

Executive Summary

1. This report summarises the AML/CFT measures in place in Israel as at the date of the on-site visit 6 to 22 March 2018. It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Israel's AML/CFT system, and provides recommendations on how the system could be strengthened.

Key Findings

- a) Overall, Israel has a good understanding of its ML risks. Israel's major ML risks are mostly identified and assessed. The understanding of TF risks is generally very good. Israel's major TF risks have been identified and assessed. Activities and policies are in line with the identified ML and TF risks. DNFBP supervisors do not have a strong understanding of the potential ML/TF risks faced by the entities they supervise.
- b) Israel has strong, national AML/CFT co-ordination and includes all relevant competent authorities. Israel's domestic co-ordination is driven by the Executive Steering Committee, its Implementation Committee, and sub-committees of the latter committee, which together comprise the country's main AML/CFT policy development tool. Bilateral and multilateral AML/CFT co-operation at the operational level is strong, particularly among the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA), *Shin-Bet*, the Israel National Police (INP) and the Israel Tax Authority (ITA), and also between the Israel Companies Authority (ICA) and the ITA.
- c) Israel's highly effective use of financial intelligence largely contributes to the prosecution and investigation of all types of ML, with a large number of cases relating to self-laundering, and cases relating to legal persons. The focus on ML activity deriving from fraud, tax evasion and other organised-crime predicate crimes is in line with the country's ML risk profile. Authorities demonstrated their ability to work together on complex and significant ML cases all the way through conviction and sentencing. The quality of IMPA's financial intelligence and analysis effectively supports the operational needs of LEAs. From 2014-2017, Israel averaged 415 ML investigations, 50 ML prosecutions, and 34 convictions in ML prosecutions per year.
- d) Overall, the competent authorities are confiscating the proceeds and instrumentalities of proceeds of crime successfully. Israel set out confiscation of criminal proceeds and instrumentalities as a high-level priority and a policy

objective, and results are in line with the ML risk profile to a very large extent. From 2013-2017, Israel averaged EUR 24.6 million per year in confiscations achieved.

- e) Israel has developed a wide range of effective instruments and mechanisms to combat terrorism and terrorist financing in all its aspects. Different types of TF cases are prosecuted, and offenders convicted. These cases are consistent with Israel's TF risk profile. *Shin-Bet's* and the other security agencies' proactive efforts are effective in disrupting terrorism at the early stages. Israel effectively deprives terrorists, terrorist organisations, and terrorist financiers of their assets and instrumentalities related to TF activities. A large amount of funds and property have been frozen, seized, and confiscated.
- f) Co-operation and co-ordination of operational matters on NPOs between authorities is strong but the overall jurisdictional response to NPOs is not comprehensively co-ordinated. Israel has established a registration and supervision framework covering the NPOs most at risk of TF abuse. The ICA is a proactive registrar and supervisor and its approach contains strong elements which mitigate the risk of TF abuse.
- g) Israel has implemented comprehensive and effective counter-proliferation finance targeted financial sanctions (PF-TFS) with regard to Iran, which are implemented without delay. Since the requirements of PF-TFS in relation to DPRK only came into force during the on-site visit, the compliance programmes for FIs, DNFBPs, and supervisors which were in place to ensure implementation of PF-TFS obligations relating to Iran, were not yet applicable with regard to DPRK.
- h) In the financial sector, the application of risk-based supervisory model is ongoing, with Israel Securities Authority being the most advanced, and the Capital Market, Insurance and Savings Authority in relation to money service businesses being less advanced.
- i) Regarding DNFBPs, Israel has not included real estate agents, dealers in precious metals, and trust and company service providers in its AML/CFT system. Diamond dealers, lawyers and accountants were only recently incorporated in the AML/CFT regime. Lawyers and accountants do not have STR requirements. DNFBP supervisors are at an early stage in the development of a risk-based model for supervision and awareness-raising initiatives for AML/CFT obligations.
- j) There is a good level of transparency of basic information on legal persons and arrangements. The high quality of beneficial ownership information available supports a significant number of cases against legal persons by the ITA and by other LEAs and the SAO in light of the adequacy, accuracy, and currency of such information. Though Israel has sought to understand the risks posed by legal persons and arrangements, the assessment and understanding of vulnerabilities and misuse are not comprehensive.
- k) Israel provides constructive and quality information and assistance when requested, but faces occasional challenges in providing this in a timely manner. Israel is successfully receiving responses to its requests for international co-operation. Israel also extensively uses its informal channels of co-operation and authorities are overall well engaged and committed to execute requests where permitted.

Risks and General Situation

2. The main ML risks Israel faces include: ML derived from fraud and tax offences, and organised crime. The Money Service Businesses (MSBs) sector and the use of cash were also identified as high ML risk areas. Predicate criminality also includes false invoicing and the misuse of complex corporate structures, including through offshore centres. Public sector corruption is recognised as an ongoing issue, and has been identified as a moderate-high ML threat in the NRA.

3. Inherent to its geographic location, Israel faces a high TF threat emanating from sources outside Israel. Some of the specific TF sources and channels identified are through funding from other jurisdictions, supposedly legitimate business activities, donations, foreign non-profit organisations (NPOs), smuggling of goods, valuables and funds through border crossings, including through trade, and the use of money transfer mechanisms that include correspondent activity, currency service providers, pre-paid cards, and foreign credit cards.

Overall Level of Compliance and Effectiveness

4. Israel has implemented an AML/CFT system that is effective in many areas. Particularly good results are being achieved in the areas of ML/TF risk assessment and risk understanding, investigation and prosecution of ML and TF, including the use of financial intelligence, targeted financial sanctions related to terrorism financing, preventing misuse of legal structures, and co-operating domestically and internationally. However, major improvements are needed to strengthen supervision and implementation of preventive measures.

5. With regard to technical compliance, the legal framework is particularly strong, with only some areas in need of significant improvement: measures related to wire transfers, internal controls and FI's foreign branches and subsidiaries, and the full range of preventive measures and supervision for several DNFBPs.

Assessment of risk, co-ordination and policy setting (Chapter 2; 10.1, R.1, 2, 33 & 34)

6. Overall, Israel has a good understanding of its ML risks. Israel's major ML risks are mostly identified and assessed, although there is need for a more comprehensive approach to risk assessment in a limited number of areas (legal persons and legal arrangements, and NPOs). The understanding of TF risks is generally very good. Israel's major TF risks have been identified and assessed.

7. Israel has strong, national AML/CFT co-ordination and includes all relevant competent authorities. Israel's domestic co-ordination is driven by the Executive Steering Committee, its Implementation Committee, and sub-committees of the latter committee, which together comprise the country's main AML/CFT policy development tool. Bilateral and multilateral AML/CFT co-operation at the operational level is strong, particularly among the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA), the Israel National Police (INP), the Israel Tax Authority (ITA) and *Shin-Bet*, and also between the Israel Companies Authority (ICA) and the ITA.

8. The authorities have developed co-ordinated action plans to address identified ML/TF risks, and have implemented a significant number of the priority actions – such as legislation on TF targeted financial sanctions, on the use of cash, and on reduced threshold for disclosure of cash at borders, and the establishment of two new task forces on TF and MSBs.

Financial intelligence, ML investigations, prosecutions and confiscation (Chapter 3; IO.6, 7, 8; R.3, 4, 29–32)

Use of financial intelligence (Immediate Outcome 6)

9. Israel effectively uses financial intelligence and other information to investigate ML, predicate offences and TF, and to trace criminal proceeds. This is a strong point of the Israeli system and at the centre of its approach to combating crime and terrorism. The database of the Israeli FIU (IMPA) is the primary repository of financial intelligence, and authorities have also direct access to a wide variety of financial intelligence and other information, most of which exist in various governmental databases and registries.

10. IMPA has the resources, both human and technical, and expertise, to effectively conduct in-depth strategic and operational analysis with the view to develop quality intelligence reports for dissemination to LEAs. In particular, IMPA's well-developed IT system and trained analysts greatly contribute to the relevance of the financial intelligence it produces in the conduct of ML/TF investigations. Competent authorities successfully demonstrated that they use this information to develop evidence in support of ML/TF investigations and to identify and trace assets, including abroad.

11. IMPA's high degree of co-ordination and co-operation and exchange of financial intelligence with LEAs (including security agencies) greatly contributes to making the Israeli system highly effective.

ML offence (Immediate Outcome 7)

12. Israel successfully identifies and investigates ML cases, on the basis of the financial intelligence developed by IMPA but also information supplied through law enforcement intelligence, including through ongoing investigation of predicate offences. Authorities provided a number of cases to demonstrate their ability to work on complex and/or significant ML cases. Many of these cases have been progressed at the national level through inter-agency structures, such as the Intelligence Fusion Centre and the thematic task forces, but there are notable contributions to the number of complex investigations from regional and local resources.

13. Israel regularly investigates and successfully prosecutes all types of ML offences, including cases of stand-alone, third party ML and ML involving foreign predicate offending largely in line with the risk profile. Israel pursues its ML activity in line with its national priorities and targets its main domestic ML threats as identified in its NRA - i.e. fraud, fictitious invoicing, tax evasion and corruption. However, nearly four out of five cases of ML prosecutions relate to self-laundering, and there are a low number of stand-alone ML prosecutions. From 2014-2017, Israel averaged 415 ML investigations, 50 ML prosecutions, and 34 convictions in ML prosecutions per year (out of which approximately 20% are non self-laundering).

14. Authorities pursue investigated ML cases through to convictions, including with cases of successful conviction and sentencing of legal persons. Sentencing for ML offences is considered proportionate and dissuasive when compared to the punishments for other similar crimes (e.g. fraud, tax). Sentences are however often combined with other criminality which makes a full determination difficult. There is also a concern about the time taken for certain ML cases to progress through the courts, especially those cases which do not involve persons in custody, and particularly legal persons and NPOs, which can take years.

Confiscation (Immediate Outcome 8)

15. Overall, the competent authorities are confiscating the proceeds and instrumentalities of proceeds of crime successfully. Confiscation efforts extend to the tracing and the recovery of proceeds from abroad, and include the taking of provisional measures. From 2013-2017, Israel averaged EUR 24.6 million per year in confiscations achieved.

16. Israel clearly set out confiscation of criminal proceeds and instrumentalities as a high-level priority and as a policy objective. The results reflect the national strategic objective, i.e. the tackling of all types of organised crime activities, and are in line with the ML risk profile (i.e. tax crimes and fraud) to a very large extent.

17. Despite Israel's legal framework only allowing for value-based confiscation in relation to specific criminality, authorities are in practice confiscating proceeds involving equivalent value through the pursuing of self-laundering cases, which is one of the types of criminality to trigger value-based confiscation, in tandem with the predicate offences. However, this methodology is only relied upon when the suspect has taken a proactive additional action deemed to be ML. Israel's non-conviction based forfeiture regime is restricted to an administrative process and does not extend to any kind of civil confiscation system.

18. There is a strong framework in place to address the threat of cross-border movements of cash and bearer negotiable instruments that are falsely or not declared. The sanctions applied are proportionate and dissuasive.

Terrorist and proliferation financing (Chapter 4; 10.9, 10, 11; R. 1, 4, 5-8, 30, 31 & 39.)

TF offence (Immediate Outcome 9)

19. Israel has developed a wide range of effective instruments and mechanisms to combat terrorism and terrorist financing in all its aspects.

20. Different types of TF cases are investigated and prosecuted, and offenders convicted. These cases are consistent with Israel's TF risk profile and include TF cases on the collection, movement and use of funds, as well as TF cases that did not involve terrorism charges. These cover a spectrum of TF typologies. *Shin-Bet's* and the other security agencies' proactive efforts are effective in disrupting terrorism at the early stages. Between 2013 and 2017, 37 cases resulted in convictions for one or more TF offences, involving 26 natural and legal persons.

21. TF cases are well identified and investigated. *Shin-Bet* leads on counter-terrorism and TF intelligence and is the main source of TF investigations, while INP

leads on formal investigations. IMPA also plays a key role in identifying TF cases for investigation.

Preventing terrorists from raising, moving and using funds (Immediate Outcome 10)

22. Israel implements targeted financial sanctions (TFS) for TF without delay. Israel has demonstrated its ability to implement TFS within the context of UN designations pursuant to UNSCRs 1267/1989 and 1988, domestic designations, and in relation to international requests.

23. The National Bureau for Counter Terror Financing (NBCTF) in the Ministry of Defence leads and co-ordinates the designation process. The Bureau has overall responsibility for co-ordinating national CFT enforcement policies, and works closely with *Shin-Bet*, who initiates most domestic designations, as well as INP, IMPA, and the security agencies. Israel has the necessary mechanisms for identifying targets through this co-operation.

24. Co-operation and co-ordination of operational matters on NPOs between authorities is strong (including sharing of the ICA's database with the ITA) but the overall jurisdictional response to NPOs is not comprehensively co-ordinated.

25. Israel has established a registration and supervision framework covering the NPOs most at risk of TF abuse. The ICA is a proactive registrar and supervisor and its approach contains strong elements which mitigate the risk of TF abuse (including attention to donors). On-site inspections appear to be of good quality. Nevertheless, the overall volume of supervision needs to be increased (as does the use of sanctions); the approach does not include a TF focused risk-based approach and there is some shortfall in the number of staff. The ITA is also proactive in relation to NPOs; it holds substantial information and has a positive role in increasing standards and preventing misuse of NPOs.

26. Israel effectively deprives terrorists, terrorist organisations, and terrorist financiers of their assets and instrumentalities related to TF activities. A large amount of funds and property were frozen, seized and confiscated.

Proliferation financing (Immediate Outcome 11)

27. Israel has implemented comprehensive and effective counter-proliferation finance targeted financial sanctions with regard to Iran, which are implemented without delay. The Sanctions Bureau, in the Ministry of Finance (MoF), co-ordinates efforts relating to PF sanctions and the accessibility of the information of sanctions to the public and business sector.

28. Since the requirements of PF-TFS in relation to DPRK only came into force during the on-site visit, the compliance programmes for FIs, DNFBPs, and supervisors which were in place to ensure implementation of PF-TFS obligations relating to Iran, were not yet applicable with regard to DPRK. This is mitigated by the fact that most FIs and some DNFBPs screen customers and transactions against all international lists, including those relating to DPRK.

29. Given the comprehensive prohibitions against Iran, which are well understood and are a priority for FIs, and the trade restrictions and limited exposure relating to

DPRK, no funds or other assets of designated persons and entities have been identified.

Preventive measures (Chapter 5; IO.4; R.9–23)

30. Financial institutions generally have a good understanding of their ML/TF risks and obligations. They have also developed and applied appropriate AML/CFT controls and processes to mitigate risks, including CDD and transaction monitoring, as well as EDD measures. Overall, such understanding and application is more sophisticated in the banking sector and weaker among MSB providers (including credit service providers). Generally speaking, the level of suspicious transaction reporting is commensurate with the level of ML/TF risks faced by Israel and the size of its financial sector. There has been a sharp increase in the level of reporting by MSB providers in recent years, largely due to recent incorporation of the sector in the AML/CFT regime and extensive outreach by authorities. Financial institutions generally have adequate internal controls.

31. Real estate agents, dealers in precious metals, and trust and company service providers are not covered by the Israeli AML/CFT system. Diamond dealers, lawyers and accountants were only recently incorporated in the AML/CFT regime, although lawyers and accountants are not required to report suspicious transactions. Covered DNFBPs have a moderate understanding of ML/TF risks and obligations. Their AML/CFT controls and processes, risk mitigation programmes are generally not advanced, especially when compared to the financial sector. Similarly, the level of internal controls adopted by covered DNFBPs is not as comprehensive. AML/CFT-specific training is also not as frequent and comprehensive.

Supervision (Chapter 6; IO.3; R.26–28, 34, 35)

32. Financial supervisors have a good understanding of ML/TF risks in the financial sectors they supervise, with the exception of the MSB sector. For those supervisors having prudential supervisory duties, they generally rely on their available prudential supervisory programmes for AML/CFT purposes. Overall, financial supervisors are at an early stage in developing a risk-based AML/CFT-specific supervision. The degree to which they follow a risk-based supervision approach varies, and is particularly low for the MSB sector. Most of them have not conducted their own AML/CFT-dedicated sectoral or institution-specific risk assessments. As a result, the supervision programme, including on-site and off-site inspection, general monitoring, follow-up measures, have not been planned and undertaken according to the identified ML/TF-specific risk level of individual supervised entities.

33. Financial supervisors implement robust market entry controls. Israel has also recently introduced a licensing regime for the MSB sector (fully in force by October 2018). Financial supervisors have only applied limited sanctions or remedial actions in case of non-compliance with AML/CFT requirements. Only non-compliant MSBs were subject to relatively higher level of fines, but their deterrent effect could not be fully established. Financial supervisors are generally successful in promoting a clear understanding of AML/CFT obligations. Overall, significant improvement in MSB supervision will be required.

34. DNFBP supervisors do not have a strong understanding of the potential ML/TF risks faced by the entities they supervise. They do not currently conduct risk-based supervision, and are at an early stage in the development of a risk-based model. DNFBP supervisors implement robust market entry controls in relation to lawyers and accountants providing BSP services. However, in the precious stones sector, only diamond dealers (not other precious stones dealers) are subject to a licensing regime. DNFBP supervisors have not applied effective and dissuasive sanctions where entities have failed to meet required AML/CFT obligations.

Transparency and beneficial ownership (Chapter 7; IO.5; R.24, 25)

35. Basic information on the creation and types of legal persons is publicly available. Israel has undertaken a risk assessment of legal persons and arrangements. Understanding of risks is substantially more developed in practice than the risk assessment suggests but assessment and understanding of vulnerabilities and misuse are not yet comprehensive.

36. The ICA maintains registers of companies, partnerships and public trusts, which are publicly accessible. For the vast majority of legal persons, registered information also constitutes beneficial ownership information. Some steps are taken to manage the adequacy, accuracy and currency of data on companies but these are not yet comprehensive.

37. The ITA maintains a register of Israeli resident trusts and holds information on the beneficial ownership of companies and trusts. It is an important source of beneficial ownership information. Very good quality beneficial ownership information is also available from FIs and DNFbps. Information held by banks is the highest quality among all supervised entities. The high quality of information supports a significant number of cases against legal persons by the ITA and by other LEAs and the SAO in light of the adequacy, accuracy, and currency of such information.

38. The ICA has taken some substantial steps to impose sanctions. However, the range of sanction powers available to it and its overall use of sanctions are not comprehensive. The approaches to sanctions applied by the ITA and supervisors of FIs and DNFbps vary and are not sufficiently effective.

International co-operation (Chapter 8; IO.2; R.36–40)

39. International co-operation is particularly important for Israel given that most of the large, domestic ML cases have international links (e.g. laundering of foreign predicates, activities of transnational organised crime groups). Inherent to its geographic location, Israel also faces a high TF threat emanating from sources abroad. Israel generally provides constructive information to foreign requests, including on beneficial ownership. The feedback received indicates that the quality of the assistance provided is good, and supports ML investigations. The feedback also suggests that some problems have arisen in the context of identified delays in executing MLA and extradition requests, time being taken to seek clarifications or to meet the country's evidentiary requirements.

40. Israel seeks international co-operation to pursue criminals and their assets located or moved abroad, through formal and informal co-operation.

41. With regards to other forms of co-operation, supervisory authorities co-operate and exchange information with their counterparts, where permitted (e.g. on the basis of MoUs), while IMPA does not need an MOU to exchange financial intelligence with counterparts. LEAs make extensive use of their informal co-operation mechanisms, through dedicated units in the INP and its police attaches abroad.

Priority Actions

- a) Incorporate real estate agents, precious metal dealers, and TCSPs within the national AML/CFT regime, including the introduction of licensing/ registration/other controls to prevent potential market entry abuse for ML/TF purposes by criminals, and implementation of all preventive measures. Introduce suspicious transaction reporting requirements for lawyers and accountants conducting activities covered by the FATF standards;
- b) Enhance DNFBP supervisors' understanding of ML/TF risks, especially in relation to precious stones sectors;
- c) Ensure that both financial and DNFBP supervisors fully adopt a risk-based approach to supervision, especially among MSBs and DNFBPs;
- d) Ensure that financial supervision should focus on verifying financial institutions' application of EDD in higher risk situations in relation to targeted financial sanctions, domestic and foreign PEPs, as well as filing of UARs when CDD processes cannot be completed;
- e) Conduct a more in-depth analysis of the risks posed by legal persons and arrangements and establish a co-ordinating mechanism to ensure adequate mitigating measures are put in place in response to the assessment;
- f) Ensure that ICA adopts a risk-based approach to ensure adequacy and accuracy of beneficial ownership information, and be provided with sufficient sanctioning powers;
- g) A mechanism should be established to increase co-ordination in relation to NPOs, including proactive and effective compliance with measures to address potential TF abuse of NPOs, on a whole-of-government basis;
- h) Address the technical gaps in its legislation to fully and directly enable value-based confiscation including the gap in provisional seizure measures;
- i) Although the issue does not hinder effectiveness, Israel should address the technical gaps in the targeted financial sanctions framework so that, in particular, Israeli citizens and residents can be designated, and so that the MoD does not have discretion not to make the automatic designations from the UN permanent.
- j) Build and implement comprehensive compliance-ensuring programmes for FIs, DNFBPs, and supervisors for PF-TFS relating to DPRK. The supervisory and monitoring regime in respect of FIs and DNFBPs, in terms of frequency of outreach and inspections should be strengthened.

- k) Continue to address noted delays in responding to MLA and extradition requests, by allocating more human resources and/or by considering designating INP as the main recipient of incoming MLA requests requiring investigative action.

Effectiveness & Technical Compliance Ratings

Effectiveness Ratings (High, Substantial, Moderate, Low)

IO.1 - Risk, policy and coordination	IO.2 - International cooperation	IO.3 - Supervision	IO.4 - Preventive measures	IO.5 - Legal persons and arrangements	IO.6 - Financial intelligence
Substantial	Substantial	Moderate	Moderate	Substantial	High
IO.7 - ML investigation & prosecution	IO.8 - Confiscation	IO.9 - TF investigation & prosecution	IO.10 - TF preventive measures & financial sanctions	IO.11 - PF financial sanctions	
Substantial	High	High	Substantial	Moderate	

Technical Compliance Ratings (C - compliant, LC - largely compliant, PC - partially compliant, NC - non compliant)

R.1 - assessing risk & applying risk-based approach	R.2 - national cooperation and coordination	R.3 - money laundering offence	R.4 - confiscation & provisional measures	R.5 - terrorist financing offence	R.6 - targeted financial sanctions – terrorism & terrorist financing
LC	C	LC	LC	C	LC
R.7 - targeted financial sanctions - proliferation	R.8 - non-profit organisations	R.9 - financial institution secrecy laws	R.10 - Customer due diligence	R.11 - Record keeping	R.12 - Politically exposed persons
LC	LC	C	LC	LC	LC
R.13 - Correspondent banking	R.14 - Money or value transfer services	R.15 - New technologies	R.16 - Wire transfers	R.17 - Reliance on third parties	R.18 - Internal controls and foreign branches and subsidiaries
C	C	C	PC	NA	PC
R.19 - Higher-risk countries	R.20 - Reporting of suspicious transactions	R.21 - Tipping-off and confidentiality	R.22 - DNFBPs: Customer due diligence	R.23 - DNFBPs: Other measures	R.24 - Transparency & BO of legal persons
LC	C	C	PC	PC	LC
R.25 - Transparency & BO of legal arrangements	R.26 - Regulation and supervision of financial institutions	R.27 - Powers of supervision	R.28 - Regulation and supervision of DNFBPs	R.29 - Financial intelligence units	R.30 - Responsibilities of law enforcement and investigative authorities
LC	LC	C	PC	C	C
R.31 - Powers of law enforcement and investigative authorities	R.32 - Cash couriers	R.33 - Statistics	R.34 - Guidance and feedback	R.35 - Sanctions	R.36 - International instruments
C	C	C	C	LC	C
R.37 - Mutual legal assistance	R.38 - Mutual legal assistance: freezing and confiscation	R.39 - Extradition	R.40 - Other forms of international cooperation		
LC	LC	C	LC		

