



Jerusalem  
April 15, 2018

**To: The banking corporations**  
Attn: Chairperson, CEO

**Re: Banking corporations' activities vis-à-vis customers that are regulated financial service providers and offering coordinators**

Dear Sirs:

**Introduction**

1. The goal of the Control of Financial Services (Regulated Financial Services) Law, 5776-2016 (hereinafter, “**the Control Law**”) is to create “regulation that is as inclusive, comprehensive and coherent as possible, for the entire financial service provision market and the entities active in it”.
2. In recent years, there have been technological developments that led to the entry of new financial entities, some of which will be required to receive a license and will be subject to the supervision of the Capital Market, Insurance and Savings Authority (hereinafter, the “**Capital Market Authority**” or “**CMISA**”) in accordance with the provisions of the Control Law.  
In order to operate, these entities are required to open an account at a banking corporation. While most of these entities are legitimate entities that work on developing innovative financial tools and on promoting competition in the banking system, some of them are liable to be exploited by their customers and to expose the banking system to compliance risks in general, and to AML/CFT risks in particular.
3. The goal of this letter is to establish guidelines that will enable banking corporations to provide service and to manage the risks in their activities with the regulated financial entities. In this letter, “**regulated financial entities**” are entities supervised by the Capital Market Authority in accordance with the Control Law, including an entity that received a permit for continued operation and whose request for a license was not rejected, and at which an anti-money laundering and terrorism financing (AML/CTF) regime is implemented or is expected to be implemented, including direct responsibility for managing AML/CFT risks inherent in their activity. The completion of the CMISA’s license-granting process for the financial entities, as well as the going into effect of Prohibition on Money Laundering and Terrorism Financing Orders on the various financial entities, will serve as an additional pillar in reducing



the risks to the banking system in the opening and managing of such accounts, and as a direct result will make it easier for these entities to manage accounts and act vis-à-vis the banking system.

4. **Each one of the five large banking corporations** is required to establish policy and procedures for opening and managing accounts for regulated financial entities. These will reflect, among other things, a risk-based approach derived from, among other things, the following parameters: type of entity and activity, permit for continued operation or receipt of license, and the imposition of a prohibition on money laundering order on its activity.

The policy and procedures will include the following principles:

- 4.1. The banking corporation will open a bank account, including multiple-beneficiary trustee accounts that are required to be opened in light of the Control Law, for a regulated financial entity unless there are reasonable reasons not to open an account. A banking corporation is to carry out transactions in such an account unless there are reasonable reasons not to do so. The said policy is to include the reasonable reasons and will establish that such refusal to open an account for a customer that is a regulated financial entity will be explained and submitted to the customer, subject to all laws, in writing, within 7 business days from the date of the decision on the refusal, and not exceeding 14 days from the date of receiving all the documents from the customer. A customer whose request to open an account is refused will be able to appeal to the Banking Supervision Department.
- 4.2. Accounts will be opened and managed as noted in Section 4.1 while managing risks and monitoring activities in a manner in line with the level of risk and the relevant activities of each kind of entity.
- 4.3. In addition, the policy will refer to the risks inherent in carrying out the activities, including, among other things, a response for the following risks: AML/CFT; tax laws in Israel and worldwide regarding customers with foreign or additional tax domicile, including the implementation of international agreements on the exchange of information for tax compliance reasons, such as FATCA, and the need for the financial institution to receive a registration number (GIIN), sanctions regarding various persons designated by the US (OFAC), EU, and UN.
- 4.4. The procedures will refer to the information required of a regulated financial entity for risk management needs, including: details of types of customers, features of the customers and scope of activity expected at the regulated financial entity, policy and procedures of the regulated financial entity for managing AML/CFT risks, including a Know Your Customer process, screening against lists, controls, as well as any information required for managing the risk, at the



individual transaction level as needed, after submitting the reasons to the regulated financial entity, subject to the provisions of the law and only when there are indications of risk. The banking corporation shall not make any use of information except for risk management needs. The information that the banking corporation receives, as noted, shall serve exclusively for the needs of risk management.

- 4.5. The reasons detailed in Section 4.1 will be examined and approved by the Supervisor of Banks, as part of the Bank's policy in the matter, in consultation with the Supervisor of Capital Market, Insurance and Savings.
- 4.6. It should be verified that the said policy and procedures are communicated to all relevant employees at the banking corporation.
5. When opening multiple-beneficiary trustee accounts, which are required to be opened under the Control Law, the following provisions shall apply as well:
  - 5.1. Pursuant to a request by the trustee in the account opened in the name of a trustee that is not the regulated financial entity, the banking corporation will allow the regulated financial entity as well to participate in conversations or meetings related to the business activity of the regulated financial entity.
  - 5.2. The banking corporation shall be permitted to accept the receipt of a declaration of beneficiaries in the account at a frequency of once per month, provided that it received a commitment in writing from the trustee that the banking corporation will be provided with a list of beneficiaries in the account, upon the receipt of a request by the banking corporation. It is hereby clarified that the banking corporation will be required to attach the updated list of beneficiaries to a report of irregular activity, even if not updated in the banking corporation's systems.
6. The banking corporation shall alert and explain, to the extent possible and without derogating from the provisions of any law, of its intention to take any actions in the account, prior to doing so.
7. Without derogating from the provisions of any law, the banking corporation shall provide any regulated financial entity that requests to open an account with it, full disclosure on the expected costs of managing the account, and performance indicators of activities in the account (for example, the maximum number of work days for carrying out a payment instruction for which all the particulars required by law were received).
8. The above provisions do not derogate from the provisions established in Proper Conduct of Banking Business Directives or in any letter or circular of the Supervisor of Banks, including Section 50 of Proper Conduct of Banking Business Directive no. 411, "Management of Anti-Money Laundering and Countering Financing of Terrorism Risks".



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9. With the going into effect of the Prohibition on Money Laundering and Terrorism Financing Orders on the various regulated financial entities, the Banking Supervision Department will work to provide leniencies in managing accounts managed for their activity on behalf of their customers, similar to the leniencies granted in managing accounts of portfolio managers and of trading platforms for their own accounts.
  10. The provisions of this letter, with the necessary changes, shall also apply to the opening of an account with multiple beneficiaries in the name of a offering coordinator registered in the coordinator registry, when the account is opened in accordance with the provisions of the Securities Law, 5728-1968, and the Securities (Offering Securities through an Offering Coordinator) Regulations, 5777-2017.
  11. You are requested to submit the approved policy and the minutes of the board discussion within 90 days from receipt of this letter to the offices of the Banking Supervision Department. Until such date, the corporation is to act in accordance with this supervisory letter.
  12. Should a banking corporation decide that it is not one of the 5 large banking corporations for opening and managing an account for a regulated financial entity as noted in Section 10 above, the provisions of this letter shall apply to it, except for the provisions of Subsection 4.1 and Section 11 herein.

Sincerely,

Dr. Hedva Ber  
Supervisor of Banks

Cc: Supervisor of Capital Market, Insurance and Savings  
Chairperson of the Israel Securities Authority  
Legal Department, Bank of Israel