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03.11.2008

### **Decision of the Banking Corporations Sanctions Committee regarding infringement of the provisions under the Prohibition on Money Laundering Law by Israel Discount Bank Ltd.**

**The Banking Corporations Sanctions Committee regarding the prohibition on money laundering and financing of terrorism imposed a monetary sanction of NIS 3.7 million on Discount Bank.**

On 30 October 2008 the Banking Corporations Sanctions Committee regarding the prohibition on money laundering and financing of terrorism decided to impose a monetary sanction of NIS 3.7 million on Israel Discount Bank Ltd (henceforth "the bank") for infringing the provisions of the Prohibition on Money Laundering Law, 5760-2000 (henceforth "the Law"). The bank has the right to appeal to the magistrate's court within thirty days from the date of the decision.

The main infringements and faults found in an inspection performed by the Banking Supervision Department between the end of 2005 and the middle of 2006 arose due to inadequate preparation to carry out the provisions of the Prohibition on Money Laundering (the Banking Corporations Requirement regarding Identification, Reporting and Record-Keeping to Prevent Money Laundering and the Financing of Terrorism) Order, 5761-2001 (henceforth "the Order"). Two main types of infringement were discovered: (a) failure to record identification particulars of beneficiaries and controllers of holding interest, and (b) failure to submit reports or late submission of reports on unusual transactions by customers to the Prohibition of Money Laundering and Financing of Terrorism Authority (IMPA). However the Committee took into account the fact that the bank acted swiftly to correct the faults revealed during the inspections.

The Committee considers that the following points should be mentioned:

- The prohibition on money laundering and financing of terrorism is an intrinsic part of a banking corporation's system of risk management, and a bank must allocate sufficient resources, relative to its size, and the extent and complexity of its activity, to enable the compliance officer (responsible for the prohibition on money laundering) to act so as to ensure the banking corporation meets all its obligations.
- Outsourcing operating functions does not absolve the banking corporation from its obligation to maintain proper oversight, nor does it absolve its management from the responsibility to understand and manage the corporation's risks.
- The agreement of the banking corporation to carry out customers' wishes that are inconsistent with the legal provisions regarding the prohibition on money laundering and financing of terrorism, even if accompanied by professional counselling, indicates the failure to internalize the issue of the prohibition on money laundering and financing of terrorism, and a defective culture of compliance.
- A banking corporation must check whether the declarations by the holders of controlling interests in corporations, including nonprofit organizations, are reasonable.

The Sanctions Committee of the banking corporations is a statutory committee set up under the Prohibition on Money Laundering Law, 5760-2000, which, as part of the means of enforcing the prohibition on money laundering, is empowered to impose monetary sanctions on banking corporations (up to NIS 2 million per infringement) for infringements of the Law, or related orders or regulations. The Committee is headed by the Supervisor of Banks, Mr. Rony Hizkiyahu, and its members include the Head of the Prohibition of Money Laundering and Financing of Terrorism Authority, attorney Yehuda Shaffer.

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