



Tel Aviv
January 26, 2016
AML15.010.004

To: **The banking corporations and credit card companies**
Attn: CEO

Re: **Managing risks involved in operating a voluntary disclosure program in Israel**

1. In September 2014, the Israel Tax Authority published a procedure for a process of voluntary disclosure of income that was not reported and regarding which tax was not paid (hereinafter, "Tax Authority" and "the Procedure"). The Procedure enables taxpayers to approach the Tax Authority and report their income, while declaring that the source of the income is not illegal activity.
2. Approval of the request by the Tax Authority grants the taxpayer immunity from criminal prosecution **in respect of concealing income, but not from prosecution in respect of other crimes** related to that income. Therefore, customers are liable to abuse the Procedure in order to transfer funds sourced in criminal activities by presenting a confirmation from the Tax Authority regarding the funds, and taking advantage of a lack of understanding about the nature of the authorization.
3. In October 2012, the FATF organization published a document¹ detailing four principles that countries are to implement, with the goal of mitigating the risks of money laundering and financing of terrorism that are involved in operating a voluntary disclosure program.

Pursuant to the above, banking corporations are required:

4. To update the policy and procedures, and to inform employees that:
 - 4.1 The fact that a customer presents a confirmation from the Tax Authority regarding the completion of the voluntary disclosure process, does not serve as an exemption—in part or in whole—from fulfilling the obligations established in the money laundering and terrorism financing prohibition regime through implementing a risk-based approach, including: Know Your Customer obligations, the obligation to record details, and obligations to

¹ <http://www.fatf-gafi.org/media/fatf/documents/reports/BPP%20VTC.pdf>



- report to the Israel Money Laundering and Terror Financing Prohibition Authority (“the Authority”);
- 4.2 Presentation by the customer of a confirmation from the Tax Authority does **not** serve as documentation of the legitimate source of the money, regarding the prohibition on money laundering.
5. Without derogating from the generality of the obligation to report unusual activity, to examine what criteria detailed in the Second Schedule in the Prohibition on Money Laundering² Order are likely to be relevant with regard to activities carried out together with the voluntary disclosure, for the purpose of reporting unusual activity. To that end, the “red flags” list may be used with regard to the voluntary disclosure process in Israel, which was published on the Authority’s website.³
6. To anchor in procedures a prohibition on receipt of electronic transfers from abroad, as part of the voluntary disclosure process, which do not include details of the sender or recipient.
7. To update in writing, within 60 days of this letter, the head of the relevant Off-Site Evaluation Unit regarding steps taken to implement the requirements noted.

Sincerely,

Ms. Ricky Elias

Deputy Supervisor of Banks

² Prohibition on Money Laundering (The Banking Corporations’ Requirement regarding Identification, Reporting, and Record-Keeping for the Prevention of Money Laundering and the Financing of Terrorism) Order, 5761–2001

³ <http://index.justice.gov.il/Units/HalbantHon/docs/RedFlags270715.pdf>