

FRAUD AND EMBEZZLEMENT BY EMPLOYEES AND OFFICEHOLDERS

Introduction

1. (a) Section 8d1 of the Banking Ordinance, 1941 (hereafter – the “Section”) requires a banking corporation to report to the internal auditor and to the Supervisor of Banks (hereafter – the “Supervisor”) any reasonable suspicion that any of its employees or officeholders was involved in embezzlement, as defined in the Section (hereafter – an “incident”).
As required in the Section, the Supervisor shall determine the method for reporting to him or her, the timing, the minimum amount that mandates reporting, and any other particular that is regarded as appropriate.
- (b) This directive details the method and timing of reporting to the Supervisor, the minimum sum for reporting, and additional particulars.

Application

2. This directive shall apply to all banking corporations and their auxiliary corporations, and incidents occurring in overseas affiliates, both in branches and in subsidiaries, will also be reported.

Reporting

3. (a) The management of a banking corporation shall make a preliminary report to the Banking Supervision Department about any incident in which there is a reasonable suspicion that the amount will exceed:
 - (1) An incident in Israel—NIS 15,000;
 - (2) An incident abroad—US\$ 15,000.
- (b) The preliminary report shall be submitted as soon as the incident is discovered, and no later than seven days from the date on which it was discovered. The report shall include all the particulars known to the banking corporation, as listed in subsection (e) below.

ONLY THE HEBREW VERSION IS BINDING

- (c) A full report of the incident shall be submitted within one week after the examination is completed, soon after the examination results have been reported to the banking corporation's management, but no later than two months after the incident was discovered.
- (d) A substantial incident as described in Section 4 shall be reported immediately through CYBER ARC.
- (e) The report shall include a full account of the incident, including its date, method, amount or equivalent involved, branch in which it occurred, and the name and position of the employee or officeholder suspected of embezzlement. In describing the method, the defects in internal control, if any, that enabled the incident to occur should be made clear. Likewise, the report should detail how the incident was discovered.
- (f) Reports made in accordance with this directive shall be sent to the head of the Information and Reporting Unit of the Banking Supervision Department in Jerusalem in the format set forth in Reporting to Banking Supervision Directive No. 808 (Reporting Embezzlement by Employees and Officeholders).

Substantial Incidents

- 4. The management of every banking corporation shall define a substantial incident for the purpose of this directive, provided that the following incidents are considered to be substantial:
 - (1) An incident in which the amount or equivalent could exceed 2 percent of the banking corporation's capital or NIS 10 million, whichever is lower;
 - (2) The employee suspected in the incident has a senior position (e.g., head of department or higher);
 - (3) One of the suspects in a conspiracy between two or more employees is an authorized signatory of the bank;

- (4) The incident occurred in a sensitive area of activity (e.g. stock-market trading, trading-room activities);
 - (5) The incident has been reported to another authority (e.g., the police, the Israel Securities Authority, or other supervisory or enforcement authorities), except for reporting to the Israel Money Laundering and Terror Financing Prohibition Authority, unless one of the other criteria for determining a substantial incident has been fulfilled.
5. The report to the Supervisor of Banks is not a substitute for a report pursuant to Proper Conduct of Banking Business Directive 301 (Board of Directors), or a report to the Israel Police, or to any other function, as required by law or the regulations of other supervisory entities.

Updates

Circular 06 no.	Version	Details	Date
1477		Original directive	26/8/90
---	1	Inclusion in Proper Conduct of Banking Business Directives	8/91
1750	2	Revision	20/2/95
---	3	New version of Proper Conduct of Banking Business Directives file	12/95
2148	4	Revision	9/12/04
2517	5	Revision	29/9/16