



State Comptroller Report | February 2023

Systemic Audit Reports

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**Israel Money  
Laundering and Terror  
Financing Prohibition  
Authority – Handling  
Information Embodying  
Concern of Money  
Laundering and Terror  
Financing**





# Israel Money Laundering and Terror Financing Prohibition Authority – Handling Information Embodying Concern of Money Laundering and Terror Financing

## Background

Money laundering aims to assimilate property related to criminal activity into a property of a legal and innocent nature in a manner that makes it impossible to trace its illegal origin. As part of the State of Israel's joining the international efforts to fight money laundering and terror financing, the Money Laundering and Terror Financing Prohibition Authority (IMPA) was established in 2002.

IMPA's receives reports (each year – hundreds of thousands of **currency transaction report** and tens of thousands of **unusual activity reports**<sup>1</sup>) from reporting entities (including banking corporations, financial service providers, etc.) obligated to report under the Prohibition on Money Laundering Law, for their entry into the database under its responsibility, analyze them and transfer financial intelligence (**information articles**) to enforcement and defense authorities, including the Police, the General Security Service, the Tax Authority, the Intelligence Division of the IDF and the Securities Authority (**information clients**).

The State Comptroller Report on the Anti-Money Laundering Regime in Israel, published in May 2022, examined the functioning of the regulators and other government ministries in this area and the effects of the regulation on the clients of the supervised entities.

The current audit examined the effectiveness of IMPA's activity in receipt of reports from the reporting entities, their entry into the database, their transfer to the information clients, and the effectiveness of the enforcement system and controls on IMPA's functioning.

A list of abbreviations of professional terms used in this report appears at the end of the abstract.

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1 About transactions that, according to the reporting entity information and its knowledge of the customer, are unusual, for no apparent reason, or that there is concern that they are related to the prohibited activity under the Prohibition on Money Laundering Law.



**Key Figures**

**2.16**  
million  
currency  
transaction  
reports and  
**100,000**  
unusual  
activity  
reports

were received by  
IMPA on average,  
every year in  
2017–2021

**68%** of  
the unusual  
activity  
reports

in 2017–2021 did not  
reach IMPA as  
required within two  
days of their writing

**57%** of  
currency  
transaction  
reports and  
**33%** of  
unusual  
activity  
reports

were sent offline to  
IMPA by the  
reporting entities in  
2017–2021

in **29%** of  
**887** police  
responses

IMPA received in  
2019–2021,  
regarding response  
articles, with no  
information on the  
investigation, and in  
at least 67% of them,  
the article did not  
point to new and  
relevant investigation  
directions

in **95%** of  
the articles  
**(2,243)**

IMPA produced in  
2020–2021, with no  
specific graph  
included

**230,000**  
unusual  
activity  
reports

were entered into the  
database from  
October 2021 to  
October 2022 but did  
not extract  
intelligence from the  
information attached  
thereto

**52** out of  
**60**  
**(87%)**  
self-  
initiated  
main  
articles

transferred from  
IMPA to the Police in  
2018–2020, did not  
lead to an  
investigation

**NIS 8**  
million out  
of **NIS**  
**144**  
million

the total property  
value of seizures in  
money laundering  
cases in 2020,  
estimated by  
attorneys as IMPA  
contribution in the  
aspects examined



## Audit Actions

From March 2020 to June 2022, the State Comptroller Office examined transverse aspects of the core activities of the Money Laundering and Terror Financing Prohibition Authority. The audit was carried out at IMPA; At the Israel Police (the Police); At the Tax Authority; At the Banking Supervision Division, at the Bank of Israel (the Supervisor of Banks); At the Securities Authority; And the Capital Market Authority. Supplementary examinations were conducted at the Ministry of Justice headquarters, at the State Attorney's Office, at the Legal Counseling and Legislation (Criminal) Department at the Ministry of Justice (the Legal Counseling and Legislation Department), at the Prime Minister's Office, and the National Cyber Directorate.

The Knesset State Audit Committee sub-committee decided not to bring this report in its entirety before the Knesset but to publish only parts thereof, to protect the state's security and prevent harm to its foreign relations and international trade relations under Section 17 of the State Comptroller's Law, 1958 [Consolidated Version].

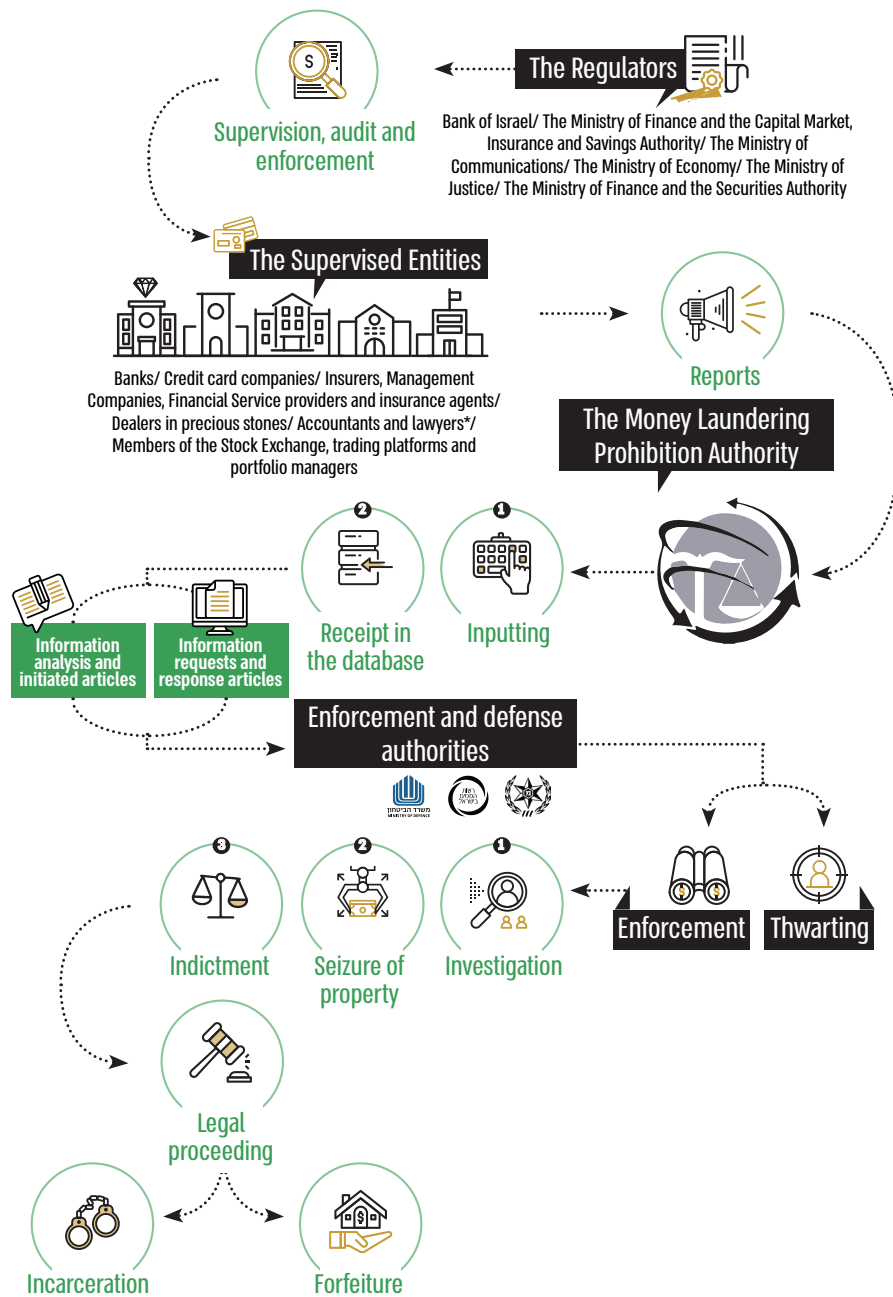
As part of the audit, data from IMPA's databases were analyzed. It should be noted that international organizations examined IMPA's activities: the MONEYVAL organization<sup>2</sup> in 2008<sup>3</sup> (and follow-up reports in 2009 and 2011) and in 2013<sup>4</sup>, as well as the FATF organization in 2018<sup>5</sup>.

This report completes a series of three key reports dealing with the state's activity against crime and severe crime organizations, which indicated deficiencies in the functioning of the authorities in regulation, intelligence, and forfeiture: The State Comptroller's Report on Combating Crime Through Economic Enforcement and Forfeiture (2020)<sup>6</sup> as well as the State Comptroller's report on the Anti-Money Laundering and Terror Financing Regime (2022)<sup>7</sup> – Systemic Regulation Report.

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- 2 Serves as an independent regional organization of the Council of Europe, similar to the FATF.
  - 3 See: Moneyval, Mutual evaluation of Israel (2008).
  - 4 See: Moneyval, Mutual evaluation of Israel (2013).
  - 5 See: FATF, 4th round of mutual evaluations – joint FATF/Moneyval mutual evaluation of Israel (October 2018).
  - 6 State Comptroller, Annual Report 70b (2020), "Combating Crime Through Economic Enforcement and Forfeiture", pp. 1730–1731.
  - 7 State Comptroller, Annual Report 72C (2022), "Anti-Money Laundering Regime in Israel".



### Diagram 1: The Intelligence Information Transfer from the Reporting Entities to IMPA and from it to the Information Clients\*\*



According to the Money Laundering Prohibition Authority data processed by the State Comptroller's Office.



- \* Each sector is under its reporting obligations defined in the order applicable to it. It should be noted that according to the existing regulation, the business service providers sector<sup>8</sup> is not obligated to submit reports to IMPA. The database also includes Customs reports, reports from citizens on cash transactions with Palestinian Authority residents, and information from public inquiries.
- \*\* This diagram did not show an indirect path of transferring information to regulators and other enforcement authorities, which operates, among other things, through the Police and subject to its discretion, under dedicated regulations<sup>9</sup>. Details regarding this route will be provided below in the report.

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8 Business service providers are lawyers and accountants, engaged in the operations listed in Section 8B of the Prohibition on Money Laundering Law.

9 Regulations for the Prohibition of Money Laundering (Rules for the Use of Information Furnished to the Police or the General Security Service for the Purpose of Investigating Additional Offenses and its Transfer to Another Authority), 2006.




## IMPA Reports Collection and Their Entry into the Database

### Key Findings



- IMPA's Information Input and Output** – in 2017–2021, IMPA received 85,517 currency transaction reports on 10.8 million transactions and 500,013 unusual activity reports (about unusual transactions, or those that raise concerns of being related to activities prohibited under the Prohibition on Money Laundering Law), and produced 5,381 articles (70% of which were transferred to the Police), which included information from 24,278 unusual activity reports it received.
- IMPA's Controls on the Input and Extraction of Information from Unusual Reports** – 27% of the reports examined by IMPA were not entered into the database at all at the end of the computerization process due to a deficiency. In another 27% of the reports, deficiencies were found in the information extraction as required or in its entry. Despite an unusual rate of deficiencies in the entry of the examined reports (about 37%), the rate of IMPA's controls from April 2020 to December 2021 was 0.3% (325 of the 113,651 unusual activity reports). In one month, no controls were carried out at all.
- Accumulation of Tens of Thousands of Reports not Entered into the Database** – in 2017–2022, IMPA accumulated tens of thousands of unusual activity reports that were not entered into the database. In 2020–2021, among other things, due to the Covid-19 pandemic, the number of reports that were not entered increased to about 50,000, about 50% of all the annual reports received in 2020.
- The Reports Configuration and Their Transfer Mode to IMPA** – over 15 years after the establishment of IMPA, in 2017–2021, most of the currency transaction reports (49,029; 57%) and about 33% of the unusual activity reports (162,228) were received by IMPA offline (via Israel Post, courier services, hand delivery or sending via facsimile), and 69% of the unusual activity reports (346,166) during the above period are unstructured, and 31% (153,847) are partially structured. It should be noted that an improvement in this regard is apparent since in 2020–2021, 12,267 (37%) of the 33,085 currency transaction reports were transferred offline, and 51,072 (21.5%) of the 234,658 unusual activity reports were transferred offline. Furthermore, a detailed analysis of unusual activity reports received in 2021 raised that 52,317 (35.6%) out of 146,759 unusual activity reports were partially structured, and 94,442 (64.4%) were unstructured.



-  **Late Receipt of Currency Transaction Reports** – IMPA did not ensure that the currency transaction reports were received in general or adequately on time. In 2017–2021, some of the currency transaction reports of bank corporations were not transferred to it within nine days of the beginning of the reporting period, as stipulated in the IMPA reporting regulations and instructions.
-  **Late Receipt of Unusual Activity Reports** – 68% of the unusual activity reports transferred to IMPA in 2017–2021 and entered into the database during this period (320,173 out of 472,110 unusual activity reports reviewed) were transferred after over two days from the day the report was written.
-  **Delays in Entering Currency Transaction Reports into the Database** – 95% of the currency transaction reports entered manually in 2017–2021 (4,823 out of 5,131 currency transaction reports files) were improperly fed within a significantly longer period of time than one day, the deadline required according to IMPA's procedures (up to 270 days).
-  **Delays in Entering Unusual Activity Reports into the Database** – by IMPA's procedures, an unusual activity report must be entered within 48 working hours from when the Authority receives it. Still, in 2017–2021 most of the unusual unstructured activity reports (about 76%; 263,085 out of 346,165) were entered 10 days or more after the date on which IMPA receipt them, of which – about 44% (152,312 out of 346,165) were entered after months.
-  **Exhausting Intelligence Information Potential Received by IMPA** – deficiencies were raised regarding the extraction and coding of intelligence information<sup>10</sup> included in the reports for their entry into the database.
-  **Extraction of Intelligence Information Received from Certain Entities** – in 2017–2021 significant information from certain money laundering and terror financing entities, at least 3,567 information items – is not extracted and coded for their entry into the database or is only partially extracted, thereby compromising the integrity and updated nature of the database.
-  **The Account Settling Mode with a Provider for the Information Entry** – IMPA's payment to the supplier that won the tender for the provision of report-feed services is given according to outputs, without measuring the typed material's quality and completeness. This is inconsistent with IMPA's interest in extracting and encoding information qualitatively.
-  **The Accumulation of Tens of Thousands of Reports not Entered into the Database on Time and Reducing Information Extraction by IMPA** – as part of IMPA's coping with the accumulation of tens of thousands of unusual activity reports not entered into the database immediately after their receipt, it decided in October 2021,

<sup>10</sup> Tagging an incident and its characteristics using key words.



not to type 230,000 reports into the database in a structured manner the information that can exist in the appendices to unusual activity reports, and thus the database was affected. This IMPA's conduct is especially problematic regarding the FSP sector. Furthermore, the decrease in the entries was done without consulting the Authority's information clients and the government bodies entrusted with law enforcement and without updating them on the situation above. Moreover, as of July 2022, about 6,237 unusual activity reports have not been entered into the database due to a technological difficulty for which no solution has been found.



#### **Disclosure of Information from the Public on Suspected Money Laundering –**

IMPA does not have a direct and dedicated hotline for receiving reports from the public regarding money laundering and terror financing, nor does it have an incentive program for providing valuable information voluntarily. In contrast, in the USA, there is a dedicated hotline and an incentive program.



All of the currency transaction reports received by IMPA are received in a structured configuration, which shortens part of the process of information entry into IMPA's database.

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## Key Recommendations








**The Configuration of the Reports and Their Transfer Mode to IMPA and the Late Receipt of Reports** – it is appropriate that IMPA adopt advanced work methods and implement them orderly and optimally to receive and enter currency transaction reports and unusual activity reports online in a structured configuration to the extent possible, while considering their regulatory costs, and assist the reporting entities to report online and in a structured way. In converting the reporting system, it is appropriate to prioritize implementing the necessary technological upgrades, to receive the reports of the sectors facing an increased risk of money laundering.



**Late Receipt of Currency Transaction and Unusual Activity Reports** – the Supervisor of Banks, the Capital Markets Authority, the Ministry of Communications, and the Securities Authority should examine the data of the report's transferring dates to IMPA presented in this report and act by their authority vested by law to ensure that the entities subject to their supervision will properly transfer reports to IMPA on time. For this purpose, it is appropriate that IMPA send to all the regulators a periodic update on the level of compliance of the reporting entities with the deadlines and instructions for transferring currency transactions and unusual activity reports to IMPA. According to their authority, it is also appropriate that the regulators and the Authority ensure the reporting entities report in a designated field within the reporting form prepared by the Authority on the date when the concern of unusual activity arose and the first time the reporting entity examined the



information. It is further recommended that the regulators and IMPA, each in their authority, examine the processes of reporting to IMPA and their scope, including the regulatory costs involved and the possibility of targeting them in sectors where there is a greater risk, based on the national risk survey such as the FSP sector, and thus streamlining the IMPA's activities.

-  **The Processing Time for Entering Reports by IMPA in the Database** – it is appropriate that the Director General of the Ministry of Justice set an outline to rectify the deficiencies raised in this report, ensuring a complete and comprehensive entry of reports within timetables as required by IMPA's procedures. It is also appropriate that the Director General consider setting periodic supervision and control mechanisms to ensure that IMPA receives and enters the entirety of the reports on proper timetables to fulfill its mission according to law – receiving, processing, and transmitting complete and high-quality information to the enforcement and defense authorities.
-  **Exhausting the Intelligence Information Potential Received by IMPA** – it is recommended that IMPA exhaust information enabling it to derive the most benefit from the reports transferred by improving its capabilities in coding<sup>11</sup>, collection, and organization of the information sent to it, among other things, by upgrading its information systems.
-  **IMPA's Controls on the Receipt and Extraction of Information from Unusual Activity Reports** – it is appropriate that IMPA examine the increase in the number of controls it performs on the receipt of data and the extraction of information, identify patterns that cause a high rate of deficiencies and derive lessons to reduce the scope of errors and deficiencies. It is also appropriate that IMPA present to the information clients the deficiencies raised in the controls, what they imply from an operational perspective, and the processes it is initiating to improve the information entry into the database.
-  **Extraction of Intelligence Information Received from Certain Entities** – it is appropriate that IMPA include in its article a reference to the complete extraction of information from certain entities included in the article, to allow feedback from the information clients on the risk management of the extraction of information and consider its decisions regarding the extraction of the specific information and of this type of information in general, according to the said feedback. It is further recommended that IMPA consider using technological tools to convert the content of the articles into structured information that will be entered into the database.
-  **The Account Settling Mode with a Provider of Information Entry** – it is appropriate that IMPA integrate into the engagement mode with the provider, methods of measurement and incentives for high-quality entry of unusual activity reports, mainly to prevent mistakes or partial entry.

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<sup>11</sup> Coding is the tagging of an event and its characteristics using key words.



**The Accumulation of Tens of Thousands of Reports not Entered into the Database on Time and the Reduction in Information Extraction by IMPA** – IMPA should enter into the database, on time, all the unusual activity reports transferred to it by the reporting entities, including about 6,237 unusual activity reports (as of July 2022) not entered in the absence of a technological solution. IMPA should make decisions that impact information clients and their activities only after consulting with them and hearing their position.



**Incentivizing the Public to Disclose Information on Suspicion of Money Laundering** – it is recommended that after a comparative international examination, accordingly, IMPA, the Ministry of Justice, the Police, and the Tax Authority consider establishing a dedicated hotline for the public, allowing citizens to report suspicions of money laundering and terror financing, to assist the enforcement authorities in their fight against these crimes. It is also appropriate that the Ministry of Justice consider encouraging the submission of reports, among other things, through financial incentives conditional on the imposition of sanctions or the forfeiture of funds by judicial or quasi-judicial bodies, such as the incentive program in the USA.



# Production of Articles (Intelligence Information) from the Reporting Database for the Enforcement and Security Authorities

## Key Findings



**Production of Articles Based on the Database** – in 2017–2021, IMPA's research department produced 5,381 articles (70% of which were transferred to the Police, 16% to counterpart authorities abroad (FIUs), 7% to Israeli defense authorities, and 7% to the Tax Authority). While during this period, 500,013 unusual activity reports and 10.8 million currency transaction reports were entered into the database.




**Response Articles Processing Times** – a response article is produced responding to a request for concrete information from enforcement and defense authorities. Producing an article quickly contributes to the effectiveness of the investigation and the seizure of the assets. 839 out of 2,923 examined response articles in 2017–2021 (about 29%) were produced after an exceeding one month since the date of the request for information. The delay in IMPA's response to the Tax Authority's requests for information stood out, in particular. Most requests (about 80% of 194 articles) were answered after 30 days or more. The Tax Authority stated that it could not use the information effectively due to this delay. Hence, it reduced the number of its information requests from IMPA and limited them to unprocessed information requests.





**Adapting Response Articles to the Information Clients' Needs** – IMPA took measures to receive statistical feedback from police investigators for response articles so that they address the quality of the articles and offer suggestions for improvement. IMPA received individual answers on 887 response articles from January 2019 to November 2021. The feedback analysis indicated that, the article included information relevant to the investigation in at least 59% of the articles. However, in at least 29% of the articles, the article did not include information pertinent to the investigation, and in most of the articles (at least 67% of them), the article did not point to new directions of inquiry relevant to the investigation, I.e., they did not provide the Police with new information about assets, crimes, money laundering patterns or entities. The statistical feedback and 32 qualitative feedback from specific police units' investigators, the State Attorney's Office, the Tax Authority, and the examination of 12 IMPA articles to the Tax Authority raised only a partial match between the needs of the information clients and the response articles. Consequently, the enforcement authorities must invest many inputs in




processing information and analyze it to create a diagram in the relevant sections and to submit additional requests to IMPA for information not detailed in the article.

 **Sharing with the Information Clients Suspicions Raised in Response Articles and Self-Initiated Articles** – although specific self-initiated articles or unusual activity reports included in response articles may be relevant to over one enforcement and security authority, there is no distribution of articles or reports regulation, simultaneously to several entities, and IMPA decides, without coordination with all the authorities, which of the information clients will receive the self-initiated article. Furthermore, IMPA only transferred the reports it included in the response article to the entity requesting the information, although it may be relevant to other clients. Thus, although most offenses<sup>12</sup> listed in the law are affiliated with the Tax Authority, most self-initiated articles (69%) were produced for the Police. In contrast, a small percentage (5.5%) of the articles were produced for the Tax Authority. Moreover, since most of the response articles (68%) are transferred to the Police, the other information clients are not exposed to most of the suspicions arising from unusual activity reports whose disclosure in the article to information clients has been approved.

 **Adapting the Self-Initiated Articles<sup>13</sup> to the Information Client's Needs** – most (87%–100%) of the audited, self-initiated articles transferred to the Police, the Tax Authority, or the Securities Authority did not lead to the launching of an investigation. This raises the concern that the many resources invested by IMPA are lost. This may originate from the information clients' perception of IMPA as a source of intelligence that does not necessarily lead to an investigation, from the low quality of IMPA's articles, from the incompatibility of the suspicions with the level of severity of the investigations handled and prioritized by each of the bodies or from the lack of desire of these authorities to advance investigations following information received from IMPA.

 **Producing Self-Initiated Article Following Unusual Activity Reports Accumulation by Certain Entities or Activities** – although in 32 audited cases, IMPA received dozens of unusual activity reports about people and companies suspected of money laundering and of the listed offenses, it did not send relevant self-initiated articles. This information reached the clients only months and years later, following their request for information about these entities.

 **Transfer Rate of Unusual Activity Reports to the Information Clients** – in 2017–2021, 500,013 unusual activity reports were entered into the database, but 95% of the information was not transferred to the information clients. Data received from IMPA in 2015–2021 raised similar findings. Therefore, because of suboptimal extraction of the information, there is concern that unusual activity reports that may include


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12 The offenses listed in the First Schedule to the Prohibition on Money Laundering Law are, among other things, trafficking in dangerous drugs, illegal arms trafficking, gambling, bribery and various tax offenses.





13 Analyzing information and transferring it to the client in a specified format (article) on IMPA's initiative and not as a response to a request it received.



suspicions not detected within the framework of the queries in the database and as a result relevant items of information will not be included in response to requests for information or self-initiated articles and will not be transferred to the enforcement authorities. Furthermore, it was found that IMPA did not rate the examined unusual activity reports in a way that justifies the failure to transfer the bulk of them to the enforcement authorities due to a low to zero intelligence value.

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**Aspects of IMPA's Activities in the Integrated Intelligence Center (Which is Shared by IMPA, the Police, and the Tax Authority)** – (a) The sharing of information between IMPA and the integrated center to fight organized crime and serious crime and their products is not optimal, due to legal difficulties. Hence, sharing all of the information is not possible in all cases; (b) Even though IMPA was required to place two representatives permanently and exclusively at the integrated center (financed by the Forfeiture Fund Council) – it was found that it permanently manned only one of the positions by placing an employee who was also his only occupation. In addition, IMPA did not report to the Forfeiture Fund Council about diverting one position but instead reported not according to the state of affairs as it was.

## Key Recommendations

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**Response Articles – Processing Times** – IMPA should respond to the information clients at relevant times; complete work procedures with the Tax Authority and each information client added; and formulate a procedure requiring compliance with processing goals. Moreover, the Director General of the Ministry of Justice should examine the reasons for the significant delays in the transfer of information from IMPA to the information clients, particularly the Tax Authority. It is appropriate that IMPA set maximum processing times for responding to information clients' information requests, among other things, depending on the degree of complexity and urgency of the requests, and implement periodic control mechanisms to monitor its activity and identify backlogs ahead of time.
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**Cooperation Between IMPA and the Tax Authority** – it is recommended that IMPA and the Tax Authority jointly form a cooperation procedure. It is also appropriate that the Director General of the Ministry of Justice and the Director General of the Ministry of Finance ensure cooperation between the Tax Authority and IMPA and proper and effective working interfaces between them.
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**Adapting Response Articles to the Information Clients' Needs** – it is recommended that IMPA conduct an ongoing dialogue with the information clients and improve the correlation between the articles' structuring mode, their design, and the information contained therein.
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**Sharing with Additional Information Clients the Suspicions Raised in Response Articles** – to improve the fight against organized crime and its products and to derive the



maximum potential benefit from the information in IMPA's possession according to the purpose of the law and the additional offenses regulations, it is appropriate that the supra team form a mechanism format through which information from unusual activity reports about the listed offenses relevant to them will be presented to the information clients, while fully coordinating between the information clients so the sharing of information will be proportionate considering the right to privacy without disruption of a current investigation or duplication of investigations.



**Adapting the Self-Initiated Articles to the Information Clients' Needs and Sharing with all Relevant Clients the Suspicions Raised in the Self-Initiated Articles** – to realize the potential inherent in IMPA's research capability to create added value for the information clients within self-initiated articles, it is recommended that IMPA consider a risk-based approach in cooperation with the information clients and attorneys skilled in money laundering cases to be appointed for this purpose by the State Attorney, the operational and investigative needs of each of them, and accordingly adjust the activities of the research department to the needs above. It is also recommended that IMPA, in cooperation with the information clients, formulate a sharing information format relevant to more than one client. For example, it is appropriate to consider an update of each of the relevant information clients regarding the other clients to whom the information has been transferred or to form an information client forum where ongoing dialogue will take place in real-time and which IMPA can consult quickly to set priorities in routing information, without disrupting an ongoing investigation, while aligning with the national risk survey. It is recommended that the supra team follow up on implementing this recommendation. It is further recommended that IMPA examine the Police's proposal to divert resources directed to self-initiated articles that do not lead to the launch of an investigation for effective assistance in the response articles.



**Preparation of a Self-Initiated Article Following the Unusual Activity Reports Accumulation About Certain Entities or Activities** – it is appropriate that IMPA implement a computerized tool for monitoring and identifying accumulations of quality reports, unusual activity, and currency transaction reports about entities or related entities, so the quantity and quality of the reports will serve it according to a risk-based approach in deciding. They will be proactively transferred to the information clients in the appropriate cases, close to the information accumulation time. It is recommended that IMPA coordinate with each enforcement and security authority on the desired model of transferring such initiated articles.



**Transfer Rate of Unusual Activity Reports to the Information Clients** – to improve IMPA's proactive activity and given the volume of unusual activity reports received (500,013) compared to the volume of unusual activity reports transferred to the information clients (24,278; 5%), it is appropriate that IMPA initially identify unusual activity reports from which suspicion of prohibited activity arises, and set criteria in consultation with the information clients about the quality of unusual activity reporting, to maximize the number of unusual activity reports of high-risk activity that are forwarded to



the information clients, while reducing the number of unusual activity reports that in its opinion are not of sufficient quality and for which there is no justification for their transfer to it or to enforcement and defense authorities. Furthermore, the regulators and IMPA, each in their authority, should examine the above to train and prevent excess reports or underreporting, which cannot contribute to IMPA's activity in managing the database and its analysis.



**Aspects of IMPA's Activity in the Integrated Intelligence Center** – (a) given the importance of the information products of the integrated center generated for the law enforcement and security authorities to fight severe and organized crime and terrorism – it is appropriate that the supra team, in coordination with the Ministry of Justice, discuss the transfer of information – on its various types – from IMPA to the integrated center, and resolve the legal difficulties, while maintaining a proper balance between the purposes of the law, among them the prevention of money laundering, of terror financing and the right to privacy, and the use preference of specific tools to enable the center to fulfill its mission optimally according to the government resolution; (b) IMPA should staff the two positions assigned to it for its representation at the integrated center by placing employees permanently, whose only task will be it, and it should also ensure accurate reporting. The Forfeiture Fund Council should follow up to ensure that the directive is implemented and that these positions are staffed according to the designations approved and financed by it.



## Additional Topics

### Key Findings



#### **🗨️ Determining a Security Classification for Articles and the Effects of the Blanket Classification on the Information Clients**

– IMPA overwhelmingly classifies all articles intended for information clients – including the articles concerning entities other than the General Security Service and the Police that deals with criminal civilian nature matters – in a blanket "top secret" security classification, even when the information therein does not have security classification. In the meantime, regarding the articles that are forwarded to corresponding authorities abroad based on the same information (from transferring currency transactions and unusual activity reports), processed to make the information accessible, it assigns a blanket classification of "highly confidential." This affects IMPA's contribution to the enforcement authorities.



**Control over IMPA's Functioning** – despite the extensive scope of IMPA's activities, which receives millions of currency transaction reports and hundreds of thousands of unusual activity reports and produces thousands of articles for information clients to fight money laundering and terror financing, and alongside the importance of maintaining its independence, the Ministry of Justice does not orderly control IMPA's core activity, which do not concern the independent discretion in the decisions of the head of IMPA on the transfer of information.



**IMPA's Reports to the Knesset and the Public** – the reports IMPA transfers to the Knesset and the public about its activities do not present the effectiveness of its activity (the quantitative reports on the outputs of its activity are based on the rate of annual change in its activity about the previous period and not based on indicators of compliance with timetables; As of 2019 there is a substantial gap between IMPA's reporting to the public in the annual report on the rate of self-initiated articles and their actual rate). For example, in the 2020 yearly report, IMPA reported to the public that the rate of self-initiated articles was 30%. However, according to the IMPA's database analysis, the rate of the self-initiated article was 11.54%. Hence, it does not enable public or parliamentary control of its activities.





#### **Positions of Attorneys Engaged in Money Laundering and Terror Financing Cases Regarding the Effectiveness of IMPA's Contribution**

– to examine IMPA's contribution to the fight against crime and terrorism, the State Comptroller's Office surveyed attorneys, through the State Attorney's Office (the Attorneys' Survey), regarding 26 criminal cases handled by the Attorney's Office, which included asset seizures under the Prohibition on Money Laundering Law in 2020, as well as 3 criminal





cases dealt by the prosecutor's office regarding terrorism that had asset seizures under the Counter-Terrorism Law in 2018–2021. Seven (27%) of the 26 cases examined in the Attorneys' Survey, in which property was seized under the Prohibition on Money Laundering Law in about NIS 20 million, did not include any article produced by IMPA, and therefore IMPA or IMPA's reporting regime, through these cases, did not contribute to the economic war on crime.

-  By the State Comptroller's Office, Attorneys' Survey data, regarding cases in which property of NIS 124 million was seized in 2020 under the Prohibition on Money Laundering Law, the attorneys' summarized assessments on the degree of contribution of IMPA articles to establishing a new factual basis on the actual crime committed in the range of 0 to 5 are as follows: in 12 (63%) of the 19 cases including articles, the degree of contribution was assessed as 0, and the assets seized within these cases were 60% of all the assets seized in cases that included articles in the period under review. Furthermore, in 2 (11%) of the 19 cases, which deal with 20% of all the assets seized in the period under review, the degree of contribution was estimated at 1. The attorneys' assessment of the effectiveness of enforcement requires examination. In the minority of cases in which the contribution of IMPA's articles to establishing new factual infrastructure and locating new property was relatively significant, NIS 20 million were seized, but in practice, NIS 12 million (60%) of which were returned to the parties from which they were seized, and for the remainder of the amount – NIS 8 million – a request for forfeiture has not yet been submitted, or a decision has not yet been made regarding thereto. It should be noted that in this matter, no examination was made on whether the aforementioned low contribution is built into IMPA's conduct or the other relevant entities in the enforcement system.
-  By analyzing the prosecutor's office's response, IMPA's work made a small contribution to establishing the evidence or locating property in the three terrorism cases examined, which dealt with property seized in 2018–2021 under the Counter-Terrorism Law. The information (prepared at IMPA's initiative or the request of the information clients) constituted about 10% of all the articles delivered during this period to all the information clients.

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## Key Recommendations

-  **Determining a Security Classification for the Articles** – it is appropriate that IMPA, in cooperation with the General Security Services, the National Cyber Directorate, and the information clients, each in their authority, formulate an outline to transfer information that does not have security classification to the information clients, with classification corresponding to the actual sensitivity of the information.
-  **Control over IMPA's Functioning** – it is recommended that the Attorney General, who heads the General Prosecutor's Office and serves as the Chairperson of the supra team in cooperation with the Director General of the Ministry of Justice, set goals in IMPA's



collection and research activities and measure the effectiveness of its activities with the goals it set, similar to the supra team's intervention in the supervision over the FSPs by the Capital Market Authority. It is further recommended that the goals defining procedure and the work processes required to achieve them will be done by IMPA in cooperation with the investigation and prosecution authorities and particularly concerning criminal activity and high-risk areas, such as through FSPs that are currency service providers (Changes) and entities that deal in cryptocurrency, according to the national risk survey from 2021.



**IMPA's Reports to the Knesset and the Public** – to present the effectiveness of IMPA's operation and enable public and parliamentary control over it, it is appropriate to consider improving IMPA's reports to the Knesset and the public. It is recommended that IMPA clarify the method of calculating the data presented, to accurately reflect the nature and type of the activity it carried out.



**Positions of Attorneys Engaged in Money Laundering and Terror Financing Cases Regarding the Effectiveness of IMPA's Contribution** – IMPA is the only government body that has full access to the database and is the only one authorized to produce articles on money laundering and terror financing based on the database information. Given this, it is appropriate that the relevant authorities will examine the contribution of the articles produced by IMPA presenting the evidence in the cases on these subjects.

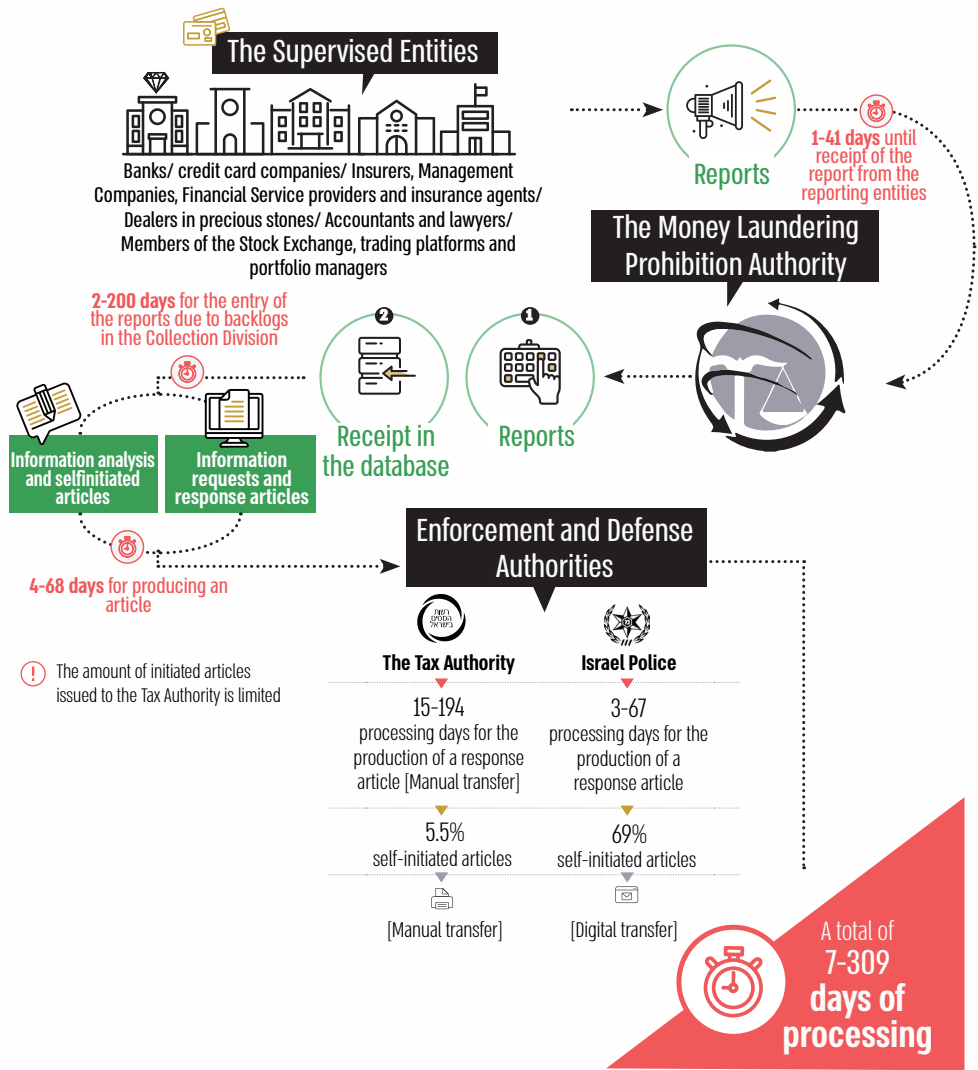


**The Effectiveness of the Reporting Regime and IMPA's Activities** – it is recommended that the Attorney General examine the effectiveness of IMPA's reporting regime and activities in substantive and operational aspects and their contribution to the economic enforcement system and the fight against terrorism. Moreover, she should examine the data on the extent of the seized property and forfeitures, all in collaboration with the Director General of the Ministry of Justice. This is to examine the extent the inputs invested by the government system and the private sector in the obligations implementation of the anti-money laundering and terror financing regime, including the costs that cannot be quantified, match the degree of effectiveness of the enforcement system in realizing a fundamental principle of economic enforcement – forfeiture of property including the fruits of the offense or property of such value.

According to the findings, it is recommended to consider measures to significantly improve the contribution of the information provided by IMPA to the enforcement and security Authorities to strengthen economic enforcement in the fight against crime and its products, particularly in the fight against terrorism. This is regardless of whether the improvement is required in the activity of the reporting entities, IMPA, the enforcement authorities, or the prosecution's office. It is also recommended to consider forming an unusual activity reporting obligation for all reporting sectors, similar to the banking corporations – unusual activity reporting obligation, only when there is a concern of prohibited activity and not in every case of activity that is perceived as being unusual, and ensure that the reports will only be submitted in these cases. This will lead to the receipt of quality reports, enable IMPA to fully exhaust them, optimally analyze them and deliver information to the information clients at relevant times, contributing to the investigation.



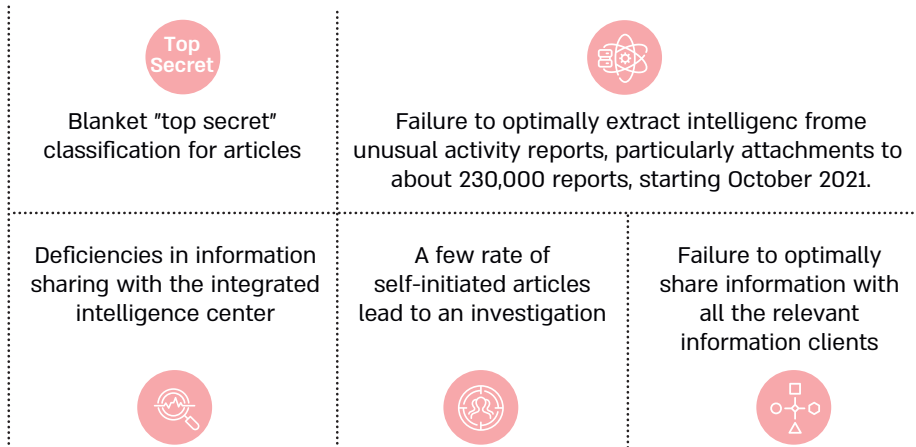
**Diagrams 2A and 2B: The Deficiency Routes in the Report on the Range of Processing Time\*, the Adaptation of the Information to the Information Client, the Scope of the Information, and the Quality of the Service Provided to the Tax Authority Compared to that Provided to the Police**



\* To prevent bias, the range of processing times was calculated for about 80% of the activity types without referencing each of the 10% found at the upper and lower ends of the activity.



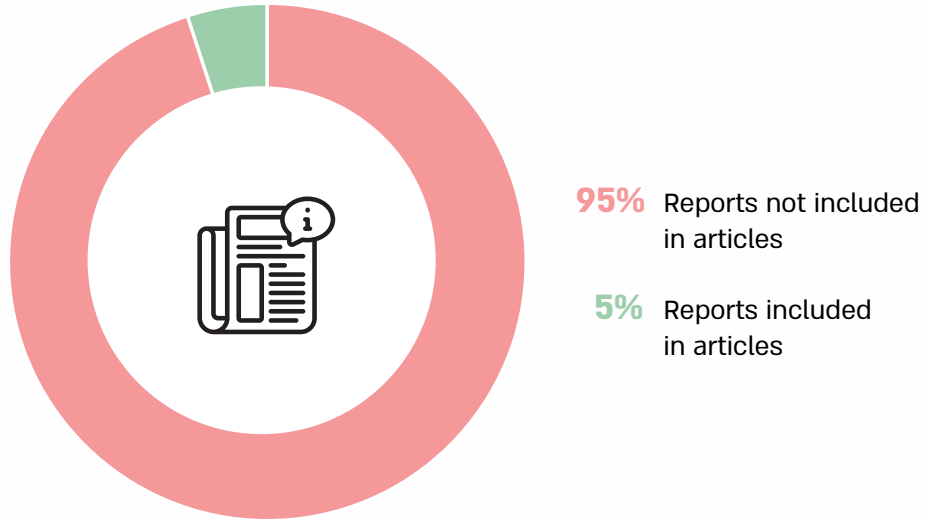
### Adapting the Activity to the Information Clients Needs



According to IMPA data processed by the State Comptroller's Office.



**Diagram 3: The Rate of Unusual Activity Reports Included in Articles for Information Clients Compared to the Total Number of Unusual Activity Reports Received by IMPA, 2017–2021**



According to IMPA data processed by the State Comptroller's Office.



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## Summary

IMPA serves as a financial intelligence unit assisting the enforcement and defense authorities in fulfilling their duties in preventing and investigating money laundering and terror financing offenses and in their prosecution. To this end, it was entrusted with powers to demand and receive a great deal of information from financial and business entities, analyze it, and pass it on within a short time as information reports to the enforcement authorities (such as the Israel Police and the Tax Authority) and the defense authorities (such as the General Security Service), for them to prevent crime and enforce the law in the money laundering and counter-terrorism.

This audit report raised a long series of deficiencies in IMPA's functioning and its ability to fulfill its role while implementing core work processes efficiently and optimally, thus, impairing its ability to assist the enforcement and defense authorities in the prevention and investigation of money laundering and terror financing offenses and their prosecution, all of this while balancing the right to privacy. These require the Ministry of Justice to conduct examinations and measures in several key areas:

1. **IMPA's Outputs** – IMPA's outputs should be examined given the heavy burden imposed on the public and the financial entities required to maintain an extensive and complicated reporting regime involving many financial and bureaucratic inputs. In addition, the findings of the Attorneys' Survey conducted by the State Comptroller's Office about the contribution of the IMPA articles to form an evidentiary infrastructure and to locate assets for forfeiture require an examination of the extent to which the inputs invested by the government system and the private sector in the implementation of the obligations in the anti-money laundering and terror financing regime, including the costs that cannot be quantified, match the degree of effectiveness of the enforcement system in implementing a fundamental principle of economic enforcement – forfeiture of property including the fruits of the offense or property of such value.
2. **Evaluating IMPA's Performance** – the deficiencies raised require an examination and analysis of their creation and the manner of their handling.
3. **Mandatory Functional Standard** – a) Executing a significant change in IMPA's functional array in receiving, analyzing, and transferring the significant amount of information that reaches it requires the implementation of measurable targets for its functioning regarding the core activities it carries out, as well as ongoing measurement and monitoring of its performance and drawing lessons from the results of the measure. b) Implement in IMPA a functional pattern by which significant information received by it or requested of it by the enforcement and defense authorities, which is not processed and analyzed within a short time – may harm their ability to prevent crimes and enforce the law on money laundering, terror financing, and the listed offenses, as part of the fight against serious and organized crime and the war on terrorism.



4. **The Transparency of IMPA's Work** – the IMPA reports over the years to the Constitution, Law, and Justice Committee, the Ministry of Justice administration, the regulators, the reporting entities, and the public – did not present the functional gaps in its work or on the extent of its effectiveness in terms of contributing to the activities of the information clients. It is, therefore, appropriate to set report standards and define the resolution of the information provided and its frequency.
5. **The Supervision over FSPs** – if IMPA will be authorized in the future under a government's resolution to supervise the FSP sector, given the risk of money laundering posed by this sector and in particular by money service businesses (changes) and cryptocurrency service providers, it is appropriate to supervise, audit and enforce this sector, ensuring the transfer of quality reports, contributing to the fight against serious and organized crime and terror financing, using financial institutions in this sector.

The responsibility for the proper operation of IMPA rests with the Minister of Justice, the Director General of the Ministry of Justice, and the head of IMPA. Therefore, they are obligated to ensure the necessary improvement in IMPA's core activity and to improve the cooperation between it and the information clients. This is necessary to justify the imposition of the reporting regime and its costs on the public, to contribute effectively to the investigative and security authorities, in particular in the war against organized crime, serious crime, and terror financing, and for IMPA to fulfill its mandate according to law, efficiently and effectively.

## List of Abbreviations

1. **The Prohibition on Money Laundering Law, 2000, Regulations and Orders Promulgated Thereunder** – the law led to the establishment of the Money Laundering and Terror Financing Prohibition Authority (IMPA), the establishment of the database, to the authorization of regulators to audit, supervise and enforce over supervised sectors and to impose obligations on supervised sectors to transfer reports to IMPA.
2. **IMPA** – the Money Laundering and Terror Financing Prohibition Authority is a unit in the Ministry of Justice responsible for the database.
3. **The data Base or the Database** – the IMPA's database, established by law, includes reports received by IMPA under the law and additional information.
4. **Reports** – Financial information IMPA receives from financial and non-financial entities.
5. **Regulators** – the Banking Supervision Division at the Bank of Israel, the Securities Authority, the Capital Market, Insurance and Savings Authority (the Capital Market Authority), the Postal Administration at the Ministry of Communications, the Diamonds Supervisor at the Ministry of Economy and Industry, and the Commissioner of Business Service Providers at the Ministry of Justice, who are responsible for carrying out regulation of the supervised sectors.



6. **The Supervised Sectors** – financial and non-financial sectors that are subject to supervision under the law.
7. **The Reporting Sectors** – the supervised sectors that must submit reports to IMPA.
8. **Information Clients or Enforcement and Defense Authorities** – the government entities authorized by the Prohibition on Money Laundering Law and its regulations to request information under certain conditions or receive information from IMPA on its initiative under certain conditions. The Authorities are the Israel Police, the Tax Authority, the Securities Authority, the Police Investigation Unit of the Israel Police, the General Security Service, the Institute for Intelligence and Special Operations (Mossad), a specific unit in the Director of Security of the Defense Establishment, the Intelligence Corps of the IDF, as well as counterpart authorities abroad (similar to IMPA) called FIUs.
9. **The FATF Organization and MONEYVAL Organization** – the FATF organization is an international organization that sets standards and guidelines on the global fight against money laundering and terror financing, and MONEYVAL organization is a similar organization, at the local level in Europe, that implements FATF guidelines.
10. **EGMONT GROUP** – a group uniting all the authorities similar to IMPA – FIUs.
11. **Articles** – the document by which IMPA transfers information to the information clients.
12. **Financial Service Providers** – "Service in Financial Asset" and "Extension of Credit" are as defined in the Supervision of Financial Services (Regulated Financial Services) Law, 2016 (the Supervision of Regulated Financial Services Law). "Financial asset" includes, among other things, a cash deposit, credit card, and virtual (digital) currency. All those engaged in these fields, as of 2021, are regulated under the same order (Anti-Money Laundering Order (Duties of Identification, Reporting, and Record-Keeping of Money Service Businesses and Credit Service Providers for the Prevention of Money Laundering and Terror Financing) 2018, will also be referred as "FSPs."