

MONEYVAL: AML/CFT Report on Israel Triggers the Country's Membership to the FATF



News

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On 10 December 2018, FATF and MONEYVAL published a [mutual assessment report on Israel's anti-money laundering and counter-terrorist financing \(AML/CFT\) system](#), the effectiveness of measures in place, and their level of compliance with FATF Recommendations.

Israel became an observer to the FATF in February 2016. Until then it had already been closely involved in the work of the FATF through its participation in MONEYVAL. Since the start of its observer status in [February 2016](#), Israel has worked to meet the requirements for full membership of the FATF, which include undergoing a successful mutual evaluation. With publication of the assessment report, Israel met FATF's membership requirements and became an [official member](#) of FATF with immediate effect.

The report underlines that Israel's geographic location means it faces a particularly high terrorist financing (TF) risk from external sources. Specific TF sources and channels identified by the report are:

- 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.

Fraud, tax offences, organised crime and public sector corruption are among the ML risks.

As regards risk assessment and policy setting, the report states that Israel has a good understanding of the risks it is exposed to, has developed a sound and effective AML/CFT system, demonstrates an effective policy of timely prevention, and achieves good results in investigating, prosecuting, and convicting ML and TF. Great emphasis is also placed on depriving criminals of the illicit gains, assets, and instruments of crime at an average of over €24 million per year in confiscations.

However, the report identified areas requiring major improvement:

- Introducing and strengthening the supervision and implementation of preventive measures;
- Coordination in preventing the misuse of non-profit organisations for TF, in particular by increasing Israel's resources to register and supervise these organisations.

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Financial institutions and their supervisors have a good understanding of the ML and TF risks they face. This understanding is weaker in the money service sector, though there has been a significant increase in this sector's reporting of unusual activities recently. Financial supervisors generally have not yet developed a full, risk-based AML/CFT-specific supervision. Israel has not included real estate agents, dealers in precious metals, and trust and company service providers in its AML/CFT system. Lawyers and accountants are not required to report suspicious transactions. Among the recommendations related to financial institutions, the report suggests ensuring that all financial institutions, especially smaller firms, apply adequate background checks when hiring new employees, instead of just relying on applicants' self-assessment. Furthermore, it calls on financial institutions to continue providing up-to-date and AML/CFT-specific training to staff.

The supervisors of designated non-financial businesses and professions (DNFBPs) have a reasonable understanding of ML/TF risks and obligations, but are at an early stage in the development of a risk-based model for supervision. The report recommends the following in this regard:

- Extending AML/CFT obligations to all DNFBPs that are currently not covered by the national AML/CFT regime;
- Developing and enhancing their understanding of ML/TF risks and obligations;
- Updating supervised entities and self-regulatory bodies on how their sectors could be misused for ML/TF purposes;
- Verification of customer and transaction information in a timely manner and on a regular basis by DNFBPs.

Furthermore, diamond dealers should apply adequate background checks when hiring new employees.

Authorities must make effective use of financial intelligence and other information and co-operate well with international counterparts. That said, some issues have arisen with delays in executing requests for international cooperation. In this regard, the report recommends continuing with the planned increase in human resources to assist in the timely execution of MLA requests, to improve the response time for incoming extradition requests (whether through additional resources or dedicated staff to handle such requests or through enhanced interaction with foreign counterparts), and to streamline the process for handling incoming MLAs requiring investigative action.

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