBs and their duties and requirements are publicly available on the Ministry of Finance website.

729. There is currently no comprehensive guidance on CFT issues or on reporting to the FIU in relation to suspicions of financing of terrorism by any of the supervisors. However, the Israeli Authorities informed the evaluation team that specific CFT training sessions have been organised for compliance officers in the banking sector.

3.10.2 Recommendations and comments

730. The first point to make is that, as well as the powers to supervise for AML matters, (which have been in place since 2002) the power to supervise CFT issues for all regulators was introduced in the PTFL and therefore AML/CFT specific inspections have been fully in place in Israel in all parts of the financial sector since 2005.

731. All supervisory authorities have the necessary powers to require relevant documents, under clause 11n of the PMLL.

732. The supervisory authorities have generally adequate legal structures to prevent criminals from controlling financial institutions. As far as the licensing procedures in the financial market are concerned, these are broadly in line with the relevant European Union legislation and FATF Recommendations. The arrangements for supervision on AML for banking corporations, portfolio managers, insurers and stock exchange members are broadly satisfactory.

733. The inadequacy of staffing numbers in the Ministry of Finance and Ministry of Communication and the lack of adequate and relevant training for them, means that this area of AML/CFT supervision is very weak. The degree of reliance on outsourcing remains a source of concern to the evaluation team. With regard to the Postal Bank, concerns about the level of supervision currently need addressing before considering transferring other vulnerable business to it.

734. While the evaluators took note that the IMPA is represented on all sanctioning committees it remains the fact that there is no mechanism for ensuring that an appropriate and sufficient level of supervision is consistently implemented across the whole financial sector. The Israeli authorities should consider a more developed solution which ensures a consistent approach to AML/CFT regulatory issues across the whole financial sector.

735. The statistics provided to the evaluators indicate overall an effective level of supervision on AML/CFT issues by the various supervisory bodies perhaps with the exception of MSB providers where further focus or more emphasis could be placed.

736. The Bank of Israel and the Israel Securities Authority have taken steps to issue guidance on PMLL issues to the banking corporations and portfolio managers. More limited guidance has been given by the Ministry of Finance to the Insurance businesses and MSBs. No guidance has been given to the Postal Bank on PMLL. Some additional guidance is given on money laundering trends and techniques and on unusual transaction reporting beyond the indicative transactions listed in the Orders. However, insufficiently comprehensive guidance has been given on CFT issues to the financial sector. It is important that guidance is more clearly given on CFT issues. Moreover it is necessary also for the Israeli authorities, when reviewing their regulatory approach, also to revisit the whole issue of guidance to the financial sector generally to ensure that in future it is consistent and co-ordinated throughout the whole of the financial sector. At present, this is not the case. The evaluators consider that the uneven levels of effective implementation of AML/CFT measures across the financial sector is partly attributable to the current fragmented approach to supervision and guidance.

3.10.3 Compliance with Recommendations 17, 23, 29 and 30

	Rating	Summary of factors underlying rating
R.17	**Compliant**	
R.23	**Partially compliant**	• The reliance upon outsourcing of supervision of AML/CFT in the Ministry of Finance and Ministry of Communication is a source of concern. • No mechanism for ensuring that an appropriate and sufficient level of supervision is consistently implemented across the whole financial sector • Insufficient evidence of effective supervision in MSBs and the Postal bank.
R.25	**Partially compliant**	• Insufficient guidelines on CFT issues provided to the financial sector. • Insufficient guidance on PMLL issued to the Postal Bank, the insurance and provident funds sector and the money service businesses. • Such guidance as is issued is uncoordinated across the financial sector.
R.29	**Compliant**	
R.30	**Largely Compliant**	• Insufficient staffing for MoF and MoC supervision. • Lack of adequate and relevant training for MoF and MoC supervisors.

3.11 Money or value transfer services (SR.VI)

3.11.1 Description and analysis

737. Money remittance activities are considered as Money Service Business and all the requirements in the Prohibition on Money Laundering Law and the Money Changers Order apply to them as well. As noted earlier, 1,153 are currently registered.

738. The PMLL regulates the field of "Money Services Businesses" (or "currency service providers") and establishes definitions, registration procedures, and powers of inspection and enforcement. These provisions apply to all those engaged in the provision of currency services, even if this is not their only occupation. The law requires the registration of all those who execute one or more of the following actions: The conversion of the currency of one country into the currency of another country; the purchase or redemption of travellers' cheques in any currency type; and the receipt of financial assets in one country against the provision of financial assets in another country. The PMLL establishes that the execution of actions for the laundering of money is a criminal offence carrying penalties of imprisonment and financial fines. The Currency Service Providers Division of the Ministry of Finance seeks to develop an efficient currency services market for the benefit of consumers outside the banking system. The Inspection and Enforcement Division is involved in enforcing the obligation of registration, enforcing the obligations under the Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping by Money Changers) Order, 5762-2002 (hereafter — the MSB Order), and the execution of audits of the service providers. The comments in relation to Ministry of Supervision of this sector are relevant in this context also.

739. Chapter 2 of the MSB Order, stipulates the duties of Money Services Businesses to identify & verify customers and to report to the FIU. It was unclear whether each registered MVT Service operator maintains a list of its agents which can be made available to the Ministry of Finance Currency Service Providers Division. That said, there are deficiencies identified earlier in this report in respect of CDD which materially affect the compliance of the MVT service operators with the FATF Recommendations overall. The relevant deficiencies are those related to the existing thresholds, enhanced due diligence, information on the purpose and intended nature of the business relationship and ongoing due diligence.

740. Other deficiencies that are relevant are those mentioned under recommendation 15 and 21 with respect to the need to have enforceable requirements to establish clear policies and internal procedures to prevent money laundering and with respect to the monitoring of transactions and relationships.

Additional elements

741. The measures set out in the Best Practices Paper for SR VI have not been implemented so far.

3.11.2 Recommendations and comments

742. There are deficiencies identified earlier in this report in respect of CDD and RC 15 and 21 which materially affect the compliance of the MVT service operators with the FATF Recommendations overall.

3.11.3 Compliance with Special Recommendation VI

	Rating	Summary of factors underlying rating
SR.VI	**Partially Compliant**	• There are deficiencies identified earlier in this report in respect of CDD and RC 15, 21 which materially affect the compliance of the MVT service operators with the FATF Recommendations overall.

4. PREVENTIVE MEASURES – DESIGNATED NON FINANCIAL BUSINESSES AND PROFESSIONS

Generally

743. The numbers of DNFBP have been described in Section I (paras. 49 to 57). The Israeli authorities recognise that their system has yet to be extended to DNFBP. Given the large number of professionals acting in Israel, it is important that progress is made on this rapidly.

744. Dealers in precious stones are currently subject to a framework of internal procedures on a self regulatory basis, though they have no AML/CFT obligations on them.

745. The other DNFPB are not subject to the PMLL. The methodology requires preventive measures for:

- Real estate agents when involved in transactions for clients involving buying and selling real estate;
- Dealers in precious metals (not simply precious stones) when they engage in any cash transactions equal to or above € 15,000;
- Trust & company service providers when they engage in specific activities;
- Notaries, lawyers, other independent legal professionals and accountants involved in certain transactions.

746. The current draft of the PMLL amendment applies the law to dealers in precious stones. In addition, consideration was being given to applying the PMLL to other DNFBP, when they engage as financial mediators.

747. The Israeli authorities made the following three general points, which they consider provide some context to their formal non-compliance with the international standards at the present time.

748. They emphasise that Israel's laws do not permit the establishment of casinos (including internet casinos and slot machines). Thus casinos present no particular problems from the AML/CFT perspective. The National Lottery operates according to a Special Permit issued under the Penal Code (1977) by the Ministry of Finance. The permit is issued after conferring with IMPA regarding AML aspects. The permit includes money laundering requirements: The National Lottery must appoint a person who will be responsible for the corporation's obligations; the National Lottery must identify any person who wins more than 50,000 NIS.

749. Section 4(a) of the Prohibition on Money Laundering (The Banking Corporations' Requirement regarding Identification, Reporting, and Record-Keeping for the Prevention of Money Laundering and the Financing of Terrorism) Order, 5761–2001, obliges the banks to require a declaration about a beneficiary and a holder of a controlling interest when opening an account. Section 4 (a) may provide some protection but, as noted in Section 3, the evaluators were very concerned that the exemption in Section 5(a)(7) should be removed. Section 5(a)(7), it will be recalled, grants a partial exemption from section 4(a) to single accounts which an attorney, a rabbinical pleader, or an accountant opens for his clients, provided that the balance in the account at the end of every business day does not exceed NIS 300,000, and no transaction in the account exceeds NIS 100,000.

750. As noted in Section 1 of this report, Section 4 of the PMLL prohibits any person (including DNFBP) from performing any property transaction (which embraces acquisition, possession or use), knowing that it is prohibited property, and that such property falls within one of the categories of property specified in the Second Schedule and at the value determined

therein. Section 4 appears to have been used in successful prosecutions (albeit often in combination with other offences).. However, as previously noted, Sector 4 of the PMLL, as a money laundering offence, contains substantial thresholds and thresholds are not in line with international standards.

4.1 Customer due diligence and record-keeping (R.12)

(Applying R.5 to R.10)

4.1.1 Description and analysis

751. With respect to Recommendation 12, the Methodology requires that Recommendations 5, 6 and 8-11 apply to DNFPB under the following circumstances:

- Real estate agents when involved in transactions for clients (whether they are purchasers or vendors).
- Dealers in precious metals or stones when they engage in any cash transactions equal to or above USD 15,000.
- Lawyers, notaries, other independent legal professionals and accountants when they prepare for or carry out transactions in relation to specified activities.
- Trust and service providers when they prepare for or carry out transactions in relation to activities in the definition.

752. The current draft of the PMLL amendment only applies the law to dealers in precious stones specifically with respect to identification and record keeping for transactions above NIS 50.000 (~11,500$). Although the law is not in effect yet, the self regulatory system provides a certain level of reassurance with respect to, for example, the identification requirements. The draft should cover dealers in precious metals as well.

753. There are no current requirements or legislative proposals with respect to Recommendations 6 (PEPs), 8 (internal audit), 9 (third party CDD), 10 (record keeping), or 11 (monitoring).

European Union Directive

754. Other independent legal professionals should also under the Directive include tax advisors, external accountants and auditors. For external accountants the obligations should apply to all their professional activities. There are no such obligations currently proposed. Dealers generally in high value goods (and not just dealers in precious metals and stones) are required to be covered by the Directive. There are no plans currently to include them. The evaluators advise that these requirements of the 2nd Directive also be covered by the PMLL.

4.1.2 Recommendations and comments

755. Recommendation 12 (applying Recommendations 5, 6, and 8-11) should be implemented as a matter of urgency. Recommendation 12 needs to be applied in respect of real estate agents, dealers in precious metals and stones, lawyers, notaries and other independent legal professionals and accountants, and trust and company service providers in the circumstances described therein.

756. The plans to extend DNFBP obligations to others when they act as financial mediators should be reviewed to ensure that "acting as a financial mediator" will cover all the requirements in Recommendation 12.

4.1.3 Compliance with Recommendation 12

	Rating	Summary of factors underlying rating
R.12	**Non compliant**	• Currently there are no CDD obligations for real estate agents, dealers in precious metals and stones, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants.

4.2 Suspicious transaction reporting (R. 16)

(Applying R.13 - 15 and 21)

4.2.1 Description and analysis

757. The same situation applies as was described in 4.1. There are no such reporting obligations and currently no tipping off prohibitions apply to DNFBP. The reporting obligation is covered in proposed amendments, but not the related requirements under Recommendations 14, 15 and 21 as far as the examiners are aware.

4.2.2 Recommendations and comments

758. Recommendation 16 (applying Recommendations 13, 14, 15 and 21), as explained in the Methodology) should be implemented as a matter of urgency.

4.2.3 Compliance with Recommendation 16

	Rating	Summary of factors relevant to s.4.2 underlying overall rating
R.16	**Non compliant**	• Currently there are no reporting obligations upon real estate agents, dealers in precious metals, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants. (Recommendation 13). • The associated requirements in Recommendations 14, 15 and 21 are not applied to DNFBP.

4.3 Regulation, supervision and monitoring (R. 24-25)

4.3.1 Description and analysis

Recommendation 24

759. As there are no relevant AML/CFT requirements, there is no relevant supervision or monitoring. As there are no casinos in Israel, monitoring of the other DNFBP for AML/CFT purposes only will be required when these DNFBP are brought into the Law.

Recommendation 25

760. There is no governmental or other AML/CFT guidance for DNFBP, of which the examiners are aware.

4.3.2 Recommendations and comments

761. Dealers in precious stones are currently subject to a framework of internal procedures on a self-regulatory basis though this does not cover monitoring on AML/CFT issues in the absence of legal obligations in this area.

762. When preventive obligations are applied to DNFBP in Israel, it should be ensured that they are subject to effective systems for monitoring and ensuring their compliance with requirements to combat money laundering and financing of terrorism. Monitoring may be performed on a risk-sensitive basis either by a government authority or by an appropriate self-regulatory organisation, provided that such an organisation can ensure that its members comply with their obligations to combat money laundering and financing of terrorism. The examiners advise that attention be given to monitoring systems which do not add substantially to the current supervisory mechanisms.

763. Guidance to DNFBP will be required to assist them in identifying what may be unusual transactions in relation to their particular businesses and professions, and on AML/CFT issues generally.

4.3.3 Compliance with Recommendations 24 and 25 (criterion 25.1, DNFBP)

	Rating	Summary of factors relevant to s.4.5 underlying overall rating
R.24	**Non compliant**	• Currently there are no AML/CFT obligations on relevant DNFBP and therefore no systems for monitoring compliance with AML/CFT obligations for real estate agents, dealers in precious metals, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants. • While dealers in precious stones are currently subject to a framework of internal procedures on a self regulatory basis (this does not cover AML/CFT).
R.25	**Non compliant**	• Specific guidelines for DNFBP are missing.

4.4 Other non-financial businesses and professions/ Modern secure transaction techniques (R.20)

4.4.1 Description and analysis

764. Criterion 20.1 states that countries should consider applying Recommendations 5,6,8 to 11, 13 to 15, 17 and 21 to non-financial businesses and professions (other than DNFBP) that risk of being misused for money laundering or terrorist financing. In this context the examiners would also advise active consideration of the extension of AML/CFT obligations to those businesses and professions which are required to be covered by the 2nd European Union Directive in the circumstances in which the Directive requires AML/CFT coverage (and which goes further than the FATF Recommendations).

765. Criterion 20.2 requires countries to take measures to encourage the development and use of modern and secure techniques for conducting financial transactions that are less vulnerable to money laundering. Several steps have been taken by Israel in this regard. It is firstly noted that the highest banknote issued in Israel is 200 NIS. Secondly, the Israeli authorities have pointed out that Section 47a of the Value Added Tax Law prohibits dealings (which are VAT taxable) with cash above the threshold of 20,000 NIS. This means that relevant payment must be made by other means, e.g. cheque, credit card etc. Moreover, the examiners were advised that the banks are very strict about dealing with cash. Cash-intensive businesses are identified as high-risk customer accounts. The banking corporations operate intensified systems for monitoring such accounts.

766. The credit card market is expanding and is encouraging more businesses to receive cashless payments.

767. Lastly, and importantly, the obligation on financial institutions to report on CTRs (Currency Transaction Reports) is a meaningful measure to reduce the risks inherent in the use of cash.

4.4.2 Recommendations and comments

768. While some steps have been taken to encourage the development and use of modern and secure techniques to conduct financial transactions, no consideration has yet been given to applying preventive measures to those non-financial businesses and professions (other than DNFBP as defined by FATF). As noted above, DNFBP, as defined by FATF, still require coverage.

4.4.3 Compliance with Recommendation 20

	Rating	Summary of factors underlying rating
R.20	**Partially compliant**	• While some steps have been taken under Criterion 20.2, no steps have been taken so far to consider coverage of DNFBP beyond those defined by FATF.

5. LEGAL PERSONS AND ARRANGEMENTS AND NON-PROFIT ORGANISATIONS

5.1 Legal persons – Access to beneficial ownership and control information (R.33)

5.1.1 Description and analysis

769. In Israel there are two principal forms of incorporation: corporations and "amutot". The Companies Law has applied to corporations since 1999 and the Law of Non-Profit Organisations has applied since 1980 to amutot (which generally covers the concept of associations). Section 345A of the Companies Law allows for the option of founding a company for pubic benefit, sometimes described as a Public Welfare Corporation. Such a company is defined as follows:

> " *(a) A company for public benefit is a company whose articles specify only public purposes as well as a prohibition on the distribution of profits or other distribution to its shareholders (in this chapter – distribution of profits).*
> *(b) In this chapter, "public purposes" means a purpose as specified in the schedule; the Minister, with the approval of the Constitution, Law and Justice Committee of the Knesset, may change the schedule. "*

770. Oversight over public welfare corporations is performed by the Registrar of Trusts (sometimes called the Registrar of Endowments) (see section 5.2).

771. In accordance with the Israeli law which applies to corporate entities generally a central database exists for each of the various types of corporate entity which is overseen by the Registrar of Corporate Entities. There are 400,000 such companies registered in Israel. The different entities are obliged to register within X days and report to the Registrar of Corporate Entities regarding any change in ownership or control of the entities. Information regarding the entities is open to public perusal. The following information appears on the register; name, identity number, the purposes of the company, information about registered share capital, information about liability, limitations and all documents that the company is obliged to submit to the Registrar according to the law. Moreover, according to section 354 of the Companies Law there are financial sanctions for not updating the register in case of changes in the company's name, statute, address of registered office, allocation of stocks etc. A company that does not submit to the Registrar the document will not receive a proper conduct certificate. A sanction which can be taken is deletion of the company from the register or liquidation of the company.

772. In accordance with current law, supervisory powers are given to the Registrar only with respect to corporate bodies which are non-profit bodies. Regarding amutot, which comprise the majority of non-profit organisations, the Registrar of Non-Profit Organisations has wide oversight powers. As to public-welfare corporations the current law does not confer upon the Registrar of Corporate Entities oversight powers. However, an amendment to the law, which was in its final stages before passage at the time of the on-site visit (the amendment had been approved by the Knesset's Law Committee and was about to be presented for a vote in the Knesset plenum), would confer upon the Registrar of Corporate Entities oversight powers similar to those existing for amutot. Such oversight powers would include the possibility to perform inspections and impose sanctions.

773. In the framework of the use of oversight powers regarding amutot, the relationship between amutot and other types of entities are examined. For example, when it becomes apparent during the course of a financial audit of an amuta that there exist financial relationships between an amuta and a corporate entity which is under the control of an executive board member of the amuta, the connection is examined, mainly from the point of view of conflict of interest.

774. The law does not enable the Registrar to obtain information from investigative bodies, such as the police, the tax authorities or the Anti-Money Laundering Authority and thus no verification is undertaken of information provided, and therefore may not always be reliable. However, if the Registrar receives information which raises criminal suspicions he can transfer information to these bodies. The Israeli authorities advise that this is done in practice.

775. As noted, information on the register is open to the public and basic information can be accessed online after payment of a fee. Information relates to legal ownership / control. There is no information available on beneficial ownership of companies except in the case of public corporations where shareholder information is available. Regarding public corporations, the public may obtain a print-out which includes corporate details, including shareholders, directors, and certain information related to liens. According to the Companies Law every company must maintain registration of its shareholders registration (Section 127) and a public company must maintain an additional registration of significant shareholders (Section 128). The registration must include the name, identity number and address of the shareholder, the amount of his shares, the type of his shares with it faces value, etc (Section 130). Those registrations are prima facie evidence of the accuracy of their content (section 133).

776. Regarding amutot, the public may also peruse amuta files. These files should include annual financial statements and protocols relating thereto. In addition, an amuta's file contains audit reports and correspondence (inspections undertaken by the Registrar). With respect to Public Welfare Corporations, the Israeli authorities advised that there is no information available with respect to the beneficial owner because of the nature of this type of corporation.

777. Legal persons in Israel are able to issue bearer shares.

778. The Companies Law specifies that a company must include in the shareholders registration the following information concerning bearer shares:
(a) marking the fact of issuing bearer shares, when they were issued and their amount.
(b) the numeration of the share and of the share's bill (section 130).
The registrations mentioned above must be kept at the company's registered office (section 127), must be updated (section 130(b)), and are available to every person (section 129).

779. The registration at the Registrar is therefore additional to the data registered already with the company itself. The legally binding ownership of a company is determined according to the registration documents held at the company itself and not with the Registrar.

780. There is no record of the first bearer. The bearer is registered simply by the fact that there are bearer shares. The Israeli authorities were unable to state how many companies operate on bearer shares. There is language in Article 20 of Directive 411, which requires banking corporations to take special care in dealing with accounts of a company a large part of whose capital or the capital of the company which controls it consists of shares in bearer forms. Other than this, it was unclear whether any other specific measures had been taken to ensure that those companies with bearer shares are not misused for money laundering and to ensure that the principles set out in criteria 33.1 and 33.2 apply equally to legal persons that use bearer shares.

Partnerships

781. The disclosure requirements for limited partnerships are similar to those for companies Traditional partnerships come into being without any legal formality and no information is available other than that which appears on their business communications. A limited partnership is established by a partnership agreement or according to the Partnership Ordinance. A partnership must be registered within a month. A limited partnership will not exist if it is not registered. A limited partnership must include in the registration request the identification details of the partners, the name of the partnership, the registered office and the purpose of partnership.

Additional elements

782. Israel advised that it has taken some additional measures to facilitate access by financial institutions to beneficial ownership and control information. Regarding business companies, there are three bodies which receive information routinely from the Registrar of Corporations in accordance with contractual agreements. These bodies have relationships with banks and financial institutions for the purpose of transferring information which is in the hands of the Registrar of Corporations, including daily updates in computerised form. It should be noted that this is an operational practice which is not currently established or regulated by law.

5.1.2 Recommendations and comments

783. There is no information on beneficial ownership of private companies at the Registry. Moreover, Israeli Law does not provide for information to be available at the Registry of Corporate Entities about the beneficial ownership of companies in the way that "beneficial owner" is defined in the Glossary to the FATF Recommendations (i.e. the person who ultimately owns or has effective control). This appears to be particularly the case for private companies, and for both public and private companies where one company buys shares in another company and so on. There is no requirement to identify to the Registrar of Corporate Entities the beneficial owners i.e. the controlling individuals of a company which holds shares in another registered company. Foreign companies are registered in Israel. In relation to such foreign companies, while identification documentation on individual foreign shareholders has to be submitted to the Companies Registry, full beneficial ownership information is also not available where other companies own shares in foreign companies registered in Israel. It is acknowledged that some information may be available in the company's books at the company's registered office but how much was unclear. The Israeli authorities indicated that the registrations set out aboveabove should be kept at the company's registered office (Section 127 of the Companies law) and must be updated (section 130(b)), and are available to every person (section 129). Breach of these obligations is a breach of a statutory duty in respect of a person relying on the company registration or on the Registrar of companies (section 353).

784. It appears therefore from the information received that Israeli law does not require transparency concerning beneficial ownership and control of legal persons at the Registry. Israel indicated that it has decided to rely only on the available information with companies and financial institutions. There are sufficient powers with the law enforcement and supervisory authorities to have access to this information. With respect to the available information it can be said that financial institutions can be obliged to indentify and, to a certain extent, to verify the beneficial owner on the basis of a declaration made by the customer. In Recommendation 5 some weaknesses were described with respect to this verification.

785. Though it would be helpful to have direct acess to an up-to-date registry with upfront beneficial owner information, Israeli law enforcement authorities do have possibilities under

domestic legislation to obtain such information as is available at head offices of financial institutions on beneficial ownership.

786. That said, it can be a difficult and lengthy process for competent authorities to obtain the necessary information through the investigative route. In the case of domestic companies, banks are required to record the names of controlling shareholders and their identity numbers, though how often this happens was unclear. Importantly there is no obligation on the banks to verify this information, thus any information available to law enforcement may not be reliable.

787. As they have indicated, the Israeli authorities may rely on investigative and other powers of law enforcement to produce from a company's own records the immediate owners of companies. However if these in turn are also legal persons, the competent authorities will have to investigate up the chain. Following this path through mutual legal assistance, whenever non-domestic legal persons form part of the chain (and assuming the third country is willing and able to provide such assistance) may possibly result in Israeli authorities identifying ultimate owners of legal persons. However there are doubts as to whether information obtained by this route will be adequate, accurate and up-to-date, and, in any event, it will be difficult to verify.

788. The problem of transparency is exacerbated by the bearer share issue. No mitigating measures appear to have been taken to ensure that legal persons able to issue bearer shares are not misused for money laundering. It was a particular concern that the Israeli authorities seemed to be unaware of how many companies have bearer shares. It was also unclear whether lawyers (and any other company service providers) verify and retain records of the beneficial ownership and control of legal persons, particularly those companies with bearer shares.

789. It is recommended that Israel review its commercial, corporate and other laws with a view to taking measures to provide adequate transparency with respect to beneficial ownership. As noted earlier, it is important in this context that there should be a clear obligation on financial institutions to verify beneficial owners. It is also recommended that Israel assesses the number of companies operating with bearer shares and takes measures to ensure that legal persons able to issue bearer shares take appropriate action to ensure that they are not misused for money laundering and that the principles set out in 33.1 and 33.2 apply equally to legal persons that use bearer shares.

5.1.3 Compliance with Recommendation 33

	Rating	Summary of factors underlying rating
R.33	**Partially compliant**	• Information on the Companies Register relates only to legal ownership and control (as opposed to beneficial ownership) and is not verified and is not necessarily reliable.. • Weaknesses described in respect of verification of beneficial ownership information in R 5 are relevant in the context of the investigative route • Unclear how many companies are on bearer shares and no specific measures have been taken to ensure that legal persons which are able to issue bearer shares are not misused for money laundering and that the principles set out in criteria 33.1 and 33.2 apply equally to legal persons that use bearer shares.

5.2 Legal Arrangements – Access to beneficial ownership and control information (R.34)

5.2.1 Description and analysis

Criterion 34.1

790. The notion of trusts was introduced into Israel during the British mandate. Trusts are a type of non-corporate entity, and such legal arrangements are provided for in Israel by the Law of Trusts. There are a number of different types of trusts in Israel with a range of purposesas mentioned in Part I above. There is no general legal requirement that a trust must be evidenced in writing. For those trusts that are evidenced in writing a trust instrument, such as a declaration or a trust agreement, sets out the rights and obligations of the trustees and beneficiaries. The title to the trust assets usually stands in the name of the trustee. The trustee has the power and duty to manage and dispose of the assets in accordance with the terms of the trust. Thus a person's affairs can be managed by a trustee who acts in the interests of the beneficiary. Trustees may be trust companies, lawyers, banks, accountants, etc. The 8 trust companies are generally supervised by the BoI and which are supervised also for AML/CFT purposes. As noted earlier in this report, the trust companies have made unusual reports to IMPA (approximately 1 % of disclosures in 2006). Other trust service providers (whether lawyers or otherwise) have no AML/CFT obligations.

791. As noted earlier, there is a Registrar of Trusts created under the Law of Trusts. The Registrar registers some but not all trusts and is responsible for their oversight. Trusts can be categorised as public and private trusts.

792. Public trusts are registered with the Registrar. There is a computerised register of such trusts which is open to the public. Such trusts are required to submit annual financial statements pertaining to their operation. Trusts which want to receive governmental support must obtain a certificate of proper management from the Registrar of Trusts. A financial audit is required of the trust documents for this purpose. Thus, Information concerning public trusts, including information pertaining to founders, the trust's conditions and trustees is to be found at the Registrar of Trusts. The Israeli authorities indicated that there is no information available however regarding the beneficial owner of the public trusts because of the nature of this type of trust. All governmental bodies may submit a request to the Registrar and receive such information as there is regarding the public trusts. Public trusts are similar to charitable trusts in other jurisdictions. There are 2500 registered public trusts (there are also religious dedications that are not registered). The Trust law only applies to public trusts and not to public welfare organisations.

793. Private trusts are not registered with the Registrar, and indeed may not be evidenced in writing by a trust deed or document. Where there is such a deed or document it normally would contain details of the beneficiaries.

794. Foreign (private) trusts operate in Israel, as there is no prohibition on them. They also do not register with the Registrar. The Israeli authorities indicated that if they want to open an account they would have to declare the beneficiary. Israel is not a Party to the Hague Convention on the Law Applicable to Trusts.

795. Therefore while some limited information will be available in respect of public trusts, hardly any information is immediately available in respect of private trusts. There are no legal requirements of which the evaluators are aware which require trust service providers, lawyers

etc. to obtain, verify and retain records of private trusts created, including settlors, trustees and beneficiaries even though as a matter of practice they may collect such information. Details of some trust contracts (where they exist) which cover identification of beneficiaries may be available in lawyers' offices, but whether such information has been verified was unclear. Similarly whether access to such information could be denied on the basis of legal professional privilege was also unclear.

796. Thus in the case of trusts, both public and private, there are limited measures in place to guard against the unlawful use of legal arrangements in relation to money laundering and financing of terrorism.

Access by competent authorities to information on the beneficial ownership and control of legal arrangements

797. Under certain conditions trustees on behalf of a trust have to file tax returns to the Revenue. In these returns trusts will include information on income and presumably amounts paid to beneficiaries. The Revenue obtains this information for tax purposes. The Israeli authorities indicated that information on beneficial ownership may be obtainable through the Tax legislation. Information on beneficiaries of trusts obtained by the Tax authority can be made available to the FIU according to section 31 to the PMLL for intelligence purposes or by judicial order to a law enforcement authority for evidential purposes.

798. Under Article 19 of the Banking Directive 411, banking corporations are required to take steps to understand the relationships between the parties related to the accounts managed by a trustee, and to record the identification particulars of the trust's founders. Thus presumably where property is held by trustees in a bank account, the requirements on the banks to identify beneficiaries as part of the CDD process may mean that some information on beneficiaries under trusts may be available and obtainable under judicial warrants pursuant to the Criminal Law Procedure Ordinance 5729-1969 (see 2.6). However as there is no obligation (on the banks) to verify beneficiaries generally, such information, as there may be, might not be adequate, accurate and current.

5.2.2 Recommendations and comments

799. Israel basically relies on the investigatory powers of law enforcement to obtain or have access to information concerning the beneficial ownership of private and foreign trusts and access to information available on the register in relation to public trusts. However these mechanisms are only as good as the information that is there to be acquired. The particular characteristics of private trusts make obtaining information particularly problematic.

800. Israel should implement measures to ensure that adequate, accurate and timely information is available to law enforcement authorities concerning the beneficial ownership of trusts generally. The Recommendation made earlier in this report regarding the need for a requirement to verify beneficial ownership is relevant also in this context. A legal requirement for all trust service providers (including lawyers) to obtain, verify and retain all records of the trusts they create, including identification and verification of all the beneficial owners (as that term is defined in the Glossary to the FATF Recommendations) is also essential. Such verified information should then be available to law enforcement under judicial order in appropriate circumstances. Bringing all trust service providers into the AML/CFT regime will also be an important step. A supervisory framework for trust service providers, which includes checks that the necessary information on beneficial ownership is obtained, verified and retained, will be equally important. More guidance on identifying unusual transactions by trust companies should also be issued by the competent authorities.

5.2.3 Compliance with Recommendation 34

	Rating	Summary of factors underlying rating
R.34	**Partially compliant**	• Currently there is little information available on the beneficial owners of private or foreign trusts. • No legal requirements on trust service providers to obtain, verify and retain records of the trusts they create, including beneficial ownership details.

5.3 Non-profit organisations (SR.VIII)

5.3.1 Description and analysis

Reviews of the domestic non-profit sector

801. Criterion VIII.1 requires countries to review the adequacy of domestic laws and regulations that relate to non-profit organisations, to undertake domestic reviews for the purpose of identifying the features and types of NPOs that are at risk of being misused for financing of terrorism and to conduct periodic re-assessments.

802. The two principal types of non-profit bodies are the amutot (associations) and public welfare/benefit corporations. The amutot constitute the bulk of bodies which function in Israel on a non-profit basis. There are approximately 25,000 registered amutot of which about 15,000 are considered to be active in Israel. As noted beneath, amutot are registered and monitored. There was evidence of ongoing risk assessment in relation to this sector. However, there was no clear evidence that the overall adequacy in this context of the Law on Non-Profit Organisations had been recently reviewed (except indirectly). By contrast, in the case of public welfare corporations, a recent risk assessment had led to an amendment to the law which was passed on 21 June 2007. This amendment, as noted earlier, is intended to confer upon the relevant Registrar wide-ranging oversight powers similar to those regarding amutot.

Protecting the NPO sector from financing of terrorism through outreach and effective oversight

803. The Law of Non-Profit Organisations requires all amutot to submit to the Registrar of Non-Profit Organisations annually various documents, including financial statements and protocols. These documents are open to the perusal of the public in the offices of the Registrar. In the event that an amutot does not submit these documents it is not entitled to receive a certificate of proper management and therefore can not receive governmental funding or funding by those bodies which require presentation of the certificate. The law also confers upon the Registrar of Non-Profit Organisations powers to oversee amutot, including powers to demand clarification in respect of financial statements, to investigate amutot,,to administratively remove the registration of amutot, and to submit court applications to liquidate those which violate the law. In accordance with current practice approximately 700 in-depth checks are carried out annually on amutot. The checks are carried out mainly on amutot which have high annual incomes.

804. In the context of the amendment in respect of public welfare corporations referred to above, there is also an indirect amendment proposed of the Law of Non-Profit Organisations, passed on 21 June 2007 which established additional rules for non-profit organisations, such as the obligation to submit, in addition to a financial statement, a verbal report with accordance to the Amutot law (section 37a and the third schedule).which will include information regarding service providers to an amuta, transactions with relatives, changes in geographic location, etc.

805. According to the Law of Non-Profit Organisations, NPOs are under a statutory obligation to submit financial information to the Registrar on a yearly basis. Furthermore, the Registrar of Non-Profit Organisations conducts in-depth accounting checks regarding hundreds of NPOs every year. The Registrar's inspection files are available to law enforcement conducting investigations with regard to money laundering or financing of terrorism. Law enforcement agencies may receive, upon request, any relevant information held by the Registrar. In addition, the Registrar's office employs a lawyer who specialises in those NPOs which are connected to high risk sectors. He works in full coordination with the security authorities where information appears to him to be of a suspicious nature - for reasons such as the particular entities involved in the NPO, the nature of its activity, or as a result of previous information (which may in part be received from the security services). When it appears that an amuta is carrying on activity which is likely to involve a danger to public security, or when it appears that there are people involved in an amuta's activity who are likely to constitute a danger to the public, information is transferred to the law enforcement authorities. Information is also disseminated from the Registrar's office to IMPA upon suspicion of money laundering or financing of terrorism. Several cases a year are passed to law enforcement authorities.

806. Criterion VIII.2 also obliges countries to undertake an outreach programme to raise awareness and promote transparency. So far, no specific outreach programme has been commenced by the authorities of which the examiners are aware.

807. Criterion VIII.3 requires countries to promote effective supervision or monitoring of those NPOs which account for a significant portion of the financial resources under the control of the sector and a substantial share of the sector's international activities.

808. An amuta which wishes to carry out activity must be registered in the register of non-profit organisations, and upon registration it is issued with a certificate and an identification number. The names of amutot and their numbers are transferred regularly to the tax authorities, and appear on the website of the Registrar of Non-Profit Organisations. Paragraph 1 of the Law of Non-Profit Organisations establishes that an amuta is deemed officially founded upon registration in the Registry of amutot.

809. Furthermore, amutot must submit updates regarding executive board members, protocols of meetings, financial statements, etc. This information is placed on files, which are open to the general public. In addition, there is coordination between the Registrar and a voluntary investigative body for the purpose of placing the relevant information on a website.There are plans that the website should include relevant information as reported under the law to the Registrar, and also additional information as submitted by the organisations themselves. The long-term plan is for all information regarding amutot to be placed on a central website, including the financial statements and protocols which they submit, as well as sources of their financing.

810. The law of Non-Profit Organisations obliges both amutot and Public welfare Corporations to report in their annual financial statements the names of the donors who provided to an NPO more than NIS 20,000 in a given year. The Registrar may exempt NPOs from the duty to publicise donor's names in financial statements in special circumstances, but in any case this

information is held at the Registrar's office and is available to law enforcement. More in depth inspections and verification of submitted data regarding the identities of donors is carried out once every several years in the framework of in-depth accounting inspections. These inspections can include donations of less than the statutory amount of NIS 20,000.

811. Every year the Registrar performs about 700 in-depth inspections through externally contracted audit firms (which normally use an accountant for each inspection of an NPO). These inspections are performed both as a result of complaints received from the public and upon the Registrar's own initiative usually on amutot which have high annual incomes. The inspections include an examination as to whether the NPO acts in accordance with its stated purposes and the use of its property and funds. The inspections also include examination of whether previous recommendations have been implemented.

812. Following the inspection, the Registrar may publish recommendations which can include one or more of the following steps: opening of a statutory investigation against the organisation; the initiation of liquidation proceedings; and also the dissemination of the inspection findings to other competent authorities. The Registrar of Non-Profit Organisations himself has the authority to initiate liquidation proceedings against amutot which act in violation of the law and this authority is exercised in several dozen instances every year. During the year 2007, 500 complaints were submitted to the Registrar both by the public and by governmental bodies. These complaints are all examined by a team of lawyers and accountants.In addition, in 2007 more than 70 liquidation proceedings were initiated by the Registrar as a result of illegal or improper conduct by the NPO Examples given include financial misconduct, non-reporting as required unsuitable activities of the amuta institutions. Moreover, during 2007, for the first time, administrative fines were imposed in 40 cases.

813. In the framework of the amendment to the law, an obligation is being imposed upon amutot to submit, in addition to written financial statements, written reports which elaborate upon significant topics related to their operations. In these commentaries amuta are required to elaborate on the principal uses that were made of donations, information regarding affiliated corporate entities, details regarding transactions, changes in geographic layout, etc. This amendment to the law follows the Ombudsman's report, which several years ago established that there is good reason to oblige amutot to submit detailed reports, in addition to financial statements, in order to increase oversight.

814. There exist a number of sanctions which can be imposed upon non-profit organisations for not submitting documents to the Registrar of Non-Profit Organisations in accordance with the law. The Registrar of Non-Profit Organisations issues annual certificates of proper management to most active amutot. An amuta cannot receive a certificate if it has not submitted for the relevant year the documents required by law. Since the certificate enables amutot to receive funding from public/governmental institutions and from donors who request it, most active amutot indeed submit the necessary documents on an annual basis. Recently, the Registrar of Non-Profit Organisations has begun to impose the sanction of administrative fines on amutot which have not submitted documents in accordance with the law. The fines are levied in accordance with the law which established administrative fines, and in accordance with regulations which were enacted approximately three years ago (Administrative Fines Regulations-Administrative (Fines-Amutot), 5764-2004. In other cases, when an amuta does not submit documents and there is an indication that it possesses property, the Registrar of Non-Profit Organisations can engage in legal proceedings and move the court to liquidate the amuta.

815. Financial statements are maintained by the Registrar of Non-Profit Organisations for a period of at least seven years, and are accessible to the public who wish to peruse them.

816. Criterion VIII.3.4 obliges countries to implement measures to ensure that records of domestic and international transactions are maintained for at least five years by NPOs, which are sufficiently detailed to verify that funds have been spent in a manner consistent with the purpose and objectives of the organisation. Annual financial statements are required by the Registrar and all necessary transaction records are kept.

Targeting and attacking terrorist abuse of NPOs through effective information gathering and investigation

817. It is clear from the above that arrangements for domestic co-ordination, co-operation and information sharing in this area have been developed between the supervisors, the tax authorities, the Police, the Security Services and IMPA on a case by case basis. There are also written procedures between some of these bodies (including memoranda of understanding).

818. Full information in the possession of the supervisor can be transferred to other authorities for investigation. When it appears to the Registrar, as a result of information which has been transferred to him or as a result of initiated audits, that there is reason to believe that an amuta is in violation of a law which is under the control of another authority, he transfers the information to that authority for examination (e.g. tax authorities, police, and the Anti-Money Laundering Authority).

819. As noted, the information maintained by the Registrar of Non-Profit Organisations is open to all investigative authorities, and in case of need they can examine information and receive copies. In addition, when there is reason to believe during the course of the registration of an amuta or afterwards, that activity is being carried out that is related to terror or terrorist operatives, the relevant information is promptly transferred to law-enforcement authorities. There are specific personnel at the Registrar's Office and at the law-enforcement authorities who are responsible for the interchange of relevant information, and they are in regular contact. It should also be noted for completeness that some of the examples of transactions under the Orders which must be considered to be reported as unusual also cover certain transactions involving NPOs.

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820. Countries are also required to identify appropriate points of contact and procedures to respond to international requests for information regarding NPOs. No particular gateways or contact mechanisms for international contact on this issue were pointed to, other than IMPA's participation in the Egmont Group. IMPA participates at the Operational Working Group (OpWG) in the Egmont Group.

5.3.2 Recommendations and comments

821. It is clear that the risks associated with the non-profit sector are being monitored. In discussions with the Security Services it was apparent that they pay particular attention to abuses of non-profit organisations for the purposes of terrorist financing. It was clear also that the regulator now understands that he needs to receive greater assurance that NPOs are acting consistently with their purpose than is necessarily obtainable through the submission of routine annual financial statements. Greater attention will now be paid to this issue by the regulator through checks on whether NPOs act in accordance with their stated purpose.

822. It was apparent also that the regulator promptly shares information with law enforcement and vice-versa.

823. While steps that are being taken or are planned are very positive and in line with the majority of the essential criteria under this recommendation, the evaluators noted that the adequacy in this context of the Law on Non-Profit Organisations did not appear to have been formally reviewed and an outreach programme to the NPO sector had yet to be commenced.

824. The Israeli authorities should ensure that detailed domestic and international transaction records are being kept for at least five years to assist the authorities in verifying that funds have been spent in a manner consistent with their purpose, and also for investigative purposes.

825. It is advised also that the threshold for mandatory identification of donors be reviewed as it seems quite high in the context of financing of terrorism.

826. Much reliance is placed on external auditors to review NPOs, and it is important that they are all regularly trained and sensitised to issues arising out of this Special Recommendation and current trends and typologies in financing of terrorism.

827. Gateways and mechanisms for international sharing of information on NPOs need clarifying.

5.3.3 Compliance with Special Recommendation VIII

	Rating	Summary of factors underlying rating
SR.VIII	**Largely compliant**	Though important steps are being taken: • No evidence that the adequacy of the law on Non-Profit Organisations overall had been formally reviewed. • No specific outreach programme to raise awareness had commenced. • Unclear whether detailed domestic and international transaction records are kept. • Threshold for identification of significant donors needs reviewing. • Gateways for international information sharing need clarifying.

6. NATIONAL AND INTERNATIONAL CO-OPERATION

6.1 National co-operation and co-ordination (R. 31 & R.32)

6.1.1 Description and analysis

Recommendation 31

828. All agencies active in the AML/CTF areas cooperate with each other within their legal authority, in the form of exchange of information, joint investigations and other coordination activity.

FIU- Israel Police (IP)

829. In the framework of the exchange of information, on request or at the IMPA initiative as described above (R 26 & 27), a co-operation protocol on "the co-operation procedure between the prohibition of money laundering authority and the Israeli Police" has been approved on March 6th 2006 by the Deputy State Attorney (Criminal affairs) to streamline the mutual co-operation and establish clear procedures for the exchange of information. The procedure provides that the police and IMPA will cooperate in order to advance the investigations in the area of money laundering. The police will share information with IMPA, whenever it is required for the purposes of an investigation. IMPA assists the police in its areas of expertise.

830. Joint professional training and courses in the field of money laundering take place on a regular basis.

FIU-Israel Security Agency (ISA)

831. IMPA addresses intelligence reports to the ISA that may be terrorist related. It is also under a legal obligation to respond to ISA requests and provide information from its database. IMPA is also represented in the Counter Terrorism National Security Council (which further comprises the Mossad, Shin Beth, the Police and the Military Intelligence Service). Although an IMPA representative sometimes participates in intelligence operations, the FIU has no access to Intelligence Service held information.

FIU-Regulators

832. According to the PMLL, transfer of information between IMPA and the Regulators can be done through the police or Israel Security Authority, for the purpose of implementation of the PMLL or the PFTL or for the purpose of investigating additional crimes set forth in Prohibition on Money Laundering Regulations (Rules for Use of Information Transferred to the Israel Police Force and the General Security Service for Investigation of Other Offences and for Transferring it to Another Authority), 5766 – 2006 (Appendix AB).

FIU- Customs

833. IMPA assists the Customs in detecting couriers by supplying information on potential couriers, based on their analysis.

834. A legal representative from IMPA is member of the Sanctions Committee together with two representatives of the Customs.

Operational co-operation in Terrorism issues - special task force on terror financing

835. The Israeli investigative authorities and agencies cooperate in order to effectively prevent resources from being transferred to terrorists. The Israel Security Agency works in co-operation with the Israel Police, the Israel Customs and VAT Authority and the Israel Money Laundering and Terror Financing Prohibition Authority, to trace movements of funds to and from terrorist organisations. This mechanism also includes co-operation with representatives of the Ministry of Justice, the Ministry of Finance and the Ministry of Foreign Affairs. This co-operation takes the form of investigation and intelligence operations, thus enabling the authorities to take the necessary administrative and criminal measures in order to intercept and seize TF related funds.

The 1/1/2006 Government Decision

836. On 1January 2006 the government approved a decision entitled "The Fight against Serious and Organised Crime and its Proceeds". A special "Task Force" was 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 team has acknowledged the importance of coordinating the efforts of all the prosecutorial authorities and activities, of co-operation and of sharing information between all involved Attorneys' Offices in order to enhance effective prosecution.

The Intelligence Fusion Center

837. An "Integrated Intelligence Center" was established on 5 March 2007, in order to combat serious and organised crime and its proceeds, in accordance with the said Government Decision of 1 January 2006. The Intelligence Center comprises different intelligence bodies, including the Police, the Tax Authority and the Money Laundering Prohibition Authority as well as *ad hoc* representatives from other relevant bodies. On a permanent basis, 4 representatives of the Police, 3 representatives of the Tax Authority and 2 representatives of the Money and Laundering Prohibition Authority, are present at the Centre.

BOI

838. Co-operation and coordination within the existing legal procedures between the Banking Supervision Department and the law enforcement is common in operational matters. Furthermore the interaction also occurs in the organisation of seminars for the banking corporations on the subject of money laundering and the financing of terrorism held jointly with the relevant law enforcement bodies involved (the Israel Money Laundering Prohibition Authority (IMPA), Security Service, IP).

Recommendation 32

The Israeli authorities

839. During the years 2004-2005 a Steering Committee led by the Deputy State Attorney discussed and recommended modes of improving effectiveness regarding the enforcement of the money laundering offence and other relevant issues related to enforcement policy according to the Prohibition of Money Laundering Law. The Chairman of this Sub-Bureau was the Deputy State Attorney (Criminal Affairs), and all senior members of the related authorities took part in this Committee. Additionally, the AML/CFT system is reviewed in other ways:

- Report to the Knesset - According to section 31 B of the PMLL, IMPA reports annually in writing to the Constitution, Law and Justice Committee of the Knesset regarding the

number of STR and CTR received by IMPA, the number of requests for information to IMPA and the number of transmissions of information from IMPA to entities entitled to receive such information and the number of providers of currency services that were registered.

- IMPA operates according to an annual plan which determines the annual goals, and measurable benchmarks to determine the effectiveness of its functions.
- Senior officials from the Israeli Enforcement Authorities, including the Police, The Ministry of Justice, IMPA, The Tax Authorities, Israel Securities Authority and Israel Antitrust Authority attended a seminar in October 2007. The seminar reviewed and examined the anti money laundering regime in Israel, since the PMLL was enacted.

Additional elements

840. Several mechanisms are in place for consultation between competent authorities and the financial and other sectors subject to AML/CFT Laws. The regulators consult regularly both with the representatives of the financial sector (e.g. the banking association) before issuing any regulation or guidance notes, and with individual financial institutions on an ad hoc basis. IMPA conducts periodic feedback meetings with reporting entities and similarly meets with the representatives of the financial sector (e.g. the banking association). The legislation department in the Ministry of Justice consults with the relevant representatives of the reporting entities as an inherent part of the legislative process both for primary and secondary legislation. Private sector representatives (e.g. the bar association, banking association, etc) take an active part in the legislative process in the deliberations before the Knesset committee.

6.1.2 Recommendations and comments

841. The co-operation and coordination 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.

6.1.3 Compliance with Recommendations 31 and 32 (criterion 32.1 only)

	Rating	Summary of factors underlying rating
R.31	**Compliant**	
R.32	**Compliant**	

6.2 The Conventions and United Nations Special Resolutions (R. 35 and SR.I)

6.2.1 Description and analysis

842. Israel is a party to the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the UN International Convention against Transnational Organised Crime, and the UN International Convention for the Suppression of the Financing of Terrorism. In each sphere implementing legislation is in place.

843. As noted in the context of the analysis of compliance with SR. II and SR. III in addition to the PTFL Israel also relies on a range of other earlier enactments in giving effect to its obligations under the Terrorist Financing Convention. The same corpus of laws and associated regulations (including the 2007 Regulations on declarations regarding foreign terrorist organisations and terror activists) is also relied upon in seeking to give effect to UN Security Council Resolutions 1267 (1999) and 1373 (2001) and other associated UN Chapter VII based initiatives.

844. Article 18 (1) (b) of the United Nations Convention for the Suppression of the Financing of Terrorism requires measures requiring institutions and other professions involved in financial transactions to utilise the most efficient measures available for the identification of their usual or occasional customers, as well as customers in whose interest accounts are opened, and to pay special attention to unusual or suspicious transactions and report transactions suspected of stemming from a criminal activity. For this purpose, States Parties shall consider:

(i) Adopting regulations prohibiting the opening of accounts the holders or beneficiaries of which are unidentified or unidentifiable, and measures to ensure that such institutions verify the identity of the real owners of such transactions;
(ii) With respect to the identification of legal enterprises, requiring financial institutions, when necessary, to take measures to verify the legal existence and the structure of the customer by obtaining, either from a public register or from the customer or both, proof of incorporation, including information concerning the customers name, legal form, address, directors and provisions regulating the power to bind the entity;
(iii) Adopting regulations imposing on financial institutions the obligation to report promptly to the competent authorities all complex, unusual large transactions and unusual patterns of transactions, which have no apparent economic or obviously lawful purpose, without fear of assuming criminal or civil liability for breach of any restriction on disclosure of information if they report their suspicions in good faith;
(iv) Requiring financial institutions to maintain, for at least five years, all necessary records on transactions, both domestic or international.

845. As already noted in the financial section of the report most of the issues covered here under (i) and (ii) need further work for effective implementation.

Additional elements

846. As of the date of the on-site visit Israel had not sought to achieve participation in either the Strasbourg or Warsaw Conventions of the Council of Europe on money laundering (and now terrorist financing) and there were no indications that such a course of action had yet been given serious consideration.

847. By way of contrast Israel has signed the UN Convention against Corruption. The evaluators were informed that the drafting of the necessary implementing legislation to

permit ratification was in train. It is believed that this will also pave the way for possible participation in the regime created by the OECD Convention on bribery in international business transactions. Both of these multilateral instruments have considerable relevance for international co-operation in relation to the laundering and confiscation of the proceeds of such offences.

6.2.2 Recommendations and comments

848. 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. Indeed, as other sections of this report well demonstrate that potential is increasing by being put into practice. However these remain concerns about the effectiveness of the implementation of some of the preventive standards in the UN International Convention for the Suppression of the Financing of Terrorism in respect of financial institutions (notably in connection with the identification of beneficial owners). Moreover "other professions involved in financial transactions" currently have no AML/CFT obligations upon them.

849. The evaluators also have some concerns in the area of full formal compliance with SR.III particularly as it relates to the implementation of Resolution 1267 (1999). Similarly, and as pointed out in the earlier analysis of that Special Recommendation, the very recent introduction of implementing regulations under the PTFL (after the on-site visit) made it impossible for the evaluators to conclude that the legal position so perfected in relation to the UN Resolutions is effective in practice.

6.2.3 Compliance with Recommendation 35 and Special Recommendation I

	Rating	Summary of factors underlying rating
R.35	**Largely compliant**	• Concerns about effectiveness of implementation of some of the preventive standards in UN International Convention for the Suppression of the Financing of Terrorism (eg. identification of the beneficial owner). • No preventive obligations on other professions involved in financial transactions as required by the UN International Convention for the Suppression of the Financing of Terrorism.
SR.I	**Largely compliant**	• Lack of full formal compliance with Security Council Resolution 1267 (1999). • Effectiveness concerns given recent promulgation of the PTFL Regulations.

6.3 Mutual legal assistance (R.32, 36-38, SR.V)

6.3.1 Description and analysis

850. Israel has in place a well developed system for the provision of international assistance in criminal matters and, as will be seen below, it is evident that this is being utilised with some frequency in practice in an AML/CFT context.

851. As noted earlier, Israel is a party to the central multilateral treaties of global reach which are relevant to AML/CFT matters. All contain coverage of relevant issues and in most treatment of mutual legal assistance and confiscation assistance is comprehensive in nature. In addition, Israel is a party to the 1959 Council of Europe Convention on Mutual Assistance in Criminal Matters as well as several relevant bilateral instruments. Importantly Israel may also seek and provide mutual legal assistance even in the absence of a treaty nexus with a third country.

852. As a matter of domestic law this important sphere of activity is governed primarily by the International Legal Assistance Law, 1998. This enactment has a broad reach and extends to the modes of co-operation mentioned in criterion 36.1 of the methodology. The basic thrust of the Law is to permit the co-operation requested to be effected to the same extent as would have been possible had the crime in question been committed in Israel while allowing the execution of the request to proceed in accordance with the evidentiary or other requirements of the requesting country save where this would violate Israel's law. A somewhat separate regime is established by the 1998 Law in respect of forfeiture and confiscation and this is treated at a later stage of this section of this report.

853. While the internal division of responsibility between the different authorities with responsibility in this sphere is a fairly complex one the evaluation team was satisfied that Israel was in a position to provide assistance in a timely, constructive and effective manner. Indeed, at the time of the on-site visit a Special Committee under the Chairmanship of the Deputy to the State Attorney for Criminal Matters was considering a range of practical suggestions to further increase the effectiveness of the operation of the system.

854. Existing legislation dealing with mutual legal assistance can be generally characterised as being flexible in nature. It does not subject requests to unreasonable, disproportionate or unduly restrictive conditions. For example, Israel does not make double criminality a condition for the granting of assistance. Similarly a request for mutual legal assistance will not be refused on the grounds of laws that impose secrecy or confidentiality requirements on financial institutions.

855. It should be noted, however, that one of the optional grounds for refusal contained in the law (section 5) is where the request is "for a fiscal offence". The evaluation team was assured that in practice the long lasting policy has been to grant assistance even in instances where the request relates solely to fiscal matters.

856. Finally, for present purposes, it should be noted that in Israel there are no specific legal procedures relevant to the avoidance of conflicts of jurisdiction. In practice this matter is addressed in an ad hoc manner.

857. As noted above, the 1998 legislation creates, in Chapter 6, a somewhat separate regime for the provision of confiscation assistance. Section 33(a) is central to the approach adopted and is worded thus:

" *At the request of another state the Competent Authority may apply to the Court for the enforcement of a foreign forfeiture order of property located in Israel, provided that all the following are fulfilled:*

(1) the order was made with respect to an offence which – had it been tried in Israel, would constitute one of the offences enumerated in Schedule Two (hereafter in this Article: the offence);

(2) the Competent Authority determined that the property, in respect of which the foreign forfeiture order was made, was used or is intended to be used as a means for the commission of an offence or to enable the commission of an offence, or it was directly or indirectly obtained as remuneration for the offence or as a result of the commission of the offence. "

858. Several features of this provision should be mentioned at this stage. First, a forfeiture order is one made by a foreign judicial authority "either in a criminal or in a civil proceeding" (section 1). Second, and unlike the regime of mutual legal assistance more generally, double criminality is a central condition governing the operation of the system. Third, and importantly, the possibility to afford this important form of co-operation is restricted to those offences specifically mentioned in Schedule Two of the Law. At the time of the on-site visit the relevant list was an extremely restrictive one. It included the offences under sections 3 and 4 of the PMLL, a range of terrorist finance, drug, and organised crime offences. The scope of section 4 PMLL notwithstanding, this restrictive approach is not in accordance with criterion 38.1 which anticipates that this form of co-operation will be available in respect of all predicate offences within the meaning and scope of FATF Recommendation 1.

859. The Law makes appropriate provision for the taking of provisional measures in this context (Sections 39 and 40). It also extends to the confiscation of property of corresponding value (section 37) and facilitates asset sharing internationally (section 41).

860. According to section 23 of the PMLL Israel established an assets forfeiture fund. This fund has been created for the purpose of depositing confiscated assets, and is to be used for the performance of the police, customs and the FIU functions for combting ML/TF. Therefore, Israel fully meets with criterion 38.4. The Israeli authorities indicated that the domestic provisions enable the sharing of confiscated assets with other countries when confiscation is a result of coordinated law enforcement action on a Ad hoc basis.

861. It is evident that in so far as (general) mutual legal assistance is concerned the system of co-operation which has been established is operating in practice. While comprehensive statistics concerning the subject matter of the cases dealt with had not been maintained the team was informed that in the course of the previous five years at least 38 outgoing requests and four incoming requests had related to money laundering cases. Recent years had also seen assistance provided by Israel in respect of six major cases concerning terrorist financing. No separate statistics were provided on requests for Israeli enforcement of foreign confiscation orders. It is understood that in 2006 the Department of International Affairs instituted a new computerised records system which should ensure that more comprehensive statistical data is available in the future.

6.3.2 Recommendations and comments

862. As is evident from the above Israel has put in place a modern and comprehensive regime governing mutual legal assistance in criminal matters. The team was impressed by the commitment and professionalism of those officials whom they met with responsibilities in this important area.

863. While the system as a whole seemed to be operating effectively that relating to confiscation assistance appeared to have attracted little or no practice to date. It is accordingly recommended that a review be undertaken in a timely fashion to identify any features of existing law and practice which may be acting as a barrier to the development of practical co-operation of this type. Action also needs to be taken as a matter of priority to extend the range of offences in respect of which such confiscation assistance can be provided so as to bring about full formal compliance with Recommendation 38.

6.3.3 Compliance with Recommendations 36 to 38 and Special Recommendation V

	Rating	Summary of factors underlying rating
R.36	**Compliant**	
R.37	**Compliant**	
R.38	**Largely compliant**	• Limited range of offences contained in Schedule 2 of the 1998 Law. • Concerns over effectiveness.
SR.V	**Compliant**	

6.4 Extradition (R. 37 and 39, SR.V)

6.4.1 Description and analysis

864. The laws of Israel permit extradition for money laundering, the financing of terrorism and other terrorism related activities. Indeed, its Extradition Law permits extradition in respect of all offences for which the punishment is one year in prison or a greater sentence.

865. The Law defines a list of conditions which must be cumulatively satisfied. One such condition is the satisfaction of double criminality. However, technical differences in the laws of the requested and requesting states do not pose an impediment to the provision of this form of co-operation. Extradition is also provided for connected offences even if they would not have been extraditable on their own. The law also contains a *prima facie* case requirement similar to that found in certain common law jurisdictions.

866. There must also be an extradition agreement between the requesting state and Israel. This can take the form of bilateral or multilateral treaties, including multilateral conventions which contain extradition provisions even though not focused exclusively on this area. For instance Israel is a party to the 1957 Council of Europe Convention on Extradition and the UN International Convention for the Suppression of the Financing of Terrorism. Both provide the

necessary legal nexus. In addition, the law permits Israel to conclude special ad hoc agreements for extradition.

867. The stance of Israel concerning the extradition of nationals has evolved over time. The present position was summarised by Justice Levy of the Supreme Court in the 2005 judgment in *Rosenstein v State of Israel* in these words: "the law grants special protection to a person who was an Israeli citizen and resident at the time the crime was committed. Such a person can only be extradited for trial, as opposed to extradition for sentencing or serving a sentence. Allowing an extradition request is conditional upon the requesting state's promise that, to the extent that he is convicted and sentenced to prison, the extradited person will be returned to serve his sentence in Israel...." The necessary guarantees can be provided either within the framework of a treaty or by ad hoc agreement. Consequently, the only circumstances in which extradition of a national is not possible is when the wanted person has already been convicted and sentenced and extradition is only requested so that he will serve his sentence. Israeli law, provides the authority for enforcing the sentence imposed upon him in Israel by the requesting state.This is made possible under Section 1A(c) of the Extradition Law, together with Section 10 of the Penal Law.

868. In its response to the MEQ and in relevant discussions on-site it was evident that Israel is actively involved in both providing and seeking this form of AML/CFT co-operation in practice. Information provided by the Department of International Affairs in the State Attorney's Office indicated that in the five years prior to the on-site visit it dealt with at least 16 incoming requests for extradition in money laundering cases and with "three 'general' cases relevant to money-laundering issues". Four outgoing requests were made on money laundering cases during the same period.

Additional elements

869. The Law of Extradition contains a simplified procedure where a wanted person makes a request for voluntary return to the requesting state.

6.4.2 Recommendations and comments

870. The relevant part of Recommendation 37 (37.2) and Recommendation 39 and SR.V are fully met.

6.4.3 Compliance with Recommendation 37 & 39 and Special Recommendation V

	Rating	Summary of factors relevant to Section 6.4 underlying overall rating
R.37 (.2)	**Compliant**	
R.39	**Compliant**	
SR.V	**Compliant**	

6.5 Other Forms of International Co-operation (R. 40 and SR.V)

6.5.1 Description and analysis

IMPA

871. Art. 30(f) of the PMLL specifically provides for mutual assistance and exchange of information between IMPA and its foreign counterparts with the following wording: "(f) In order to implement this Law and the Prohibition on Terror Funding Law, the competent authority may transmit information from the database managed by it to an authority of the same category in another state and request information from such authority, provided that the information relates to property originating in an offence, provided in section 2 or to terror property; the provisions of the Legal Assistance Between States Law, 1998, shall apply in this matter".

872. The reference to the Legal Assistance Act does not mean that the FIU information exchange needs to follow the mutual legal assistance procedure. The Minister of Justice has delegated to the head of IMPA the authority to receive requests under the Legal Assistance Law, while the Attorney General has delegated to the Head of IMPA his authority to submit a request for legal assistance. IMPA consequently acts as a competent authority for the purpose of the submission and receiving of requests from other states, in accordance with the provisions of the Legal Assistance between States Law, 1998.

873. As for the FIU to FIU co-operation, the Attorney General set the guidelines for interpretation of section 30(f) in his decision of March 7, 2006. According to these guidelines, IMPA may provide information to a counterpart authority in another country not only if there is a reasonable ground to suspect that the information relates to a specific predicate offence but also if the information includes indications of ML or TF Typologies. Although the PMLL does not make co-operation conditional on the signing of an agreement, IMPA follows a preferential policy of concluding MOUs to streamline the co-operation and its modalities. MOUs were thus signed with 21 foreign FIUs and 20 more are being negotiated.

874. The information exchange at FIU level is governed by the Egmont Group best practices rules, and is performed in a timely and collegial way. All incoming requests from counterpart FIUs are answered, also in the case of a negative reply. IMPA exchanges information that falls within its remit of combating ML. Although the ML offence under the Penal Code is not an all-crimes one, IMPA does not consider itself bound by the restricted coverage of the offence, nor does it consider its cooperative ability to be affected in that sense, as long as the request relates to disclosures in respect of suspected proceeds of crime.

875. The information exchange occurs in principle on the basis of reciprocity, be it spontaneously or upon request. Spontaneous disclosures are usually made when they contain information directly linked to the relevant country. All foreign requests are treated in the same way as domestic requests for information. Furthermore, IMPA uses a follow up monitoring system (ACTIMIZE) that informs the counterpart FIU of new and relevant material related to earlier requests. No instances of excessive delays or unsubstantiated refusals have been reported.

876. IMPA is connected to the ESW and as a rule uses this protected channel to directly exchange information with its counterparts. Other means of communications are discouraged because of security considerations.

877. When acting on a request, IMPA can use all its investigative powers and query information from the databases it has access to, including information from financial institutions that is of a confidential nature. Some of the information requested, such as tax related data, can only be obtained in an indirect way using a human interface. The restricted access to police and security service information however also affects IMPA's ability to positively respond to requests to that effect. The co-operation is based on the principle of reciprocity and confidentiality. The information supplied is protected by the prior consent rule before it can be disseminated further. The same level of secrecy, including privacy and data protection, is guaranteed as provided by the national legislation for information from national sources.

878. The conditions are reasonable and accepted within the international community of FIUs. The involvement of fiscal aspects is not considered a reason to refuse, either in principle or in practice. The use of the information supplied by IMPA, once consent is given, is however restricted to intelligence purposes.

Police

879. The Israel Police has an overall authority to investigate all offences under Israeli jurisdiction. The Commissioner, the Head of Intelligence Branch and the Head of Special Operations Division with the Israel Police are considered as competent authorities to receive information requests.

880. The Israel Police is a member of Interpol and uses this channel to collect and supply information. Requests for investigative acts need to follow the MLA procedure, but 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.

Customs

881. The Israel Customs are member of the WCO. International co-operation at Customs level is based on Customs treaties and agreements. They can and do carry out full investigations in Customs and Excise matters. No special problems or incidents jeopardising the general mutual assistance regime were reported.

Supervisors

882. The Bank of Israel has so far had informal contacts with the supervisory authorities in other countries. A draft Memorandum of Understanding (MOU) between Israel and Turkey has been formulated. This allows for the provision of unsolicited information and confidential information obtained as part of the supervisory process. No other MOUs have been negotiated. The Bank of Israel indicated that they have made spontaneous disclosures without MOUs in several cases in the last 3 years.

883. The ISA has extensive international co-operation arrangements. 18 bilateral agreements have been entered into. The department co-operates fully with other supervisory bodies (the Bank of Israel, the Ministry of Justice, the Ministry of Finance and the police) and it assists the Ministry of Justice in preparing documents that are sent to international bodies for the purpose of examining the State of Israel's compliance with international standards on the question of the war against money laundering.

884. Moroever, the International Affairs department of the ISA was established as a part of the implementation of the Authority's strategy of integrating the capital market in the globalsation processes, and integrating the Authority in the cooperation processes being built between the

supervisory and enforcement authorities around the world. The function of the department is to centralise the handling of all the international aspects of the Authority's work. The department is responsible for contact with international supervisory bodies and foreign securities authorities, as well as the signing of memoranda of understanding with those authorities.

885. The Capital Markets, Insurance and Savings Division of the Ministry of Finance is authorised under S 50B of the Control of Financial Service (Insurance) Law to send information and documents to foreign competent authorities to fulfil their supervisory roles. It was unclear whether spontaneous information could be provided.

Statistics

886. Since 2002 information requests have been received from 65 countries. IMPA itself has sent information requests to 49 counterpart units worldwide. The following figures were provided in respect of information requests to and from IMPA.

Number of requests for information to IMPA

	2002	2003	2004	2005	2006	2007
FIU	31	131	35	118	102	195

Number of reports disseminated from IMPA

	2002	2003	2004	2005	2006	2007
FIU **	12	55	94	78	63	43 137 ***

** Number of requests for information from IMPA to counterparts FIU's.
*** Number of reports disseminated from IMPA to counterparts FIU's.

887. The IMPA subsequently provided more precise statistics covering FIU to FIU exchange of information. They are set out beneath

	2007		**2006**	
	Incoming Requests	**Outgoing Requests**	**Incoming Requests**	**Outgoing Requests**
Number of requests complied	195	50	102	57
Number of requests refused	12	1	1	3
Number of spontaneous disclosures	12	3	9	6
Average response time including cases with in depth analysis (days)	Aprox 85 (New IT system caused some delays)	28	Aprox 71	57

888. No precise statistics were provided relating to supervisory disclosures, though it is clear that mechanisms are either in place or being put in place for these purposes.

Additional elements

889. The Israeli authorities indicated that as a general practice the State of Israel discloses the purpose of a request Judicial Legal Assistance and Extradition.

890. IMPA can obtain from other competent authorities relevant information by a foreign counterpart. Most of the information can be disseminated to foreign FIUs without prior permission. In cases where such permissions are required IMPA seeks to obtain the necessary permissions without delay.

6.5.2 Recommendations and comments

891. The law enforcement authorities are capable and willing to provide international co-operation and information exchange at intelligence level, *i.e*. outside the mutual legal assistance and extradition context. This form of assistance is actually a matter of daily practice. All requests are broadly complied with for intelligence purposes. Coercive and actual investigative measures are excluded, as they require the MLA procedure.

892. The same goes for IMPA, which has a dynamic and constructive approach towards FIU to FIU co-operation and is very active on the international scene. The internal restraints in respect of IMPA's access to supplementary information naturally spill over into the international domain, limiting its capacity to give full assistance to its counterparts, particularly in respect of law enforcement information. This should be addressed together with the review of IMPA's domestic powers of enquiry (see above R. 26).

893. Co-operation between Israeli supervisory authorities with their foreign counterparts is developing through bilateral and multilateral agreements. Information on the numbers of actual exchanges of information was limited.

6.5.3 Compliance with Recommendation 40 and SR.V

	Rating	Summary of factors relevant to Section 6.5 underlying overall rating
R.40	**Largely compliant**	• Access to law enforcement information restricted.
SR.V	**Largely compliant**	• Access to law enforcement information restricted.

7. OTHER ISSUES

7.1 Resources and Statistics

894. The text of the description, analysis and recommendations for improvement that relate to Recommendations 30 and 32 is contained in all the relevant sections of the report i.e. all of section 2, parts of sections 3 and 4, and in section 6. There is a single rating for each of these Recommendations, even though the Recommendations are addressed in several sections. Section 7.1 of the report contains the boxes showing the rating and the factors underlying the rating.

	Rating	Summary of factors underlying rating
R.30	**Largely compliant**	• Insufficient supervisory staff in the Ministry of Finance and Ministry of Communications and lack of adequate training for Ministry of Finance and Ministry of Communications supervisors.
R.32	**Largely compliant**	• IMPA statistics on requests and dissemination differ from the Police. • No fully comprehensive statistics on judicial mutual legal assistance. • Incomplete statistics on administrative international co-operation (Recommendation 40).

8. TABLES

Table 1: Ratings of Compliance with FATF Recommendations
Table 2: Recommended Action Plan to improve the AML/CFT system

TABLE 1. RATINGS OF COMPLIANCE WITH FATF RECOMMENDATIONS

Forty Recommendations	Rating	Summary of factors underlying rating[18]
Legal systems		
1. Money laundering offence	**Largely compliant**	• Piracy and environmental crimes not predicate offences. • Threshold approach in section 4 needs to be removed.
2. Money laundering offence Mental element and corporate liability	**Compliant**	
3. Confiscation and provisional measures	**Partially compliant**	• Need to extend modern legislation on confiscation and provisional measures to the full range of relevant predicate offences. • Effectiveness concerns in respect of confiscation in areas not covered by modern legislation.
Preventive measures		
4. Secrecy laws consistent with the Recommendations	**Compliant**	
5. Customer due diligence	**Partially compliant**	• Requirement in respect of numbered accounts are presently covered by Directive 411 but need to be in law or regulation. • The issuing of a credit or debit card has been covered by Directive 411 since 2002. Only since 12 June 2007 it was covered in the Banking Order (law and regulation issue). • Investment-related insurance activities so far have not been covered by any regulation. • The Postal Bank has –if no CTR report is required- no obligation to take CDD measures below the applicable thresholds that vary from NIS 50.000 to NIS 1.000.000 depending on the type of transaction. • As the activities of the Insurers and Insurance Agents (for which the threshold of NIS 20,000 is applicable)

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

		seems not to be occasional, the threshold is not in line with the Methodology. • Although CDD measures for occasional wire transfers are also caught under article 2 (f) and (g) of the several Orders, the Orders do not specify the lower limit of USD 1,000 except for some specified countries mentioned in the Order. For the banking sector it is also covered below the threshold. • Currently, there is no requirement in law or regulation in place that requires financial institutions to pursue due diligence if it has doubts about the veracity or adequacy of previously obtained customer identification data, except for portfolio managers. • The Insurer and Insurance Agent Order and the Provident Fund Order contain designated thresholds above the FATF limits for verification of NIS 20,000. • Verification of beneficial owners or holders of controlling interests is not an obligation in law or regulation. • The evaluators are concerned that the separate concepts of identification and verification in higher risk situations are not fully reflected in practice. • No sufficiently explicit obligation for financial institutions to obtain information on the purpose and intended nature of the business relationship. • Requirements for ongoing due diligence not in place for the financial institutions other than banking corporations, for which they are in other enforceable means, but not in law or regulation. • No requirements in place for enhanced due diligence other than banking corporations. • The Banking Order has an exemption regarding registering a beneficiary if an account which an attorney, a rabbinical pleader, or an accountant wishes to open for his clients. Although the risk is minimised by the existing thresholds, the exemption raises concerns, particularly as more than one such account may be held with a number of currently unregulated professionals. • Less effective implementation of R.5 by the Postal Bank, Insurance sector, Provident Funds and Money Service Businesses.
6. Politically exposed persons	**Partially compliant**	• The limited Israeli definition of a PEP is applicable only to banking corporations. • Family members and close associates of PEPs are not covered. • Establishing business relationships with PEPs by banking corporations not fully covered (limited only to account opening). • Senior management approval for establishing business relationships with PEPs only partly covered

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

		thresholds should be reported. • Low number of reports from non-bank financial institutions. • Concerns on the overall effectiveness in relation to the timeliness of the reporting system.
14. Protection and no Tipping off	**Largely compliant**	• Tipping off only covered with regard to the existence or non-existence of the report for all financial institutions but not to all related information outside of banking corporations.
15. Internal controls, compliance and audit	**Partially compliant**	No general enforceable requirements to: • establish and maintain internal procedures, policies and controls to prevent money laundering and to communicate them to employees in non-banking sector; • designate compliance officers at management level in the non-banking financial sector; • ensure compliance officers in the non-banking financial sector have timely access to information; • maintain an adequately resourced and independent audit function to test compliance with AML/CFT procedures, policies and controls in the non-banking financial sector; • establish ongoing employee training outside banking corporations; • put in place screening procedures; • ensure high standards when hiring employees.
16. DNFBP – R.13-15 & 21	**Non compliant**	• Currently there are no reporting obligations upon real estate agents, dealers in precious metals, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants. (Recommendation 13). • The associated requirements in Recommendations 14, 15 and 21 are not applied to DNFBP.
17. Sanctions	**Compliant**	
18. Shell banks	**Largely compliant**	• Measures to prevent the establishment of shell banks are not sufficiently explicit. • There is no specific enforceable obligation that requires financial institutions to satisfy themselves that respondent financial institutions in a foreign country do not permit their accounts to be used by shell banks.
19. Other forms of reporting	**Compliant**	
20. Other DNFBP and secure transaction techniques	**Partially compliant**	• While some steps have been taken under Criterion 20.2, no steps have been taken so far to consider coverage of DNFBP beyond those defined by FATF.
21. Special attention for higher risk countries	**Partially compliant**	• Only banking corporations are covered. • No clear requirement to examine as far as possible the background and purpose of transactions with such

		countries with no economic or visible lawful purpose • There are no specific requirements for financial institutions to set forth their findings in writing and to keep the findings available to assist competent authorities. • Limited range of counter-measures available.
22. Foreign branches and subsidiaries	**Partially compliant**	• No general obligation for all financial institutions which ensures their branches and subsidiaries observe AML/CFT measures consistent with home requirements and the FATF Recommendations to the extent that host country laws and regulations permits; • There is no requirement to pay particular attention to situations where branches and subsidiaries are based in countries that do not or insufficiently apply FATF Recommendations; • Provision should be made that where minimum AML/CFT requirements of the home and host countries differ, branches and subsidiaries in host countries should be required to apply the higher standard to the extent that local (i.e. host country) laws and regulations permit; • No general obligation to inform the home country supervisor when a foreign branch or subsidiary is unable to observe appropriate AML/CFT measures.
23. Regulation, supervision and monitoring	**Partially compliant**	• The reliance upon outsourcing of supervision of AML/CFT in the Ministry of Finance and Ministry of Communication is a source of concern. • No mechanism for ensuring that an appropriate and sufficient level of supervision is consistently implemented across the whole financial sector • Insufficient evidence of effective supervision in MSBs and the Postal bank.
24. DNFBP - Regulation, supervision and monitoring	**Non compliant**	• Currently there are no AML/CFT obligations on relevant DNFBP and therefore no systems for monitoring compliance with AML/CFT obligations for real estate agents, dealers in precious metals, trust and company service providers, lawyers, notaries, other independent legal professionals and accountants. • While dealers in precious stones are currently subject to a framework of internal procedures on a self regulatory basis (this does not cover AML/CFT).
25. Guidelines and Feedback	**Partially compliant**	• Insufficient guidelines on CFT issues provided to the financial sector. • Insufficient guidance on PMLL issued to the Postal Bank, the insurance and provident funds sector and the money service businesses. • Such guidance as is issued is uncoordinated across the financial sector. • More case specific feedback required. • No guidelines for DNFBP

Institutional and other measures		
26. The FIU	**Largely compliant**	• IMPA's efficiency as an analytical unit is affected by the incomplete direct access to relevant law enforcement and administrative information. • Timeliness of the IMPA reports needs improvement
27. Law enforcement authorities	**Largely compliant**	• Effectiveness could be enhanced if opportunities for more fully exploiting FIU intelligence were considered and acted upon as appropriate
28. Powers of competent authorities	**Compliant**	
29. Supervisors	**Compliant**	
30. Resources, integrity and training	**Largely compliant**	• Insufficient supervisory staff in the Ministry of Finance and Ministry of Communications and lack of adequate training for Ministry of Finance and Ministry of Communications supervisors.
31. National co-operation	**Compliant**	
32. Statistics	**Largely compliant**	• IMPA statistics on requests and dissemination differ from the Police. • No fully comprehensive statistics on judicial mutual legal assistance. • Incomplete statistics on administrative international co-operation (Recommendation 40).
33. Legal persons – beneficial owners	**Partially compliant**	• Information on the Companies Register relates only to legal ownership and control (as opposed to beneficial ownership) and is not verified and is not necessarily reliable.. • Weaknesses described in respect of verification of beneficial ownership information in R 5 are relevant in the context of the investigative route • Unclear how many companies are on bearer shares and no specific measures have been taken to ensure that legal persons which are able to issue bearer shares are not misused for money laundering and that the principles set out in criteria 33.1 and 33.2 apply equally to legal persons that use bearer shares.
34. Legal arrangements – beneficial owners	**Partially compliant**	• Currently there is little information available on the beneficial owners of private or foreign trusts. • No legal requirements on trust service providers to obtain, verify and retain records of the trusts they create, including beneficial ownership details.
International Co-operation		

35. Conventions	**Largely compliant**	• Concerns about effectiveness of implementation of some of the preventive standards in UN International Convention for the Suppression of the Financing of Terrorism (eg. identification of the beneficial owner). • No preventive obligations on other professions involved in financial transactions as required by the UN International Convention for the Suppression of the Financing of Terrorism.
36. Mutual legal assistance (MLA)	**Compliant**	
37. Dual criminality	**Compliant**	
38. MLA on confiscation and freezing	**Largely compliant**	• Limited range of offences contained in Schedule 2 of the 1998 Law. • Concerns over effectiveness.
39. Extradition	**Compliant**	
40. Other forms of co-operation	**Largely compliant**	• Access to law enforcement information restricted.
Nine Special Recommendations		
SR.I Implement UN instruments	**Largely compliant**	• Lack of full formal compliance with Security Council Resolution 1267 (1999). • Effectiveness concerns given recent promulgation of the PTFL Regulations.
SR.II Criminalise terrorist financing	**Compliant**	
SR.III Freeze and confiscate terrorist assets	**Partially compliant**	• Technical shortcomings in giving effect to S/C Res. 1267 (1999) and 1452 (2002) • Effectiveness concerns given the recent promulgation of the PTFL Regulations • Need for comprehensive and focused guidance to financial institutions as to their obligations under Security Council Resolutions.
SR.IV Suspicious transaction reporting	**Largely compliant**	• S.10 (b) PTFL needs revisiting to avoid any confusion as to the mandatory nature of STR reporting on FT to the FIU, as provided for in s.48 PTFL. • Attempted transactions not explicitly covered; • Some thresholds in some of the Orders.
SR.V International co-operation	**Largely compliant**	• Access to law enforcement information restricted.
SR.VI AML requirements for money/value transfer services	**Partially Compliant**	• There are deficiencies identified earlier in this report in respect of CDD and RC 15, 21 which materially affect the compliance of the MVT service operators with the FATF Recommendations overall.
SR.VII	**Partially Compliant**	• No "full" originator information required to accompany cross-border wire transfers for the Postal Bank and other relevant non-banking institutions.

		• The Postal Bank's lower threshold of NIS 50,000 is too high to exempt cross-border transfers from the requirements of SR.VII. • No requirement on each intermediary and beneficiary financial institution in the payment chain to ensure that all originator information that accompanies a wire transfer is transmitted with the transfer. • No requirement to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information.
SR.VIII	**Largely compliant**	Though important steps are being taken: • No evidence that the adequacy of the law on Non-Profit Organisations overall had been formally reviewed. • No specific outreach programme to raise awareness had commenced. • Unclear whether detailed domestic and international transaction records are kept. • Threshold for identification of significant donors needs reviewing. • Gateways for international information sharing need clarifying.
SR.IX Cross Border declaration and disclosure	**Largely compliant**	• Not all bearer negotiable instruments covered. • The threshold declaration regime is too high under the immigrant rules.

TABLE 2: RECOMMENDED ACTION PLAN TO IMPROVE THE AML/CFT SYSTEM

AML/CFT System	Recommended Action (listed in order of priority)
1. General	**No text required**
2. Legal System and Related Institutional Measures	
2.1 Criminalisation of Money Laundering (R.1 & 2)	• Amend list of predicate offences to include piracy and environmental crimes and remove threshold approach in section 4. • Review the need for the disapplication of the concept of "wilful blindness"within Section 4 PMLL and its impact on effectiveness.
2.2 Criminalisation of Terrorist Financing (SR.I)	
2.3 Confiscation, freezing and seizing of proceeds of crime (R.3)	• Amend legislation on confiscation and provisional measures to include full range of relevant predicate offences. • Improve effectiveness in respect of confiscation for the full range of predicate offences.
2.4 Freezing of funds used for terrorist financing (SR.III)	• Fully implement S/C Res. 1267 (1999) and 1452 (2002) • Produce comprehensive and focused guidance to financial institutions as to their obligations under Security Council Resolutions. • Review effectiveness after the recent promulgation of the PTFL Regulations.
2.5 The Financial Intelligence Unit and its functions (R.26)	• Grant direct access for IMPA to relevant law enforcement and administrative information to enhance its efficiency as an analytical unit • Improve timeliness of reports to and from IMPA..
2.6 Law enforcement, prosecution and other competent authorities (R.27 & 28)	• More fully exploit FIU intelligence and acted upon as appropriate to enhance effectiveness.
2.7 Cross Border Declaration & Disclosure	• Include all bearer negotiable instruments in cross-border declarations. • Lower the threshold declaration regime under the immigrant rules.

3. Preventive Measures – Financial Institutions	
3.1 Risk of money laundering or terrorist financing	
3.2 Customer due diligence, including enhanced or reduced measures (R.5 to 8)	• Ensure requirements on numberd accounts are covered by law or regulation. • Amend legislation to include investment related insurance activities for CDD purposes. • Provide obligation for the Postal Bank to take CDD measures below the applicable thresholds. • Amend Orders to bring the threshold concerning Insurers and Insurance Agents for identification in line with the Methodology. • Amend Orders to specify the lower limit of USD 1,000 for CDD measures in occasional wire transfers. • 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. • Amend the Insurer and Insurance Agent Order and Provident Fund Order to bring the thresholds in line with the FATF limits for verification. • Require by law or regulation the obligatory verification of beneficial owners or holders of controlling interests. • Fully reflect in practice both identification and verification in higher risk situations. • Provide explicit obligation for financial obligations to obtain information on the purpose and intended nature of the business relationship. • 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. • Remove the exemption regarding registering an attorney, rabbinical pleader or account as a beneficiary of an account, as set out in the Banking Order. • Ensure that Recommendation 5 is effectively implemented by the Postal Bank, Insurance sector, Provident Funds and Money Service Businesses. • Extend by law, regulation or other enforceable means the definition of a PEP beyond banking corporations • Amend PEPs requirements to include family members and close associates of PEPs. • Provide by law or regulation or other enforceable means full senior management approval for establishing business relationships with PEPs for banking corporations. • Ensure senior management approval for continuation of business where a customer is subsequently found to be a PEP or becomes a PEP.

	• Ensure new correspondent relationships are approved by senior management. • Ensure criteria 7.4 and 7.5 are required by law, regulation or other enforceable means. • Ensure effective implementation internal policies of banking corporations to prevent the misuse of technological developments in ML/CFT schemes. • Ensure adequate enforceable measures which cover FATF Recommendations and apply for the non-banking sector.
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)	• Remove thresholds for retention of documentation. • 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. • Provide a general requirement also to retain documentation longer than 5 years where requested by a competent authority. • Ensure those parts of R.10 which are asterisked in the Methodology are covered in respect of the Postal Bank in law or regulation. • Establish enforceable obligations to require "full" originator information to accompany cross-border wire transfers for the Postal Bank and other relevant non-banking institutions. • Amend the Postal Bank Order to bring the lower threshold of NIS 50,000 in line with the requirements of SR.VII. • 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. • Establish an enforceable requirement to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information.
3.6 Monitoring of transactions and relationships (R.11 & 21)	• 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. • Amend all Orders to include examination in writing of the purpose and intent of complex, unusual large transactions explicitly. • Amend all Orders to require the findings of the examinations to be kept available for competent authorities for at least five years. • Extend the requirement in Criteria 21.1 to beyond banking corporations.

	• 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. • Ensure that appropriate counter-measures can be taken where a country continues not to apply or insufficiently applies FATF Recommendations.
3.7 Suspicious transaction reports and other reporting (R.13-14, 19, 25 & SR.IV)	• Israel needs to remove the thresholds in some of the orders. • Review level of reporting from non financial institutions and undertake outreach as necessary. • Review the overall effectiveness in relation to the timeliness of the reporting system generally. • Ensure all related information (in financial institutions other than banking corporations) is covered by the tipping off provisions. • 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. • Ensure attempted FT transactions are explicitly covered. • Ensure thresholds from the Orders covering SRIV reporting.
3.8 Internal controls, compliance, audit and foreign branches (R.15 & 22)	• Provide generally enforceable requirements to: – establish and maintain internal procedures, policies and controls to prevent money laundering and to communicate them to employees in non-banking sector; – designate compliance officers at management level in the non-banking financial sector; – ensure compliance officers have timely access to information; – maintain an adequately resourced and independent audit function to test compliance with AML/CFT procedures, policies and controls in the non-banking financial sector; – establish ongoing employee training outside banking corporations; – put in place screening procedures; – ensure high standards when hiring employees. • 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 • 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; • 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; • 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.
3.9 Shell banks (R.18)	• 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. • 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.
3.10 The supervisory and oversight system - competent authorities and SROs. Role, functions, duties and powers (including sanctions) (R.23, 29, 17 & 25)	• Israel should reconsider reliance upon outsourcing of supervision of AML/CFT in the Ministry of Finance and Ministry of Communication should be reconsidered. • Introduce a mechanism for ensuring that an appropriate and sufficient level of supervision is consistently implemented across the whole financial sector. • Ensure effective supervision in MSBs and the Postal Bank. • Provide sufficient guidelines to the financial sector regarding CFT issues. • Comprehensive guidance must also be given on PMLL issues to the Postal Bank, the insurance and provident funds sector and the money service businesses. • Ensure guidance is coordinated across the financial sector. • More case specific feedback must be available. • Publish guidelines for DNFBP.
3.11 Money value transfer services (SR.VI)	• Review the compliance of MVT service operators with CDD standards in the light of the issues raised under R.5.
4. Preventive Measures – Non-Financial Businesses and Professions	
4.1 Customer due diligence and record-keeping (R.12)	• 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.
4.2 Suspicious transaction reporting (R.16)	• 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). • Extend the associated requirements in Recommendations 14, 15 and 21 to DNFBP.
4.3 Regulation, supervision and	• Ensure that DNFBP are subject to effective systems for monitoring and ensuring compliance with AML/CFT

monitoring (R.24-25)	obligations. • Provide sufficient guidelines to the financial sector regarding CFT issues • Also provide comprehensive guidance on PMLL issues to the Postal Bank, the insurance and provident funds sector and the money service businesses. • Coordinate this guidance across the financial sector • Make more case specific feedback available. • Publish guidelines for DNFBP
4.4 Other non-financial businesses and professions (R.20)	• Israel should consider extending coverage of DNFBP beyond those defined by FATF.
5. Legal Persons and Arrangements & Non-Profit Organisations	
5.1 Legal Persons – Access to beneficial ownership and control information (R.33)	• Review commercial, corporate and other laws with a view to taking measures to provide adequate transparency with respect to beneficial ownership. • 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.
5.2 Legal Arrangements – Access to beneficial ownership and control information (R.34)	• Review information available on the beneficial owners of private or foreign trusts. • Provide legal requirements on trust service providers to obtain, verify and retain records of the trusts they create, including beneficial ownership details.
5.3 Non-profit organisations (SR.VIII)	• Perform formal review into the adequacy of the law on Non-Profit Organisations overall had been formally reviewed. • Conduct an outreach programme to raise awareness. • Israel must ensure that detailed domestic and international transaction records are kept. • Review threshold for identification of significant donors. • Clarify gateways for international information sharing.
6. National and International Co-operation	
6.1 National co-operation and coordination (R.31)	-
6.2 The Conventions and UN Special Resolutions (R.35 & SR.I)	• 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. • 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. • Ensure full formal compliance with Security Council Resolution 1267 (1999). • Address effectiveness concerns given recent promulgation

	of the PTFL Regulations.
6.3 Mutual Legal Assistance (R.36-38 & SR.V)	• Amend law to extend the range of offences contained in Schedule 2 of the 1998 Law. • Review existing law and practices which may act as a barrier to international co-operation in confiscation matters.
6.4 Extradition (R.39, 37 & SR.V)	-
6.5 Other Forms of Co-operation (R.40 & SR.V)	• Review restrictions to FIU access to law enforcement information.
7. Other Issues	
7.1 Resources and statistics (R. 30 & 32)	• Increase numbers of supervisory staff in both the Ministries of Finance and Communication as well as improve training provided. • Review for consistency of the presentation of IMPA and Police statistics. • Make available fully comprehensive statistics on judicial mutual legal assistance as well as complete statistics on administrative international co-operation.
7.2 Other relevant AML/CFT measures or issues	
7.3 General framework – structural issues	

9. COMPLIANCE WITH THE SECOND EUROPEAN UNION ANTI-MONEY LAUNDERING DIRECTIVE

I. INTRODUCTION

In accordance with the procedures agreed by the Committee MONEYVAL and the International Monetary Fund (IMF) for the third round evaluation programme of MONEYVAL under the New Methodology, was evaluated by an IMF expert team as part of its FSAP programme between /dates/ Country and the IMF agreed that a representative of MONEYVAL joins the IMF team for part of the evaluation exercise to examine compliance with the European Union anti-money laundering directives where these differ from the FATF 40-Recommendations and therefore fall within the remit of the MONEYVAL examinations

II. COMPLIANCE WITH THE EU AML SECOND COUNCIL DIRECTIVE

1. Prior to the on-site visit MONEYVAL had identified seven Articles in the EU AML Second Council Directive that differed, mostly in their mandatory aspect, from the FATF 40-Recommendations:

(i)	Article 2a	on the applicability of the AML obligations;
(ii)	Article 3	on identification procedures;
(iii)	Article 6	on reporting suspicious transactions and facts which might be an indication of money laundering;
(iv)	Article 7	on suspected transactions and the authority to stop/suspend a transaction;
(v)	Article 8	on tipping off;
(vi)	Article 10	on reporting of facts that could contribute suspicious transactions by supervisory authorities;
(vii)	Article 12	on extension of AML obligations.

2. The following sections address the findings of the on-site examination. They first describe the differences between the identified articles of the EU AML Second Council Directive and the relevant FATF 40-Recommendations. Following an analysis of the findings of the on-site visit and conclusions on compliance and effectiveness, recommendations and comments are made as appropriate.

Article 2a: Applicability of AML obligations

Description	Article 2a of the EU AML Second Council Directive lists the types of institutions and legal or natural persons, acting in the exercise of certain professions and businesses that are subject to the Directive. The Article specifies the type of activities of the legal profession for which the obligations become applicable. In the case of auditors, external accountants and tax advisors the obligations are applicable to their broad activities in their respective professions. FATF Recommendation 12, which extends the AML obligations to designated non financial businesses and professions (DNFBP), excludes applicability to auditors and tax advisors whilst it limits the applicability to external accountants under circumstances similar to those applied to the legal profession. Indeed FATF Recommendation 16(a) *strongly encourages* countries to extend the *reporting* requirement (note the further limitation) to the rest of the professional activities of accountants, including auditing – but makes no reference to tax advisors. Also, the applicability of the AML obligations to dealers in high value goods under the EU AML Second Council Directive, in giving some examples, lends itself to a broader interpretation of application. Again, FATF Recommendation 12 limits the application to dealers in precious metals and precious stones. This is further confirmed in the definition of DNFBP in the Glossary.
Analysis	The Prohibition on Money Laundering Law (PMLL) provides for the imposition of basic preventive obligations on banking corporations by order of the Governor of the Bank of Israel. Provision is similarly made for preventive obligations on other financial intermediaries by Ministerial Order. Seven orders and other measures were issued to each of the following financial sectors which require customer identification, record keeping, and submission of UARs and CTRs: *Banking corporations* Prohibition of Money Laundering (the Banking Corporations' Requirement Regarding Identification, Reporting and Record Keeping for the Prevention of Money Laundering and Financing of Terrorism) Order, 5761-2001 Proper Conduct of Banking Business Directive, No. 411. *Portfolio managers* Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping of Portfolio Manager) Order, 5762-2001. Draft amendment to the Portfolio Managers Order 5767-2007.

	Regulation of the Occupation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 5755-1995. *Stock exchange members* Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping of Stock Exchange Member) Order, 5762-2001. draft amendment to the Stock Exchange Members Order Stock exchange by-laws *Insurer and Insurer Agents* Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping by Insurer and Insurance Agent) Order, 5762-2001. At the time of the on-site visit, there was a draft amendment to the Insurer and Insurer Agents Order 5768-2007. *Provident Fund and Company managing a provident Fund* Prohibition of Money Laundering (Provident Fund and a Company Managing a Provident Fund Requirements Regarding of Identification and Record-Keeping) Order, 5762-2001. *Money Service Business* Prohibition of Money Laundering (Money Service Business Requirements Regarding Identification, Reporting and Record-Keeping) Order, 5762-2002. *Postal Bank* Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record Keeping by the Postal Bank) Order, 5762-2001. At the time of the on-site visit, there was a draft amendment to the Postal Bank Order 5768-2008. Casinos (including internet casinos) are prohibited under Israeli Law. Trust and company service providers, lawyers, notaries, accountants and real estate agents are not currently covered by any AML/CFT obligations. Moreover, the current draft of the PMLL amendment only applies the law to dealers in precious stones specifically with respect to identification and record keeping for transactions above NIS 50.000 (~11,500$). Companies dealing with precious metals are unregulated and not covered by any AML/CFT obligations. By contrast, dealers in precious stones are licensed by the supervisor of diamonds and precious stones at the Ministry of

	Industry Trade and Labour.
Conclusion	Israel is not compliant with Article 2a. of the EU Directive, insofar as DNFBPs have still not been brought into the PMLL, let alone in the wider sense of the EU Directive
Recommendations and Comments	DNFBPs should be brought into the PMLL. The Israeli Authorities are encouraged to consider bringing auditors, externals accountants and tax advisors into the AML/CFT regime and to do so when acting in the course of their professional activities and to consider providing obligations for other relevant high value dealers, as well as dealers in precious metals and stones.

Articles 3(3) and 3(4): Identification requirements - Derogation

Description	By way of derogation from the mandatory requirement for the identification of customers by persons and institutions subject to the Directive, the third paragraph of Article 3 of the EU AML Second Council Directive removes the identification requirement in cases of insurance activities where the periodic premium to be paid does not exceed €uro 1,000 or where a single premium is paid amounting to €uro 2,500 or less. Furthermore, Paragraph 4 of the same Article 3 provides for discretionary identification obligations in respect of pension schemes where relevant insurance policies contain no surrender value clause and may not be used as collateral for a loan. FATF Recommendation 5, in establishing customer identification and due diligence, does not provide for any similar derogation. It however provides for a general discretionary application of the identification procedures on a risk sensitivity basis. Therefore, in certain circumstances, where there are low risks, countries may allow financial institutions to apply reduced or simplified measures. Indeed, the Interpretative Note to Recommendation 5 quotes the same instances as the EU AML Second Council Directive as examples for the application of simplified or reduced customer due diligence.
Analysis	Customer identification requirements are governed by the PMLL and the various orders. Chapter 2 of the Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping by Insurer and Insurance Agent) Order, 5762-2001 and of the Prohibition of Money Laundering (Provident Fund and a Company Managing a Provident Fund Requirements Regarding of Identification and Record-Keeping) Order, 5762-2001, stipulates the duties of Insurer and Insurance Agent and Provident Fund and a Company Managing a Provident Fund to identify & verify customers and

	to report to the FIU. Pursuant to Section 2 of both Orders, an insurance company and a company managing a provident fund are not entitled to enter into an insurance contract, to open a provident fund account or to conclude a transaction therein, without their having recorded and verified the identifying particulars of all recipients of the service in the account or policy, including name, Id Number, date of birth or incorporation and address. The identification obligations at the time of deposit apply only to accounts and policies in which the annual deposit amounts in one of the years in which the policy/ the account were in effect are in excess of NIS 20,000 (~4,600$). There are no specific provisions for occasional transactions in the Insurers and Insurance Agents Order. It should be noted that an insurer shall not pay insurance benefits in any contract (including contracts where the annual premium is less than 20,000 NIS) without recording the identifying particulars of the beneficiary. In case the savings contributions exceed 200,000 NIS there are also authenticating requirements (also if the annual premium is less than 20,000 NIS). Currently there seems to be no identification obligation for Insurers and Insurance Agents in effect when opening an account. Non-life insurance is not covered. In case the premiums in each one of the years in which the account/ contract is valid is lower than 20,000 NIS and the accumulated amount of saving is lower than 200,000 then an identification is required, whoever verification is not required (3(b)). There are no provisions in the Portfolio Manager Order requiring customer identification although a manager has a duty to perform the procedure of becoming acquainted with the customer under section 12 of the Regulation of the Occupation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 5755-1995. In addition, both the Insurer and Insurance Agents Order and the Provident Fund Order have similar provisions to section 3(7) of the Banking Order which states if steps are taken to open an account for foreign entities abroad, the banking corporation may record the identification particulars according to the usual identification certificates in the banking system in the country in which the identification was made, provided that in the said country legislation exists which requires customer identification.
Conclusion	Israel is not in compliance with Article 3 of the EU Directive, insofar the threshold requiring identification is higher than that required in the Directive.

Recommendations and Comments	Although some identification requirements have been implemented by the Orders the inclusion of a higher threshold is not in line with the Directive and therefore should be amended.

Articles 3(5) and 3(6): Identification requirements - Casinos

Description	Paragraph 5 of Article 3 of the EU AML Second Council Directive requires the identification of all casino customers if they purchase or sell gambling chips with a value of €uro 1,000 or more. However, Paragraph 6 of the same article provides that casinos subject to State Supervision shall be deemed in any event to have complied with the identification requirements if they register and identify their customers immediately on entry, regardless of the number of gambling chips purchased. FATF Recommendation 12 applies customer due diligence and record keeping requirements to designated non-financial businesses and professions. In the case of casinos, these requirements are applied when customers engage in financial transactions equal to or above the applicable designated threshold. The Interpretative Note to Recommendation 5 establishes the designated threshold at Euro 3,000, irrespective of whether the transaction is carried out in a single operation or in several operations that appear to be linked. Furthermore, in the Methodology Assessment, under the Essential Criteria for Recommendation 12, the FATF defines, by way of example, *financial transactions* in casinos. These include the purchase or cashing in of casino chips or tokens, the opening of accounts, wire transfers and currency exchanges. Identification requirements under the FATF – 40 Recommendations for casinos are likewise applicable to internet casinos.
Analysis	Israeli law does not permit the establishment of casinos (including internet casinos and slot machines). Thus casinos present no particular problems from the AML/CFT perspective.
Conclusion	This requirement is not applicable.
Recommendations and Comments	

Article 6: Reporting of Suspicious Transactions

Description	Further to the reporting of suspicious transactions paragraph 1 of Article 6 of the EU AML Second Council Directive provides for the reporting obligation to include facts which

	might be an indication of money laundering. FATF Recommendation 13 places the reporting obligations on suspicion or reasonable grounds for suspicion that funds are the proceeds of a criminal activity.
	Furthermore, paragraph 3 of Article 6 of the EU AML Second Council Directive provides an option for member States to designate an appropriate self-regulatory body (SRB) in the case of notaries and independent legal profession as the authority to be informed on suspicious transactions or facts which might be an indication of money laundering. FATF Recommendation 16 imposes the reporting obligation under Recommendation 13 on DNFBPs but does not directly provide for an option on the disclosure receiving authority. This is only provided for in a mandatory manner in the Interpretative Note to Recommendation 16. Also, probably because the FATF identifies accountants within the same category as the legal profession, the Interpretative Note extends the option to external accountants. Finally, the same paragraph 3 of Article 6 of the EU Directive further requires that where the option of reporting through an SRB has been adopted for the legal profession, Member States are required to lay down appropriate forms of co-operation between that SRB and the authorities responsible for combating money laundering. The FATF Recommendations do not directly provide for such co-operation but the Interpretative Note to Recommendation 16, although in a non-mandatory manner, makes it a condition that there should be appropriate forms of co-operation between SRBs and the FIU where reporting is exercised though an SRB.
Analysis	There is a general obligation imposed on banking corporations and other financial institutions under Section 7 PMLL to report as specified in Orders made pursuant to PMLL. The various Orders relevant to the financial sector contain broadly similar obligations which can be characterised as unusual transaction reporting. However, the regulations are not clear, because several examples of unusual transactions give a threshold limitation. The existence of various different thresholds is a continuing weakness of the regime. The reporting obligation does not cover the facts where these are unrelated to a suspicious/unusual transaction.
Conclusion	Israel is not in compliance with Article 6 of the EU Directive, in respect of reporting of facts of transactions.
Recommendations and Comments	The Israeli Authorities should consider introducing the additional reporting requirements set out in A.6(1) 2nd EU Directive.

Article 7: Suspected Transactions – Refrain / Supervision

Description	Article 7 of the EU AML Second Council Directive requires that institutions and persons subject to the Directive refrain from carrying out transactions which they know or suspect to be related to money laundering until they have apprised the authorities who may stop the execution of the transaction. Furthermore where to refrain from undertaking the transaction is impossible or could frustrate efforts of an investigation, the Directive requires that the authorities be informed (through an STR) immediately the transaction is undertaken. FATF Recommendation 13, which imposes the reporting obligation where there is suspicion or reasonable grounds to suspect that funds are the proceeds of a criminal activity, does not provide for the same eventualities as provided for in Article 7 of the EU Directive. FATF Recommendation 5 partly addresses this matter but under circumstances where a financial institution is unable to identify the customer or the nature of the business relationship. However, whereas Recommendation 5 is mandatory in this respect, it does not provide for the power of the authorities to stop a transaction. Furthermore, the reporting of such a transaction is not mandatory. Paragraph 1- 3 of the Interpretative Note to Recommendation 5 seems to be more mandatory in filing an STR in such circumstances.
Analysis	The evaluators could not find any provision in Israeli law, or in the Orders and Directives which required financial institutions to refrain from carrying out transactions which they know or suspect to be related to money laundering until they have apprised the competent authorities. Similarly the different provisions do not give the competent authorities the power to stop the execution of a transaction.
Conclusion	This requirement is not covered.
Recommendations and Comments	The evaluators advise, particularly in the light of their views set out at para 242 in the report, that the IA consider requiring financial institutions to refrain from carrying out transactions which they know or suspect to be related to money laundering until they have appraised the appropriate authorities.

Article 8: Tipping off

Description	Article 8(1) of the EU AML Second Council Directive prohibits institutions and persons subject to the obligations under the Directive and their directors and employees from disclosing to the person concerned or to third parties either that an STR or information has been transmitted to the authorities or that a money laundering investigation is being carried out. Furthermore Article 8(2) provides an option for Member States not to apply this prohibition (tipping off) to notaries, independent legal professions, auditors, accountants and tax advisors. FATF Recommendation 14 imposes a similar prohibition on financial institutions, their directors, officers and employees. Recommendation 16 extends this prohibition to all DNFBPs. However, the prohibition under Recommendation 14(b) is limited to the transmission of an STR or related information. It does not therefore cover ongoing money laundering investigations. Furthermore, the FATF Recommendations do not provide for an option for certain DNFBPs to be exempted from the "tipping off". The Interpretative Note to Recommendation 14 exempts tipping off only where such DNFBPs seek to dissuade a client from engaging in an illegal activity.
Analysis	Section 31 A of the PMLL provides for a confidentiality obligation. It states that a person who receives information pursuant to the law in the course of his duties or in the course of his employment, shall keep it confidential, and shall not disclose it to any other person and shall not make any use of it except in accordance with the provisions of this law or pursuant to a court order. The tipping off issue is regulated in a broadly similar manner in the rest of the financial sector. Prohibition on the disclosure of the existence or non-existence of a report is provided for. As far as portfolio managers and stock exchange members, and other non-banking financial institutions are concerned, there is, however, uncertainty, that the prohibition is also applicable to all "related information", specifically to disclosures with regard to the fact of preparation of a report, or the actual contents of a report or any supplementary report or indeed the existence of a request for such a supplementary report or the content of it. The safe harbour provisions are satisfactory but the tipping off provisions, other than for banking corporations, need greater precision to cover all related information. Furthermore, tipping off is 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. There are no such reporting obligations and currently no tipping off prohibitions apply to DNFBPs, including lawyers, notaries, other independent legal professionals and accountants.
Conclusion	The tipping off provisions do not apply to the fact that a money laundering investigation is being carried out.
Recommendations and Comments	More precise guidelines should be produced in respect of the tipping off provisions and consideration should be given to including tipping off in relation to the fact that a money laundering investigation is being carried out.

Article 10: Reporting by Supervisory Authorities

Description	Article 10 of the EU AML Second Council Directive imposes an obligation on supervisory authorities to inform the authorities responsible for combating money laundering if, in the course of their inspections carried out in the institutions or persons subject to the Directive, or in any other way, such supervisory authorities discover facts that could constitute evidence of money laundering. The Directive further requires the extension of this obligation to supervisory bodies that oversee the stock, foreign exchange and financial derivatives markets. In providing for the regulation and supervision of financial institutions and DNFBPs in Recommendation 23 and in providing for institutional arrangements (Recommendations 26 –32) the FATF-40 do not provide for an obligation on supervisory authorities to report findings of suspicious activities in the course of their supervisory examinations.
Analysis	There is no requirement for supervisors or contracted external entities to file UTRs with the IMPA on suspicious transactions encountered in the course of their supervisory work. However such suspicions (discovered during supervisory inspection) are in fact communicated to IMPA. Upon identifying a suspicious or unusual transaction the supervisors instruct the inspected financial institution to immediately file a UTR with IMPA. Furthermore, if and when the financial institution is brought before the sanction committee because of failure to report the suspicion to IMPA the FIU representative in the sanction committee is once again exposed to this suspicion. As already stated, Israeli AML/CFT legislation applies to banking corporations, members of the stock exchange, portfolio managers, insurers and insurance agents, provident funds and companies managing provident funds, the Postal bank; and providers of currency services. There is no single regulatory act introducing AML/CFT requirements to these entities. Seven orders were issued by

	different authorities to each of the financial sectors that require customer identification, record keeping and submission of UTRs and CTRs. Although that approach could be interpreted as allowing more flexibility in order to reflect the peculiarities of each of the financial businesses, in the evaluators' opinion it may cause differences or unevenness in the implementation of the same AML/CFT standards within the different financial sectors.
Conclusion	Although there are reports being made by supervisors, the absence of a single provision requiring this obligation may cause differences or unevenness in the implementation of the same AML/CFT standards within the different financial sectors.
Recommendations and Comments	The IA should consider a clear reporting obligation on supervisory authorities where they discover facts that could constitute money laundering in the course if their inspections.

Article 12: Extension of AML obligations

Description	Article 12 of the EU AML Second Council Directive provides for a mandatory obligation on Member States to ensure that the application of the provisions of the Directive are extended, in whole or in part, to professions and categories of undertakings, other than the institutions and persons listed in Article 2a, that are likely to be used for money laundering. FATF Recommendation 20 imposes a similar obligation but in a non-mandatory way by requiring countries to consider applying the Recommendations to categories of businesses or professions other than DNFBPs.
Analysis	Israel has so far not taken steps to meet this obligation of the Directive.
Conclusion	
Recommendations and Comments	Israel is advised to actively consider the extension of AML/CFT obligations to those businesses and professions other than those listed in Art. 2a that are likely to be used for money laundering.

III. CONCLUSIONS

There is some compliance with the 2nd EU Directive, with some deficiencies noted however:

- DNFBPs as defined in the 2nd EU Directive and, as relevant in relation to the whole of their professional activities have not been brought into the PMLL;

- There is no provision in Israeli law requiring financial institutions to refrain from carrying out transactions which they know or suspect to be related to money laundering, until they have appraised the competent authorities;

- Israel has taken no steps to meet the requirements of Article 12 of the 2nd EU Directive.

10. LIST OF ANNEXES

ANNEX I

Details of all bodies met on the on-site mission - Ministries, other government authorities or bodies, private sector representatives and others

- Ministry of Justice - State Attorney
- Ministry of Justice - legislation department
- Ministry of Justice – Department for International Agreements and Litigation
- State Attorney's office - International Affairs and Legal Assistance department
- Registrar of corporation
- Supreme Court - supreme court judge
- Bank of Israel - the Governor of the bank of Israel / supervisor of banks
- Ministry of Communication - the postal bank supervisor
- Ministry of Finance - Capital markets, insurance & saving division (supervisor for provident funds, insurance and money services business)
- State attorney's office - District attorney (taxation & financial crime) and the head of the financial crime department
- Israel Police Headquarters
- Police officers
- Intelligence Fusion Center
- Customs office - the head (deputy) of customs and senior staff
- Diamond Exchange Center - the diamond sector supervisor (Ministry of Trade)
- Israel Securities Authority - Legal advisor of ISA
- Money Services Business (private company) – Change Place
- Private auditing firm (Barlev)
- Compliance officer of bank Hapoalim
- Compliance officer of First International bank
- Compliance officer of Insurance company – Migdal Insurance and Financial Holdings Ltd.
- Compliance officer of Stock Exchange member - Psagot Ofek Investment House Ltd.
- Head of IMPA and IMPA staff
- Representative of the Israeli Security Agency on terror financing.

ANNEX II

According to the list in the first schedule of the PMLL

Designated categories of offences based on the FATF Methodology	**Offence in domestic legislation**
Participation in an organised criminal group and racketeering;	(18A) Offences under sections 2, 3 of the Combating Criminal Organisation Law.
Terrorism, including terrorist financing	(18) Offences under the Prevention of Terrorism Ordinance[32], under the Defence (Emergency) Regulations, 1943[33], under sections 8, 9 of the PTFL or under Articles Two to Six of Chapter Seven of Part Two of the Penal Law.
Trafficking in human beings and migrant smuggling; Sexual exploitation, including sexual exploitation of children;	(8) Offences against the person under Article Seven of Chapter Ten of Part Two of the Penal Law; (including: sections 370, 375A, 376, 376A, 376B, 377A). (3) Offences related to acts of prostitution under sections 199, 201, 202, 203, 203A, 203B, 204 and 205 of the Penal Law; (Children – section 203B of the Penal Law).
Illicit trafficking in narcotic drugs and psychotropic substances;	(1) Offences under the Dangerous Drugs Ordinance, not being offences of self-use of a drug, possession of a drug for self-use, possession of premises for personal consumption of a drug and possession of instruments for self-use of a drug.
Illicit arms trafficking	(2) Offences of illegal trading in arms under section 144 of the Penal Law.
Illicit trafficking in stolen and other goods	(9) Offences against property under section 411 of the Penal Law. (10) Offences of obtaining a vehicle or stolen parts and trading in a vehicle or stolen parts, as provided in sections 413J, 413K of the Penal Law.
Corruption and bribery	(6) Offences of bribery under Article Two of Chapter Nine of Part Two of the Penal Law. (18A) Offences under section 4 of the Combating Criminal Organisation Law.
Fraud	(11) Offences under Article Six of Chapter Eleven of Part Two of the Penal Law, excluding offences under

[32] *Iton Rishmi* of 5708, First Schedule p. 73.

[33] *Iton Rishmi* of 1945, Second Schedule, p. 1055.

	sections 416, 417 and 432; (including sections 415,422, 423, 424A, 425, 426, 431) (11A) Offences under sections 439-444 of the Penal Law. (12) Offences under section 17 of the Debit Cards Law, 5746-1986[23]. (13) Offences under section 54 of the Securities Law, 5728-1968[24]. (17) An offence under section 117(b)(3) of the Value Added Tax Law, 5735-1975, committed in aggravated circumstances.
Counterfeiting currency	(12) Offences of forgery of money and coins, under Articles One and Two of Chapter Twelve of Part Two of the Penal Law, excluding offences under sections 463, 466, 467, 480, 481 and 482.
Counterfeiting and piracy of products	(16) Offences related to infringements of copyrights, patents, designs and trademarks, under the Copyrights Ordinance[27], the Patents Law, 5727-1967[28], Patents and Designs Ordinance[29], the Trademarks Ordinance [New Version], 5732-1972[30], and the Merchandise Marks Ordinance[31]. (12) Installation of a tool for making stamps under section 486.
Environmental crime	
Murder, grievous bodily injury	(7) Offences of murder and attempted murder under sections 300 and 305 of the Penal Law.
Kidnapping, illegal restraint and hostage-taking	(8) Offences against the person under Article Seven of Chapter Ten of Part Two of the Penal Law;

[23] *Sefer Ha-Chukkim* of 5746, p. 187.

[24] *Sefer Ha-Chukkim* of 5728, p. 234.

[27] *Laws of Palestine*, vol. 1, p. 364.

[28] *Sefer Ha-Chukkim* of 5727, p. 148.

[29] *Laws of Palestine*, vol. 2, p. 1053.

[30] *Dinei Medinat Yisrael (Nusach Chadash)*, vol. 26, p. 511.

[31] *Laws of Palestine*, vol. 2, p. 889.

Robbery or theft;	(9) Offences against property under sections 384, 390 to 393, 402 to 404 and 411 of the Penal Law; (10) Offences of theft of a vehicle – sections 413B, 413F of the Penal Code. (13) Offences under section 16of the Debit Cards Law, 5746-1986[23] ;
Smuggling	(14) Offences of smuggling goods under sections 211 and 212 of the Customs Ordinance[25] or under the Import and Export Ordinance [New Version], 5739-1979[26];
Extortion	(11) Offences under sections 427, 428, 430 of the Penal Law
Forgery	(11) Offences under sections 418, 419, 421 of the Penal Law. (10) Offences under sections 413H, 413I of the Penal Law (Vehicles)
Piracy;	
Insider trading and market manipulation	(15) Offences under sections 52C, 52D and 54 of the Securities Law, 5728-1968.

[23] *Sefer Ha-Chukkim* of 5746, p. 187.

[25] *Dinei Medinat Yisrael (Nusach Chadash)*, vol. 3, p. 39.

[26] *Dinei Medinat Yisrael (Nusach Chadash)*, vol. 32, p. 625.

A N N E X III

Examples of IMPA management and professional training

- An employee of the research department participated in a seminar for 5 days regarding "The Advanced International Forfeiture and Money Laundering" in 2007. This seminar sponsored by the D.E.A - Drug Enforcement Administration.
- IMPA's representative at the intelligence fusion center attended three courses (3 days each).
- An employee of the collection department attended a two week seminar in the French National School for Management - ENA (Ecole Nationale d'Administration) in Paris, on "Fighting Corruption".
- IMPA's Administrator attended a 3 day course of the Israel Security Agency regarding information security in 2007.
- A comprehensive ML and TF course was held during 2007 – once a week for 8 months for all IMPA's employees. This course included lectures regarding ML and TF such as: International co-operation; FATF recommendations, international standards and organisations; financial statement editing and analysing; international commerce Regulation and enforcement; Inspections of financial institutions and the procedure of work with the police and the prosecution; Private sector issues, including management of the risk in financial institutions such as banking, portfolio management, insurance company, etc.; typologies of ML and TF; MSB, non-profit organisations and insurance.
- The Head of Information Technology & Communication attended 148 hours Advanced Chief Information Officers (CIO) training course including management, knowledge management, sharing and enterprise portal, business contingency plan, information security, business intelligence & data warehouse, service level measurements and enforcement, budgeting, contracting, outsourcing and project management.
- The Institute of Legal Training for Attorneys & Legal Advisers organised different training during the years 2002-2007, which *inter alia* includes money laundering and terror financing, financial and organised crimes, money laundering and organised crimes.
- The head of Information Technology & Communication attended 5 day course of the ISA (Israel Security Agency) on security of information systems in 2006.
- A senior from the research department attended a management development workshop course in 2006.The course was part of training program for managers in the Ministry of Justice.
- The Head of Collection, Control and organisation department participated as a representative of IMPA in a course "The State senior interagency course for intelligence" from November 2005 until January 2006.
- Monthly lecture – once a month, all IMPA’s employees assemble to hear a lecture on general or specific ML/FT issues (e.g. confiscation and forfeiture, the Stock Exchange AML order, the review of the 40 FATF recommendations, etc.) These lectures are given by IMPA employees and external experts.
- Training sessions (called: "shiluv yadaim" which means: "Holding Hands Together") for representatives from IMPA, police, D.A. office, supervisors and customs authority in 2005.

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A N N E X IV

Complementary data regarding money laundering convictions

	Procedure	Offences	Verdict	Confiscation	Appeal	Final Outcome
1	**394/04**	Section 3(b) of the PMLL 8/2002-12/2003	2 months Imprisonment, 4 months service work for the public benefit, suspended prison sentence	100,000NIS	Yes- the accused appealed the verdict	The appeal was denied
2	**343/04**	Section 3(b) of the PMLL 8/2002-12/2003	7 months Imprisonment, suspended prison sentence, 100,000 NIS fine (or 5 months Imprisonment instead)	1,550,000 NIS	Yes- the accused appealed the verdict	The appeal was partly denied - the confiscation reduced to 1,030,000NIS
3	**132/03**	Section 3(b) of the PMLL 12/2002	6 months service work for the public benefit	350,000NIS	Yes- the accused appealed the verdict	The appeal was denied
4	**40231/04**	Section 3(b) of the PMLL 8/2002-7/2004	9 months Imprisonment, suspended prison sentence, 100,000 NIS fine (or 2 months Imprisonment instead)	$ 48,550	Yes- the accused appealed the verdict	The appeal was denied
5	**40289/04**	Section 3(a) + 4 of the PMLL Fraud; Forgery -2001/11 2002/4	Not impose fines because of difficult financial damage, consequence from the commerce bank 12 months Imprisonment, suspended prison sentence,		Yes- the accused appealed the verdict	The appeal was denied
6	**40193/02**	Section 4 of the PMLL	2 years Imprisonment, suspended prison	976,000NIS	No	

	Procedure	Offences	Verdict	Confiscation	Appeal	Final Outcome
			sentence, 75,000 NIS fine (or 12 months Imprisonment instead)			
		Fraud; Forgery 1998-2002				
7	**40040/06**	Section 3(b) of the PMLL 2003-2002	3 months service work for the public benefit (except for 1 defendant) suspended prison sentence, 20,000-40,000 NIS fine (or 3-12 months Imprisonment instead)	3,300,000 NIS	No	
8	**1023/05**	Section 3(b) of the PMLL 2005-2002	8 months Imprisonment (the father), 6 months service work for the public benefit (the son) suspended prison sentence, 50,000 NIS fine		No	
9	**1062/06**	Section 3(b) of the PMLL 2005-2006	14 months Imprisonment to the main offender, 9 months Imprisonment to the secondary offender, Over 100,000 NIS fine	170,000NIS	No	
10	**40180/02**	Section 4 of the PMLL 1999- 2001	12 months suspended prison sentence for 3 years, 500 hours of service work for the public benefit.	1,650,000 NIS	No	
11	**8207/02**	Section 3 + 4 of the PMLL	Offender 1 – 18 months Imprisonment;	13,000,000 NIS	No	

	Procedure	Offences	Verdict	Confiscation	Appeal	Final Outcome
		Fraud; Forgery 5/1999- 1/2002	and Offender 2, 3 - 6 months service work for the public benefit			
12	**40306/03**	Section 3(a)+ 3(b) + 4 of the PMLL Forgery 1997- 2002	Offender 1-18 months Imprisonment, 100,000 NIS fine. Offender 2- 10 months Imprisonment, 500,000 NIS fine.	12,000,000 NIS	No	
13	**2440/04**	Section 3(a) of the PMLL Fraud; tax income 1999- 2004	7 years Imprisonment	1,600,000 NIS	No	
14	**40238/05**	Section 3 + 4 of the PMLL Fraud; Forgery 2003-2004	8 years and 3 months Imprisonment; 700,000 NIS compensation; 200,000 NIS fine.	$ 150,000	No	
15	**40115/06**	Section 3 + 4 of the PMLL Fraud; Forgery	30 months Imprisonment; 18 months suspended prison sentence; 700,000 NIS fine			
16	**40231/04**	Section 3(a) + 3(b) of the PMLL Warning, disruption 1998- 2004	33 months Imprisonment. 750,000 NIS fine, 25 million NIS, payment for income tax	1,250,000 NIS	No	
17	**40028/05**	Section 3(a) of the PMLL	3 years Imprisonment;		No	

	Procedure	Offences	Verdict	Confiscation	Appeal	Final Outcome
		1998- 2000	300,000 NIS fine			
18	**40198/05**	Section 3(b) of the PMLL 1998- 2002	40 months Imprisonment; 12 months suspended prison sentence; 500,000 NIS fine	500,000NIS B.M.W	No	
19	**40040/06**	Section 3(b) of the PMLL 2001- 2003	Offender 1 – 3 months service work for the public benefit 40,000 NIS fine; Offender 2 – 3 months service work for the public benefit; 400,000 NIS fine; Offender 3 – one year suspended prison sentence; 20,000 NIS fine.		No	
20	**922/05**	Section 3(b) of the PMLL 5/2002- 12/2003	Offender 1 – 7 months Imprisonment, 20,000 NIS fine. Offender 2 - 9 months Imprisonment, 30,000 NIS fine.		Yes- the state appealed the verdict	Appeal is still pending
21	**371/04**	Section 3(a) of the PMLL Fraud ;Theft 2002- 2003	Offender 1 – 30 months Imprisonment. 100,000 NIS compensation. Offender 2 – 12 months suspended prison, 10,000 NIS fine.	100,000NIS	Yes- both the state and the accused appealed.	Appeal partly accepted Offender 2- increasing the punishment to 12 months Imprisonment
22	**219/03**	Section 3(a) of the PMLL	Offender 1- 4 years Imprisonment; 3,000,000 NIS fine;	Offender 1- 2,231,193 NIS	Yes- the accused appealed	Appeal is still pending

	Procedure	Offences	Verdict	Confiscation	Appeal	Final Outcome
		Fraud 2001-1996	2 years suspended prison sentence; Offender 2 – 4 years Imprisonment; 2 years suspended prison sentence;	Offender 2 – 2,395,974 NIS		
23	**9456/04**	Section 4 of the PMLL Forgery 2002- 2004	2 years Imprisonment; 500,000 NIS fine	3,000,000 NIS	No	
24	**40182/02**	Section 4 of the PMLL Forgery Fraud Theft 1997-2002	Offender 1- 17 years imprisonment; 5,000,000 NIS fine; suspended prison sentence; Offender 2- 6 years imprisonment; 1,000,000 NIS fine; suspended prison sentence; Offender 2-15 years imprisonment; suspended prison sentence of 2 years; 3,000,000 NIS fine or 3 years imprisonment instead.		Yes- both the state and the accused appealed.	Offender 1- Jail sentence and fine did not change; Offender 2- Jail sentence of 15 years imprisonment did not change. 3 years imprisonment as substitute for the fin was cancelled. The fine valid. Offender 3- increasing the Jail sentence to 17 years; the fine did not change;
25	**856/05**	Section 3(a) + 4 of the PMLL Head of a crime organisation and another	7 years imprisonment, 2 years suspended prison sentence, 2,000,000 NIS fine.	2,500,000 NIS Property –	Yes - accused appealed.	Jail sentence of 6 years and 9 months

	Procedure	Offences	Verdict	Confiscation	Appeal	Final Outcome
		several offences by the Penalty law. 2002- 2004				
26	**856/05**	Section 3(a) + 4 of the PMLL Senior partner in a crime organisation and another several offences by the Penalty law. 2002-2004	66 months imprisonment, 18 months suspended prison sentence, 500,000 NIS fine.	2,500,000 NIS (not final)	No.	Appeal is still pending
27	**856/05**	Section 3(a) + 4 of the PMLL Senior partner in a crime organisation and another several offences by the Penalty law. 2002-2004	5 years imprisonment, 15 months suspended prison sentence, 500,000 NIS fine.		Yes - accused appealed.	
28	**1046/06**	Section 4 of the PMLL Fraud 2004-2006	54 months imprisonment, 18 months suspended prison sentence, 50,000 NIS fine, 765,000 NIS compensation to the complainants.		No.	
29	**3088/02**	Section 4 of the PMLL Fraud Tax income 2001-2003	36 months imprisonment, 12 months suspended prison sentence, 1,000,000 NIS fine.	500,000 NIS.	Yes- the accused appealed	The appeal was denied
30	**150/03**	Section 4 of the PMLL	9 months imprisonment, 6 months	200,000 NIS.	No.	

	Procedure	Offences	Verdict	Confiscation	Appeal	Final Outcome
		Tax income 2001-2002	suspended prison sentence, 400,000 NIS fine.			
31	**3177/02**	Section 4 of the PMLL Fraud 2001-2002	6 months service work for the public benefit, 6 months suspended prison sentence, 150,000 NIS fine.		No.	

Note: Data in this table includes information received from Tel Aviv District Attorney (taxation and economics) and Economic Department, State Attorney Office.

ANNEX V

PENDING INDICTMENTS

	Case N°	Offences	Temporary Seizure	The stage of the Trial
1	**3169/07**	Section 3(b) of the PMLL 2006-2007 *Case related to TF	Approximately 262,850 NIS	The accused was found guilty; The sentence will be given on 8th of April, 2008.
2	**344/04**	Section 3(b) + 7 of the PMLL Fraud Disruption of trial procedures 2002-2003	**Offender 1 -** 85,000$ for the apartment and 5,000$ for the car. **Offender 2 & 3 -** 2 real estates at the value of 550,000$.	All the accused were found guilty; The sentence will be given soon.
3	**40090/04**	Section 3(a) of the PMLL Fraud 2000		The trial has not ended yet.
4	**40090/04**	Section 4 of the PMLL Fraud 2000-2001		The trial has not ended yet.
5	**40036/06**	Section 3(a) + 4 + 10 of the PMLL Forgery 2000-2004	4 real estates at 2,000,000$ worth and car at 140,000 NIS worth.	The trial is in preliminary phase.
6	**40183/02**	Section 4 of the PMLL Forgery Fraud Tax income 1998-2002		The trial is facing a further hearing and has not ended yet.
7	**40282/05**	Section 3(a) of the PMLL Tax income	Apartments and real estate estimated at 14,000,000 NIS worth.	The trial is facing a further hearing and has not ended yet.
8	**1226/04**	Section 3(b) & 4 of the PMLL	420,000 NIS, 4 vehicles, 2 apartments, one real estate and a grocery	The trial has not ended yet.

	Case N°	Offences	Temporary Seizure	The stage of the Trial
		shop. Membership in a crime organisation and another several offences by the Penalty law. 2004		
9	**1068/05**	Section 3(b) of the PMLL Membership in a crime organisation and another several offences by the Penalty law. 2003-2005	7 vehicles.	The trial has not ended yet.
10	**40346/05**	Section 3(b) of the PMLL	3,000,000 Euro	The trial has not ended yet.
11	**40369/05**	Section 3(b) & 7 of the PMLL Disruption of trial Tax income	955,000 $, 67,000 Euro, 210,000 NIS, 4,520 pound, 6 cars and 6 bank accounts.	The trial has not ended yet.
12	**Rami Hajami** **40083/07**	Section 3(b) & 11 of the PMLL Fraud Disruption of trial	Chattels and real estates at 6,606,360 NIS worth.	The trial has not ended yet.
13	**40138/07**	Section 3(a) & 4 of the PMLL Theft Fraud		The trial has not ended yet.
14	**J.J**	Section 3(a) + 3(b) + 4 of the PMLL Fraud Forgery	11,525,500 NIS from bank accounts, checks at 7,497,436 NIS worth and a B.M.W car at 750,000 NIS worth.	The indictment will be submitted to court soon.
15	**Y.A**	Section 3(b) of the PMLL	473,000 NIS.	The indictment will be submitted to court soon.
16	**K.B**	Section 3(b) of the PMLL Fraud	1,800,000 NIS.	The trial has not ended yet.
17		Section 3(b) of the PMLL	Real estates estimated in hundred thousands NIS,	The verdict will be given soon.

	Case N°	Offences	Temporary Seizure	The stage of the Trial
	1169/05	Theft Fraud Disruption of trial 2005	2 vehicles, 90,000 NIS.	
18	**967/05**	Section 3(a) + 4 of the PMLL Fraud Running illegal bets Tax income 2001-2002		The defended was found guilty and is waiting for sentencing.
19	**3052/07**	Section 3(a) + 4 of the PMLL Fraud 2003-2006	Real estates, bank accounts and vehicles at 5,000,000 NIS worth.	The trial has not ended yet.

ANNEX VI

TF Indictments - Israel

	Case no.	Offences	Verdict	Appeal
1.	**272/03** **Appeal 3343/05**	Section 4 of the PMLL Sections 85(c) of the Defence Regulations (State of Emergency) (1945).	Offender 1 - Jail sentence of 4.5 years + 3 years suspended prison sentence; Offender 2 - Jail sentence of 3.5 years + 3 years suspended prison sentence; Offender 3 - Jail sentence of 2.8 years + 3 years suspended prison sentence; Offender 4 - Jail sentence of 2.5 years + 3 years suspended prison sentence; Offender 5 - Jail sentence of 2.5 years + 3 years suspended prison sentence; Offender 6 (corporation) – fine of 50,000 NIS. Offender 7 (corporation) – fine of 50,000 NIS Confiscation – 2 apartments and bank accounts	The appeal regarding the confiscation was denied
2.	**1048/04 Appeal 3289/05**	Sections 85(c) of the Defence Regulations (State of Emergency) (1945)	Jail sentence of 7.5 years + 4 year suspended prison sentence;	The appeal was denied
3.	**1074/05** **Appeal 3827/06**	Sections 85(c) & (h) of the Defence Regulations (State of Emergency) (1945).	Jail sentence of 4 years + 1 year suspended prison sentence;	The appeal was denied
4.	**3169/07**	Section 3(b) of the PMLL 2006-2007	The accused was found guilty; The sentence will be given on	

	Case no.	Offences	Verdict	Appeal
		*Case related to TF	30th of April, 2008.	
5.	**8036/07**	Section 8 of the PTFL	All the accused were found guilty; Offender 1 - Jail sentence of 26 months + 8 months suspended prison sentence; Offender 2 + Offender 3 - Jail sentence of 20 months + 6 months suspended prison sentence;	
6.	**8031/07**	Sections 8, 9(2) of the PTFL	All the accused were found guilty; Offender 1 - Jail sentence of 40 months + 8 months suspended prison sentence; Offender 2 - Jail sentence of 24 months + 6 months suspended prison sentence; Offender 3 - Jail sentence of 20 months + 6 months suspended prison sentence; Offender 4 - Jail sentence of 13 months + 4 months suspended prison sentence;	
7.	**08/40089**	Sections 9(a)(2) & (3) of the PTFL Section 4 of the PMLL Sections 73 & 85(c) of the Defence Regulations (State of Emergency) (1945).	The trail has not ended yet.	