

## **The prohibition of money laundering law**

### **Bank and customer requirements**

The main requirements of the Prohibition of Money Laundering Law are presently being implemented. The purpose of the Law is to enable the authorities to locate money originating from criminal activity. The Law is implemented by a new Authority which has been established for this purpose within the Ministry of Justice, by the financial service industry (including the banks) and by the police and the internal security service, where necessary.

The acts of terror perpetrated September 2001 underlines the importance and urgent need for the Law. Terror organizations, drug dealers and organized crime groups continuously try to conceal their activities and finance them by laundering money. They try to launder much of their criminally derived money through the financial system, therefore financial institutions play a special role in anti-money laundering legislation throughout the world.

The war against money laundering is part of the international fight against terror and organized crime.

If you wish to know more about money laundering, please read the information in the last section of this booklet.

To receive information on the new Law, particularly from the point of view of the banking system, and what you, the customer, need to know, please turn to the next page.

### **What does the Israeli "prohibition of money laundering law" say?**

The new Law make money laundering a criminal offense. Financial institutions must identify customers in accordance with rules set out in the regulations and must report certain pre-defined financial transactions as well as unusual activities of customer .

A central principle of the Law is to criminalize any action involving property which has its source in criminal activity, in order to conceal that source and to conceal the identity of the owners of such property. Anyone carrying out money laundering is committing a criminal offense and liable to the punishments set out in the Law. The Law sets out a list of crimes in connection with money laundering: drug dealing, illegal arms ale ,gambling, prostitution,

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breach of intellectual property rights and other .Tax related offences are not included in the list.

In order to combat attempt to launder money through the financial system, the Law requires that providers of financial service , including banks ,receive and authenticate identification details from anyone requesting to open a bank account or carry out banking transactions, and also require the banks to report certain transactions to the Authority set up for this purpose in the Ministry of Justice.

## **IDENTIFICATION REQUIREMENTS**

The banks are required to receive a list of identifying particular , most of which were required even before the new Law came into force, from anyone requesting to open an account or requesting to change ownership of an account or carry out certain transactions in the account (among these: name,I.D./passport number, address, identities of other beneficiaries in the account and identities of persons authorised to operate the account). Customers are also requested to declare whether they are opening the account for themselves or on behalf of another person, in order that banks may determine who is the true beneficial owner of the account. For accounts opened in the name of a corporation, customers are required to give the names of those who have ultimate control of the corporation, whether individuals or corporations.

According to the law, customers who do not supply the details during this time will be required to close their account, and they are disabled to carry out banking transactions.

## **REPORTING REQUIREMENTS**

The reports on banking transactions that must be sent to the Authority in the Ministry of Justice, fall into two categories:

### **Reporting by Size of Transaction**

This is an automatic report, the creation of which is not at the discretion of the bank ,and it relates to certain transactions the

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value of which is above a pre-defined amount. These are not transactions about which there is any specific suspicion of money laundering. However, in light of the experience gained in other countries, the legislator decided that these transactions should be referred to the Authority. Below are some examples:

- The deposit or withdrawal of cash, in shekels or in foreign currency, in an amount exceeding NIS 50,000, whether or not the transaction is carried out in the account of a customer. For example, a deposit of NIS 50,000 in cash in order to carry out an international transfer of foreign currency.
- The exchange of Israeli or foreign currency banknotes in an amount in excess of NIS 50,000.
- The transfer from Israel to another country or from another country to Israel, through a bank account, of an amount of at least NIS 1,000,000 (unless it is documented or declared by the customer that the transaction is directly linked to the import or export of goods).

### **Reporting of "Unusual Transactions "**

Banks are also required to report transactions to the Authority which, in the light of the information that they possess, appear to be irregular, that is to say, transactions which are not of a type usually carried out in the account. Below are some example .

- The withdrawal of money or securities soon after they were deposited, other than within the framework of normal business activity and for no apparent reason;
- Unusually frequent use of a safe deposit box by a number of persons, for no apparent reason;
- Activity in an account, which appears to have been carried out in order to avoid "automatic " reporting by the size of the transaction, such as a series of deposits /withdrawals, in amount slightly lower than those set out in the "automatic " reporting requirement
- It appears to the bank that the account holder is operating the account on behalf of another person without declaring this;
- An unusual volume of activity in the account or a significant change in the balance in the account, for no apparent reason.

The decision to report a transaction as unusual is not taken lightly and is made by specially authorized persons in the bank. The Law require the banks to appoint a member of staff as "compliance officer ", who will be responsible for the implementation of the Law. Among the compliance officer 's duties is the task of compiling all the procedures for checking and clarifying, as to

whether or not particular transactions must be reported.

Will information transferred to the "Authority" remain confidential?

Yes. According to the Law, all information transferred to the Authority is classified and may not be accessed by unauthorized people. Information held by the Authority may only be transferred in accordance with the requirements of the Law for the purposes of an investigation into money laundering offence or to further the security of the country or as part of the war against terror organizations.

Will a bank inform the customer when it sends a report to the Authority about the customer's transactions?

No. The Law specifically prohibits the banks from informing the customer of the submission by the bank of an "Unusual Transaction Report" concerning the customers' banking activity. Report by "Size of Transaction" are created automatically in relation to transactions in excess of certain amounts and customers may enquire as to what type of transactions and what amounts are required to be reported.

Does the Law contradict the principles of privacy and banking confidentiality?

As with other law, the legislator must find a balance between differing priorities and value, in this case between privacy and banking confidentiality on one hand and the struggle against money laundering and crime on the other. The legislator, who was aware of the possible conflict between these goals has attempted to balance them. Therefore, information is passed to the Authority which operates within the Ministry of Justice and not directly to the police as is the case in other countries.

The banks in Israel are helping in the struggle against money laundering to the best of their abilities. We hope that the benefit of the Law will outweigh any loss of privacy, should such be caused, and we trust that all our customers will show understanding for the requirements of the Law.

(The full text of "Prohibition on Money Laundering -- The Banking Corporations' Requirement regarding Identification, Reporting, and Record-Keeping Order, 5761-2000", may be found on the internet sites of certain of the bank).

## What is money laundering and why are we fighting it?

The term "money laundering" refer to activities aimed at disguising the criminal sources of money, especially by depositing it into the financial system, in order that after a series of transactions among various accounts it will be treated as legitimate. Money laundering is carried out in order to hide both the criminal source of such money and property and the identities of its owners.

Improvements in the world financial system and the increasing ease with which funds may be moved internationally, have also made it easier for those who wish to launder money. Money from the sale of drugs, illegal arms sale ,the sale of women and children or the taking of 'protection ' money can find its way into bank accounts spread throughout the world. The methods are nearly always the same: the depositing of money (usually cash)by disguising its source and the identities of it owner .Next various apparently innocent financial transactions are carried out: currency exchange ,purchase of financial instrument ,transfers to other banks and other countries .After the original source of the money has become unclear the money looks "clean " and legitimate. It is integrated into the economic system and does not raise any suspicion.

Crime fighting authorities in many countries – the United States, Canada, the United Kingdom, the countries of Europe, Australia, Japan and others –reached the conclusion that blocking the ability of criminals to launder their money is an important factor in the struggle against terror organizations, drugs related crime and organized crime. In order to achieve this goal many countries agreed that a set of international standards, as well as legislation, were required, to promote cooperation between government ,law enforcement agencies and financial institutions.

The first international treaty on cooperation against money laundering was signed at the end of the 1980s.Since then an international task force based in Paris has been coordinating cooperation in this field. Israel has fully joined the struggle against money laundering, under the guidance of the Bank of Israel.

There are many ways to launder money and prevention is not easy. However, since money laundering has the potential to undermine the stability of the political, social and economic systems in democratic countries and, no less important, to put lives at risk,

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the fight against money laundering is a worthy and important cause.

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the information contained herein is for explanatory purposes only and may not be relied on to determine legal rights and obligations.

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# **FIRST INTERNATIONAL BANK**

## **APPENDIX**

### **DECLARATION OF BENEFICIARIES IN AN ACCOUNT**

Pursuant to the provisions of the Prohibition on Money Laundering Order, every account holder must declare whether he is acting on his own behalf or on behalf of a Beneficiary in the account.

"Beneficiary" – according to the law is : " a person for whom or on whose behalf the assets are being held, or any action is taken with respect to the assets, or who is capable of directing any action with respect to the assets, all whether directly or indirectly".

If there are Beneficiaries in the account, the Bank must receive their particulars (name, identification number, country of citizenship, date of birth/incorporation). Therefore, if there are Beneficiaries in the account, please present the Beneficiaries particulars to your Branch and sign the duly required declaration.

If there are no Beneficiaries with vested rights in the account besides the account holders, or if there are Beneficiaries whose identifying particulars are not yet known, you must sign the declaration below and return it to the branch (It may be returned by fax or by mail).

#### **Re: Beneficiaries with Vested Rights in the Account**

I/we \_\_\_\_\_ (name) I.D. no. \* \_\_\_\_\_

I/we \_\_\_\_\_ (name) I.D. no. \* \_\_\_\_\_

I/we \_\_\_\_\_ (name) I.D. no. \* \_\_\_\_\_

Register owner/s of account no. \_\_\_\_\_ (the account no.)

at branch \_\_\_\_\_ (branch name and number)

Hereby declare that:  There are no Beneficiaries with vested rights in the account besides the account holders.

I/we am/are managing the account for a Beneficiary/Beneficiaries whose identity/ies is/are unknown at present.

The reason for this is: \_\_\_\_\_

I/we undertake to furnish the Bank with the particulars of the Beneficiary/ies immediately upon learning of his/their identity.

I/we undertake to notify the Bank of any change in the particulars given above.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of the account holders

\* If a corporation, fill in the registration number.