Report of the State Comptroller of Israel | May 2022

Systemic Topics

Anti-Money Laundering Regime in Israel

Anti-Money Laundering Regime in Israel

Background

The anti-money laundering regime (the Regime or the Regulation) is a general term for a set of legislation and administrative guidelines created in Israel due to Israel's commitment to the international efforts to combat undeclared capital (also known as Black Economy), organized crime, and corruption. The Regime is implemented by the financial institutions and Designated non-financial Businesses and Professions (DNFBPs)[1], which regulators supervise (the Supervisor of Banks, the Securities Authority, the Capital Market, Insurance and Savings Authority (the Capital Market Authority), the Ministry of Communications, the Diamond Supervisor, the Commissioner for Business Service Providers (all the Regulators)) and the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA), which is responsible for managing the database of the reports received from the financial entities[2]. This report presents the audit of the activities of the Regulators and other government ministries regarding anti-money laundering and their regulation effect on clients. As part of the audit, the State Comptroller's Office carried out a public participation procedure with key bodies in the economy.

1 Lawyers, accountants and dealers in precious stones. FATF definition of DNFBPs also included dealers in precious metals, casinos, real estate brokers and service providers for companies and trusts.

2 The supervised entities submit to IMPA, in accordance with the order applicable to them – CTRs on regular operations, in accordance with the criteria defined in these orders, and UARs on irregular activities, for activity that, according to the information held by the supervised body, raised within it concern of it being related to the prohibited activity pursuant to the Prohibition on Money Laundering Law.

Key figures

20 years

Israel has an anti-money laundering regime, but the Regulators have not yet examined its effect on the public

2018

Israel successfully passed the FATF[3] audit, which led to its acceptance as a member of the organization

NIS 230 billion

the volume of the economic activity of financial service providers (FSPs) (including money services businesses (MSBs)) as of 2021

about 12,000

Insurance agents and agencies not supervised by the Capital Market Authority in money laundering aspect

USD 2.5 to 3 trillion

the global volume of the digital or virtual currencies (cryptocurrency) activity as estimated in July 2021

hundreds of billions of NIS

of payments not regulated by the Anti-Money Laundering Regime, paid annually to the government sector

21%

rate estimate of the black economy from the GDP in Israel in the years 2004–2015

17%

rate estimate of the black economy from the GDP in the OECD member states in the years 2004–2015

Audit actions

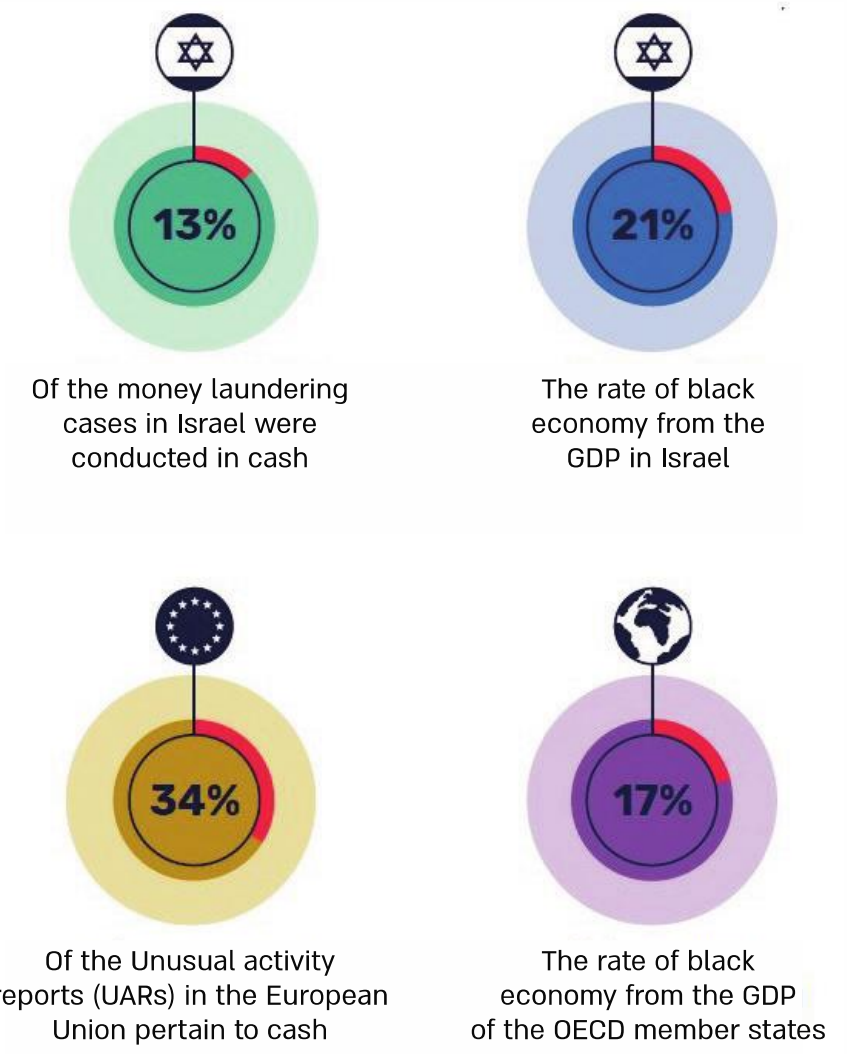
From December 2020 to September 2021, the State Comptroller Office alternately examined all-embracing aspects concerning the Anti-Money Laundering Regime in Israel, and in particular the civil aspect of the Regime – the regulation exercised by the various Regulators and the manner of implementation of the Anti-Money Laundering Regime in government bodies. The audit was carried out at IMPA; The Police; The Tax Authority; The Diamonds, Gemstones and Jewelry Administration at the Ministry of Economy and Industry; The Postal Bank – a subsidiary of the Israel Post Company Ltd.; The Postal Administration at the Ministry of Communications; The Banking Supervision Division at the Bank of Israel (the Supervisor of Banks); The Commissioner of Business Service Providers Bureau at the Ministry of Justice; The Securities Authority; And the Capital Market Authority. Supplementary examinations were coducted at the headquarters of

3 In 1989, the seven industrialized countries (G7) established an intergovernmental organization called the International Task Force for Combating Money Laundering and Terror Financing (the organization is also called: The Financial Action Task Force or FATF).

the Ministry of Justice, the State Attorney's Office, the Legal Counseling and Legislation (Criminal) Department at the Ministry of Justice (Legal Counseling and Legislation Department at the Ministry of Justice), the Prime Minister's Office, the Ministry of Finance, the Execution Office and Fines Collection Center at the Enforcement and Collection Authority, the Civil Service Commission, the E-government Unit at the Government ICT Authority in the National Digital Affairs Directorate, the Treasury Staff Officer Unit in the Civil Administration, the National Bureau for Counter Terror Financing (NBCTF) in the Ministry of Defense, the National Cyber Directorate, the General Security Service, and at the National Insurance Institute.

As part of the audit, the State Comptroller's Office carried out a public participation procedure with key bodies in the economy, to hear their position on the issues examined in this report: the Bar Association, the Banks Association, as well as Bank Leumi Le'Israel, the Israel Insurance Companies, the Israel Chamber of Insurance Agents, the Credit Card Companies Forum, the Institute of Certified Public Accountants in Israel, the Israeli Diamond Exchange, the Israeli Bitcoin Association, the Association of Financial Services Providers and the Israeli Blockchain Forum.

Data on rate estimates of cash use in the black economy in general and in money laundering in particular in Israel and around the world



Source: Data from various sources processed by the State Comptroller's Office.

The rates of the black economy from the GDP of the OECD member states and Israel are based on data from the years 2004–2015 published in the International Monetary Fund Report in 2018.

Key findings

Anti-Money Laundering Regime – regulatory aspects

- **The regulatory structure** – at the end of the audit, the regulation and the application of the Regime to various sectors such as religious charities (free lone society), real estate brokers, service providers in the field of companies and trusts if they are not lawyers or accountants and dealers in precious metals had not yet been completed. It should be noted that the FATF also commented in 2018 on this matter. As a result, the database at IMPA does not include reports from these entities, and they will not be forwarded to the enforcement authorities for investigation and intelligence purposes. Not applying the Regime on the sectors mentioned above also raises concerns of money laundering through these sectors.

- **The contents of money laundering orders** – the multitude of orders that came into force gradually over approximately 20 years, the differences between them and the differences in the interpretation given to them by the Regulators, have the potential to damage the uniformity of the Regime's regulation and may form differences between different sectors with no justification, if the differences are not based on a systematic risk assessment. In addition, these differences may create weak spots exploited for money laundering. Thus, for example, the order that applies to business service providers (such as lawyers and accountants – DNFBPs), does not obligate to report unusual activity to IMPA, while the other orders obligate it. In addition, according to the rules of professional ethics that apply to lawyers and accountants (DNFBPs), respectively, they must refrain from executing a transaction if in their opinion the level of risk for money laundering and terror financing is high, when this provision does not exist in other sectors.

- **Transfer of specific information from IMPA to all the Regulators** – in the years 2018–2020, IMPA initiated only four times transfers of information to the police and recommended the police to transfer it to certain Regulators in accordance with its authority. Furthermore, two-thirds of the Regulators did not receive any information from IMPA via the police, in the manner mentioned above. The promulgation of regulations for transferring information from the IMPA database to all the Regulators has not yet been completed. As a result, at the time of the audit, no Regulators are authorized to request from IMPA comprehensive or specific information from its database reports about the bodies they supervise, or request analyzes of such information. It should be noted that IMPA is also not exposed to the entire relevant information collected by all the Regulators as part of their duties. This information may contribute to the fulfillment of IMPA's role to enrich the database and analyze it.

- **Transfer of statistical information from IMPA to all Regulators** – although the comprehensive statistical information is the only information that IMPA transfers directly to the Regulators for audit purposes, in recent years it has been forwarded to 50% of the Regulators, and not every year. IMPA has reports from reporting entities belonging to different sectors on the activities carried out therein, and sometimes they include information on sectors in which there is a small rate of reports (such as dealers in precious stones) or in which there is no reporting obligation (such as business service providers). This information may allow IMPA to extract information on sectors from which no or only few reports are received, and to perform analyzes of that information for transferring a statistical report that will enrich the Regulator's knowledge of the sector he supervises.

Regulator audits on the reports of the reporting entities

- The Supervisor of Banks and the Ministry of Communications from January 2016 to October 2021 did not examine transversely the integrity of the information systems of the supervised entities, to ensure that the analysis and identification of regular financial activities (that must be reported) systems (cash transaction), detect the operations as required, in a proper manner (the report is Cash Transaction Report (CTRs)). The Supervisor of Banks and the Ministry of Communications – did not check, as part of the audits of the information systems of the entities subject to their supervision, whether all the regular financial activities (cash transaction) detected by the computer systems were indeed transferred to IMPA. The Supervisor of Banks, the Ministry of Communications and the Capital Market Authority, with respect to the institutional entities – did not check, as part of the audits of the information systems of the entities subject to their supervision, whether the length of time that passed between the date of the action requiring to transfer CTRs and the date required for its reporting to IMPA, was in accordance with the legal obligation. The Ministry of Communications, the Securities Authority, the Capital Market Authority and the Diamond Supervisor – did not check, as part of the audits of the information systems of the entities subject to their supervision, that all of the Unusual Activity Reports (UARs) (300,000) they submitted to IMPA in 2016–2020 were forwarded at the times required, pursuant to the sectoral order and the regulations concerning reporting to IMPA.

- **The dual regulation burden – the need for direct access to a clearing system** – it was found that the clearing mechanism, which according to the provisions of the law is carried out exclusively through the banking system, creates a burden due to the dual money laundering regulation on sectors such as credit service providers, who are forced to use the banking system for clearing purposes. For example, a credit service provider is required to act according to its sectoral order, and the banking corporations order when seeking, as a customer, to clear its own customer transaction through its business bank account.

The regulation effect on the supervised entities

- **The Money Laundering Regime cost for the supervised entities** – all the Regulators have not examined the costs of the Regime on the sector they supervise, since the entry into force of the sectoral order, nor have they carried out a 'Regulatory Impact Assessment' procedure (RIA[4]) to examine the costs arising from the Regime imposed on the supervised entities, and their effect on the cost charged from the customer. It should be noted that checking the costs of the Regime and identifying duplication or inefficiency in the regulation do not necessarily contradict achieving the goals of the regulation.

- **Preliminary decisions (pre-ruling)** – the Supervisor of Banks, the Ministry of Communications, the Capital Market Authority, as well as the Commissioner for Business Service Providers in the Ministry of Justice do not provide a response to inquiries from supervised entities on concrete matters for the purpose of making preliminary decisions (pre-ruling), but at most respond to fundamental or cross-organizational questions in the framework of the publications to all the supervised entities. In view of this, the supervised entities face the risk of having the Regulator impose financial sanctions on them.

- **The regulation impact on the citizen** – examining the quality of transverse service to the client – none of the Regulators, with the exception of the Capital Market Authority, examined the quality of the transverse service provided to the clients of the supervised entities in the context of the implementation of the provisions on prohibition of money laundering and terror financing.

The sectoral Regulators activity

Prevention of money laundering – aspects of the Supervisor of Banks' actions

- **Exercise of the Supervisor's authority to order the convening of a Financial Sanctions Committee to examine the imposition of sanctions for violations in the field of money laundering** – even though deficiencies were found in four audits conducted by the Supervisor of Banks in the supervised entities in 2017–2020, for six years he has not exercised his authority to convene the committee operating under the Prohibition on Money Laundering Law, which is a committee with independent discretion also attended by a representative of the Minister of Justice, and has not exercised his authority since 2010 to convene the committee operating under the Banking Ordinance and the provisions of the Proper Conduct of Banking Business Directives on the subject of prohibition of money laundering[5]. Therefore, the Financial Sanctions Committees did

4 A procedure for the assessment of the regulation's impact known as Regulatory Impact Assessment.

5 In this procedure, the Supervisor of Banks imposes on the banking corporations anti-money laundering obligations, which can be enforced by virtue of the Banking Ordinance.

not exercise their authority to impose financial sanctions, or other powers under the Prohibition on Money Laundering Law or the Banking Ordinance during the aforementioned periods, respectively.

- **The Supervisor of Banks' audit of foreign bank license holders** – despite the small number of reports from foreign bank license holders active in Israel (in 2016–2017, up to five UARs were received from some of these banks per year, and from some of them no reports were received at all), the Supervisor did not conduct audits in these banks from 2013, their matter was not brought up for discussion by the Financial Sanctions Committee, and it did not exercise its authority to impose financial sanctions or other powers on them.

- **Conducting inspections by the Supervisor of Banks in the area of money laundering through the internal audit units of the supervised entities** – in the years 2017–2020, the Supervisor of Banks based about half of the total planned audit and inspection operations (34), on the internal audit units of the supervised entities, to check the adequacy of the activity of the supervised entity and the extent of their compliance in the field of money laundering. This is also in cases where the enforcement authorities raised three concrete suspicions and requested that the Supervisor examine them, by virtue of his authority under law.

- **Activity of financial service providers (FSPs) and fintech companies and operations in digital-cryptocurrency in the banking system** – there are claims that there is financial exclusion in the banking system, even if only partial, of the activities of FSPs, of fintech companies and of companies that trade in cryptocurrency. This exclusion, if it indeed occurs, could result in sectors carrying out financial activity in cryptocurrency or fintech companies transferring activities outside of Israel, with all that this implies, in addition it could result in unreported activity of these sectors in a way that will increase the volume of money laundering and black capital in Israel.

Prevention of money laundering – aspects of the activities of the Capital Market Authority – supervision of FSPs

- The economic activity volume of FSPs as of 2015 was estimated at approximately NIS 150 billion per year, which was over 10% of the financial activity of all banks in Israel that year. As of 2021, the volume of the activities of the FSPs is estimated at NIS 230 billion per year. According to the findings of the national risk survey published in November 2021, this sector is particularly vulnerable to criminal activity and money laundering, and activity related to the provision of financial services is involved in a large number of cases that also have criminal aspects. As of August 2021, 39% of the applications for a FSP license were refused or in the stages of denial, and therefore their continued activity – if they do continue to operate – will be without a license and without supervision by virtue of the sectoral money laundering prohibition order. Between January 2018 and August 2021, the Capital Market Authority carried out about 27 audits

per year on average in the field of money laundering, in all supervised entities, and the aforementioned average rate of audits is about 1% of the rate of applications submitted for receipt of a license. In the absence of an effective audit, it can be estimated that there is an increased risk from the activities of the FSPs.

- From October 2018 to November 2021, the Capital Markets Authority was not authorized to supervise the activities of the MSBs sector (which is a sub-sector of the FSPs sector) in terms of money laundering[6], because in the absence of a money laundering prohibition order in force, they were not subject to money laundering prohibition obligations, and these were applied only from November 2021. At the time of the audit (September 2021), the Anti-Money Laundering Regime does not have the required effectiveness in the FSPs sector as a whole because the decision-making regarding licenses has not yet been completed in relation to 22% of FSP licensing applications.

Anti-Money Laundering Regime in the government sector

- Despite the annual volume of payments to the government sector amounting to hundreds of billions of NIS (in 2020), this sector was excluded from the national Anti-Money Laundering Regime, and it was not subject to the obligations stipulated to be applied to all the supervised sectors, or at the very least, to part of these obligations. In the absence of reporting obligation to IMPA, the integrity of IMPA's database is compromised, and as a result, the volume of information transferred from IMPA to the information clients – the enforcement authorities, decreases.

- Annual financial activity of tens of millions of payments with a financial volume of hundreds of billions of NIS, which was not examined as part of the national risk survey and to which an effective Anti-Money Laundering Regime was not applied as is customary in all other sectors, may be considered a "weak link" in the Anti-Money Laundering Regime in Israel. A loophole could be created that would allow criminal elements to use the mechanism of payments to government bodies as a means of hiding the source of the funds, their layering (performing actions to obscure the source of the money) and their laundering.

- The payments made to the government bodies in 2019 and 2020 without the identification of the payer and the keeping of their details amount to more than NIS 550 billion. That is, transversely, the majority of the said bodies do not have information on the identity of the payer, for the purpose of examining patterns and identifying actions that raise concerns of money laundering. This situation constitute a possible loophole that allows a possible anonymous payment channel for money launderers, which is a vulnerability in Israel's Anti-Money Laundering Regime.

6 Except with respect to check clearance.

The State Comptroller's Office commends the government bodies, and Regulators activities to improve Israel's status in anti-money laundering, including undergoing an international audit and the rectifying of deficiencies raised therein, and membership in international organizations in anti-money laundering, including Israel's accession as a member of the FATF organization in 2018, and IMPA's in concentrating government activity vis-a-vis the FATF organization.

The State Comptroller's Office commends the entities that were involved in the concentration and leading of the national risk survey in 2017 and 2021.

Key recommendations

Anti-Money Laundering Regime – regulatory aspects

The regulatory structure – it is appropriate that the Ministry of Justice, in cooperation with the relevant Regulators, each in their authority, complete the application of the Anti-Money Laundering Regime to the sectors to which the Anti-Money Laundering Regime has not yet been applied, in accordance with the recommendations of the FATF audit, while involving the public and the bodies in the affected sectors. It is appropriate to applicate the Regime after a risk-based approach examination, among other things, according to the grading of amounts and volume of activity, while considering the possible results in view of the proposed regulation.

The content of money laundering orders – it is appropriate that the Ministry of Justice, in cooperation with all the Regulators, and IMPA, promote regulation based on principles of equality, which on the one hand will express the uniqueness of each sector in a risk-based approach and with the participation of the supervised bodies, and on the other hand will avoid unnecessary regulatory differences (Regulatory arbitrage) between alternative services and similar sectors. Equitable regulation, which is also sensitive to the additional roles of each Regulator and its subjection to international standards in other areas – may contribute to encouraging competition.

Transfer of statistical information and intelligence from IMPA to all Regulators – it is appropriate that the Ministry of Justice, in cooperation with IMPA and all the Regulators, examine ways of sharing information between IMPA and the Regulators and of having effective feedback on the information it sends, to improve the effectiveness of the exercise of their powers and the fight against money laundering, while also considering aspects of privacy protection and the duty of confidentiality in supervisor-supervised relationships. It is also appropriate that the Ministry of Justice regulate the transfer of information from IMPA to the Regulators according to the provisions of the

law. It is further suggested that a joint, periodical, risk-based plan for mutual sharing of information be formulated. It is recommended that the Ministry of Justice ensure that the supervision, control and audit of the supervised entities are based on the relevant information available to the state authorities.

Regulator audits on the reports of the reporting entities – it is appropriate that all the Regulators consider the formulation of a risk-based audit plan carried out, among other things, by the supervised entities information systems that generate or transfer CTRs and UARs. Moreover, it will examine the functioning of these systems, including the reports quality to IMPA and their transfer dates. It is also appropriate that IMPA, in coordination with the Regulators, each in their authority, consider improving the feedback it gives to the reporting entities to ensure the quality of their UARs.

The dual regulation burden – the need for direct access to a clearing system – in view of the burden resulting from the dual regulation on the various sectors and the general public bearing the consequences such as the costs involved, it is appropriate that the Supervisor of Banks and all the rest of the Regulators, in coordination with the Ministry of Justice, each in their authority, examine ways for regulatory relief, for example through the regulatory arrangement of interfaces between the various sectors, while involving the public and especially the entities belonging to the sectors that will be affected by this issue.

The regulation effect on the supervised entities

The cost of the Money Laundering Regime for the supervised entities – keeping the money laundering regulation that has been in place for about two decades without re-examination, is not recommended given the significant impact of the regulation on financial institutions' and DNFBPs' activity. Such an examination can be done while operating according to the FATF's recommendations based upon a risk-approach for financial inclusion, to prevent financial exclusion and to reduce risk avoidance (de-risking). Therefore, it is appropriate that all Regulators apply a 'Regulatory Impact Assessment' procedure (RIA) to the Money Laundering Regime to improve the existing Regulation, each Regulator in the sector he is entrusted with the unique duties imposed on him, and in the relevant cases publish the main findings to the public. Furthermore, to improve the regulation in the prohibition on money laundering (which is not under the responsibility of public corporations[7]), it is recommended that the regulatory authority established by virtue of the Foundations of Regulation Law, consider the need for its improvement, and for motivating the action of the relevant Regulators operating in this field. It is recommended that budgetary or legal issues that, in the opinion of the Regulators, hinder the implementation of regulatory assessment procedures be examined jointly by all the Regulators, the Ministry of Finance and the regulatory authority that will be established.

7 For example, the Bank of Israel is a public corporation.

- **Preliminary decisions (pre-ruling)** – developing a mechanism that will provide supervised entities a response to certain preliminary inquiries will reduce the negative effects of the regulation on citizens, such as risk avoidance. For example, such response will allow the execution of transactions while providing certainty to the supervised entity that contacted the Regulator after a risk assessment procedure, and will prevent a situation of transaction avoidance (de-risking) due to the regulatory uncertainty. Therefore, it is appropriate that the Regulators examine, each within their authority, and in coordination between them and the Ministry of Justice, what is the appropriate response that a Regulator should give to its supervised entities, including regarding pre-ruling inquiries and the publication of positions on fundamental issues to the public on the Regulators' websites so as to increase the supervised entities' certainty that they are acting lawfully.

- **The effect of the regulation on the citizen – examining the transverse service quality to the client** – it is recommended that all Regulators, in cooperation with the Ministry of Justice, examine the effect of the Money Laundering Regime on the citizen, including, the extent of the hindrance of operations according to the type of activity in the supervised body and the delays in carrying out operations, and if the said hindrances or delays are indeed justified.

The activity of the sectoral Regulators

The Supervisor of Banks

- **Exercise of the Supervisor's authority to order the convening of a Financial Sanctions Committee to examine the imposition of sanctions for violations in the money laundering as well as the Supervisor of Banks' audit of holders of a foreign bank license** – it is recommended that the Supervisor conduct audits with a risk-based approach, examine the instances of violations that are discovered and exercise the ranking of sanctions available to him, proportionately, by his powers in the appropriate cases. It is also recommended that the annual audit plan also include foreign bank license holders and that he act, in proper cases, for the convening of financial sanctions committees, which have the authority to impose financial sanctions.

- **Supervisor of Banks audits in money laundering through the internal audit units of the supervised entities** – the internal audit units in banking corporations and other supervised entities play an important role, as part of corporate governance, in maintaining the compliance of the supervised entity in money laundering, and in transferring information to the Regulators by their authority to receive information, among other things, on money laundering risks as assessed by the internal audit unit. The Supervisor of Banks may be assisted by the internal audit units in the banking institutions and the other institutions under his supervision in fulfilling the supervisory duties. It is recommended that the Supervisor examine the scope of the assistance he receives and the areas in which he receives such assistance in carrying out inspections that he is responsible for carrying out by his regulatory role and which serve as a basis

for imposing sanctions in the appropriate cases. All this in a way that does not affect his independence from the internal audit units and, in particular, in matters for which sanctions may be imposed, such as when carrying out specific inspections following requests from enforcement authorities to exercise his power.

Activity of financial service providers (FSPs) and fintech companies and operations in digital-cryptocurrency in the banking system – given the global volume of activity in the digital cryptocurrency, estimated in July 2021 at approximately USD 2.5 to 3 trillion, the difficulties raised in the report of the Competition Authority[8], and once the anti-money laundering order was implemented in November 2021 on service providers in a financial asset (which includes service providers in digital cryptocurrency), it is appropriate that the Supervisor of Banks examine the performance of a specific audit on the subject and verify that the banking system implements a policy of financial inclusion and takes a risk-based approach towards the sectors above as well. It is further appropriate that the Supervisor of Banks and the Capital Market Authority, each in their authority, examine the risk foci in this activity and will formulate an overall policy that will allow the transfer of funds originating in transactions in financial assets such as digital cryptocurrency to the banking system, among other things based on accompanying research and a public participation procedure, in which they will allow both the public and the entities subject to their supervision to voice their claims.

Prevention of money laundering – aspects of the actions of the Capital Market Authority – supervision of FSPs

The Capital Market Authority must fulfill its role in applying an effective Anti-Money Laundering Regime to the financial services provider sector. This is required by its obligation according to law. It may remove from the FSP sector criminal entities whose loan services to citizens also involve violence, in the general sector at large and the Arab society in particular, and weaken the ability of criminal organizations to launder capital to finance their activities. Given the importance of the matter, and the extensive activity of the FSP sector, including in digital cryptocurrency, the Capital Market Authority, by its power today, and the future IMPA as well, to the extent that change in the legislation occurs, each according to their authority, must fulfill their role effectively in the supervision of FSPs.

Anti-Money Laundering Regime in the government sector

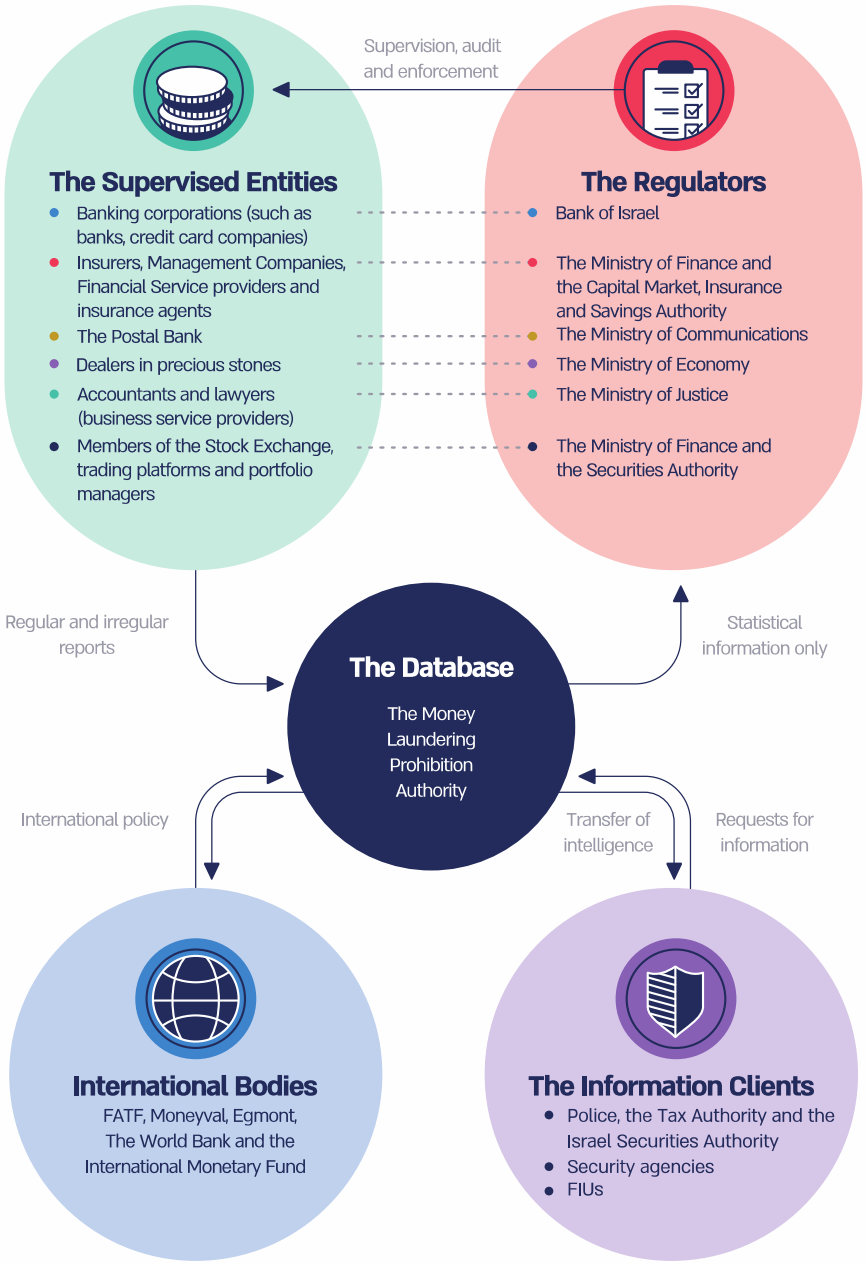
It is appropriate that the Ministry of Justice examine in depth the financial activity of all government sector entities, identify the possible risk points, collect information about them and assess the risk involved, and accordingly consider applying the Anti-Money

8 The report described claims concerning difficulties arising from the formulation of strict policies and procedures; Conducting inspections by the banks regarding fintech companies as a kind of regulator for fintech companies and sometimes even beyond the fintech companies' obligations by virtue of the sectoral order; As well as claims according to which some of the banks' requirements involve the banks' involvement in the day-to-day activities of fintech companies, which compete with them, and the demand for sensitive "competitive information" from them.

Laundering Regime in the government sector as well. It is appropriate that this Regime will include, among other things, the application of a risk-based approach by FATF standards.

- It is appropriate that the Ministry of Justice, the Ministry of Finance, and all the relevant regulatory bodies continue to examine the risk involved in cash payments transferred to government bodies, led by the Execution System, the Fines Collection Center, the Tax Authority, and the National Insurance Institute. It is appropriate that as part of the examination, additional relevant considerations will be taken into account, such as confidentiality and professional independence of the various bodies. It is appropriate that, by the examination findings, the bodies above will consider the necessity to formulate rules and obligations in this area so that, among other things, reports that will be transferred will be included in the IMPA database. It is further appropriate that the Ministry of Justice examine, using a risk-based approach, the issue of receiving information about the payer's identity, saving the information, and transferring it to the entity receiving the payment, even about payments to government bodies. It is also appropriate to determine under what circumstances the government body will be required to transfer CTRs and UARs to IMPA on regular and irregular actions carried out by a payer who is not the debtor so that the source of the funds and their legality can be examined, and the concern of money laundering can be mitigated. Relying on a voluntary reporting mechanism without establishing a mandatory regime that includes customer identification, monitoring of irregular activity, automatic reporting mechanisms, and regular and mandatory reporting deadlines – may harm the information quality that will be transferred to the database and thus also the ability to extract intelligence therefrom to enforce the money laundering regime.

Breakdown of the entities active in the Anti-Money Laundering Regime in Israel and around the world and the reciprocal relations between them



* Each sector is by its reporting obligations defined in the sectoral order.

Summary

Israel developed an Anti-Money Laundering Regime that successfully passed the FATF audit. The Regime's strength depends on the "weak link" and weak links were found within this report. In addition to the required action on the part of the state and the supervised entities to maintain the strength of the Anti-Money Laundering Regime and its effectiveness in complying with international standards, it is also recommended that they frequently examine the Regime from the clients on all their types point of view, improve the Regime and optimize it by the spirit of the government's past decisions regarding "Smart Regulation," the government's actions since 2021 to ease the regulation and the Foundations of Regulation Law. It is recommended that all the relevant entities – each in their authority and in coordination between them – particularly create appropriate conditions for the development of the digital-cryptocurrency and other innovative financial fields and effective supervision of the financial service providers in relatively high-risk areas. It is also appropriate that regulation of duties, rules, and supervision mechanisms be promoted, with a risk-based approach, so that payments to the public sector do not serve as a channel for money laundering.