

FATF



Anti-money laundering and  
counter-terrorist financing  
measures

# Israel

Follow-up Report &  
Technical Compliance Re-Rating





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**The FATF Plenary adopted this report by written process in May 2022.**

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## *Israel's 1st Regular Follow-up Report*

### 1. Introduction

The FATF Plenary adopted the mutual evaluation report (MER) of Israel in October 2018.<sup>1</sup> This FUR analyses Israel's progress in addressing the technical compliance deficiencies identified in its MER, relating to Recommendation 16. Re-ratings are given where sufficient progress has been made. This report also analyses Israel's progress in implementing new requirements relating to FATF Recommendations that have changed since the end of the on-site visit to Israel in March 2018 (R.2 and R.15).

Overall, the expectation is that countries will have addressed most, if not all, technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address what progress Israel has made to improve its effectiveness.

### 2. Findings of the MER

The MER rated Israel's technical compliance as follows:

**Table 1. Technical compliance ratings, October 2018**

<b>R 1</b>	<b>R 2</b>	<b>R 3</b>	<b>R 4</b>	<b>R 5</b>	<b>R 6</b>	<b>R 7</b>	<b>R 8</b>	<b>R 9</b>	<b>R 10</b>
LC	C	LC	LC	C	LC	LC	LC	C	LC
<b>R 11</b>	<b>R 12</b>	<b>R 13</b>	<b>R 14</b>	<b>R 15</b>	<b>R 16</b>	<b>R 17</b>	<b>R 18</b>	<b>R 19</b>	<b>R 20</b>
LC	LC	C	C	C	PC	NA	PC	LC	C
<b>R 21</b>	<b>R 22</b>	<b>R 23</b>	<b>R 24</b>	<b>R 25</b>	<b>R 26</b>	<b>R 27</b>	<b>R 28</b>	<b>R 29</b>	<b>R 30</b>
C	PC	PC	LC	LC	LC	C	PC	C	C
<b>R 31</b>	<b>R 32</b>	<b>R 33</b>	<b>R 34</b>	<b>R 35</b>	<b>R 36</b>	<b>R 37</b>	<b>R 38</b>	<b>R 39</b>	<b>R 40</b>
C	C	C	C	LC	C	LC	LC	C	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Source: [Israel Mutual Evaluation Report, Dec 2018](#)

Mr Yuya Yamamoto, Deputy Director, Ministry of Finance, Japan conducted the analysis of the re-rating.

Section 3 of this **report** summarises Israel's progress made in improving technical compliance. Section 4 sets out the conclusion and a table showing which Recommendations have been re-rated.

<sup>1</sup>. [www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Israel-2018.pdf](http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Israel-2018.pdf)

### 3. Overview of progress to improve technical compliance

This section summarises Israel's progress to improve its technical compliance by addressing some of the technical compliance deficiencies identified in the MER.

#### Progress to address technical compliance deficiencies identified in the MER

Israel has made progress to address the technical compliance deficiencies identified in the MER in relation to R.16. Because of this progress, Israel has been re-rated on this Recommendation.

#### ***Recommendation 16 (originally rated PC)***

In its 4<sup>th</sup> round MER, Israel was rated PC on R.16 because it relied on general CDD obligations instead of providing specific originator and beneficiary requirements for wire transfers, particularly in relation to money service businesses ('MSBs'). There were also deficiencies relating to verification requirements.

Israel has implemented specific obligations for wire transfers, particularly in relation to higher risk sectors such as MSBs. Israel has amended the legislation that applies to MSBs and Credit Service Providers (including MVTs) which now includes a new section regarding wire transfers that is substantially in line with the requirements in R.16. Wire-transfer information can also be made immediately available to competent authorities including law enforcement authorities.

The principle remaining deficiency relates to the threshold of NIS 5,000 (EUR1405) that applies to cross-border wire transfers. This remains slightly higher than the USD/EUR 1 000 under the FATF standards, although noting that the difference is narrow and subject to currency fluctuations. There also remain insufficient progress on obligations regarding cross-border transfers below the *de minimis* amount as well as specific record-keeping obligations.

As Israel has largely addressed the deficiencies identified in its MER, **R.16 is re-rated largely compliant.**

#### Progress on Recommendations which have changed since adoption of the MER

Since the adoption of Israel's MER, the FATF amended R.2 and R.15. This section considers Israel's compliance with the new requirements.

#### ***Recommendation 2 (originally rated C)***

In October 2018, R.2 was amended to require countries to have cooperation and coordination between relevant authorities to ensure compatibility of AML/CFT requirements with Data Protection and Privacy rules. The amended Recommendation further requires a domestic mechanism for exchange of information.

In its 4<sup>th</sup> Round MER, Israel was rated C on R.2. Since the MER, Israel has continued to maintain national strategies and policies to inform AML/CFT policies and operations in line with identified risks. There are a number of standing committees and thematic working groups to coordinate and cooperate domestically on AML/CTF policies and operational activities. Within these bodies, the compatibility of AML/CFT requirements with Data Protection and Privacy Rules or other similar requirements is duly ensured.

The revised and new requirements of R.2 are met. On this basis, **R.2 remains rated compliant.**

### ***Recommendation 15 (originally rated C)***

In June 2019, R.15 was revised to include obligations related to virtual assets (VA) and virtual asset service providers (VASPs). These new requirements include: requirements on identifying, assessing and understanding ML/TF risks associated with VA activities or operations of VASPs; requirements for VASPs to be licensed or registered; requirements for countries to apply adequate risk-based AML/CFT supervision (including sanctions) to VASPs and for such supervision to be conducted by a competent authority; as well as requirements to apply measures related to preventive measures and international co-operation to VASPs.

In its 4<sup>th</sup> Round MER, Israel was rated C on R.15. Israel has conducted ML/TF risk assessments relating to VAs and VASP activity at the national level and has developed frameworks to address risks associated with VAs and VASPs. The relevant authorities are regularly involved in the work of the risk assessments and share information and the results of the evaluation are used to develop risk-based approach AML/CFT measures. The ML risk assessments would benefit from further specificity and focus on VASPs/VAs ML risks rather than subsuming the assessment as part of risks relating to financial service providers and advance payment methods. However, this is mitigated by the fact that financial services providers including MSBs (which include VASPs) are required to establish policies and define tools and risk management regarding AML/CFT.

VASPs are regulated under a comprehensive regulatory regime as MSBs and all VASPs are required to establish risk based AML/CFT tools and policies which include CDD process, identification, reporting and record keeping as well as monitoring, although the threshold for CDD requirements is NIS 5,000 (EUR 1405) which is slightly above the EUR/USD 1,000 threshold required by the FATF Standards, noting that the difference is narrow and subject to currency fluctuations. The Supervision of Financial Services (Regulated Financial Services) Law ('SFSL') has in place a licensing regime for VASPs. The Capital Market, Insurance, and Savings Authority (CMISA) as the supervisor for MSBs, conducts risk based supervision for VASPs based on risks identified through the engagement with other regulators in Israel and abroad as well as in-depth information gathered from their site inspections. The CMISA has a range of powers and sanctions to deal with unregistered VASPs, unauthorised activities and failure to comply with AML/CFT requirements. TFS obligations apply to virtual currency providers and international cooperation can take place in relation to VASPs.

**R.15 is therefore re-rated largely compliant.**

## 4. Conclusion

Overall, Israel has made progress in addressing some of the technical compliance deficiencies identified in its MER and has been upgraded on R.16. As Israel meets the new requirements for R.2 it is maintained at compliant. R.15 is re-rated to largely compliant because although Israel has met many of the new requirements introduced for VASPs, minor deficiencies remain.

Considering progress made by Israel since the adoption of its MER, its technical compliance with the FATF Recommendations has been re-evaluated in the following manner:

**Table 2. Technical compliance ratings, June 2022**

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
LC	C	LC	LC	C	LC	LC	LC	C	LC
R 11	R 12	R 13	R 14	R 15	R 16	R 17	R 18	R 19	R 20
LC	LC	C	C	LC	LC	NA	PC	LC	C
R 21	R 22	R 23	R 24	R 25	R 26	R 27	R 28	R 29	R 30
C	PC	PC	LC	LC	LC	C	PC	C	C
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
C	C	C	C	LC	C	LC	LC	C	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Israel will remain in regular follow up and will report back to the FATF on progress achieved on improving the implementation of its AML/CFT measures in June 2024.



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## Anti-money laundering and counter-terrorist financing measures in Israel

### Follow-up Report & Technical Compliance Re-Rating

As a result of Israel's progress in strengthening their measures to fight money laundering and terrorist financing since the assessment of the country's framework, the FATF has re-rated the country on Recommendation 16.

The report also looks at whether Israel's measures meet the requirements of FATF Recommendations that have changed since their mutual evaluation in 2018.

Follow-up report