



Bank of Israel issues guidance to banks on wire transfers between UAE and Israeli banks

Reading Time: 4 minutes

On September 15, 2020, the State of Israel and the United Arab Emirates entered into the [Abraham Accord Declarations and Peace Agreement](#), creating new opportunities for economic and other collaboration between the two countries. In light of those developments, and in anticipation of significant business activity between Israeli and UAE companies, the Israeli Supervisor of Banks (the “**Supervisor**”) issued on October 21, 2020 new guidance to Israeli banks on transfer of funds from financial institutions operating in the United Arab Emirates (UAE) (the “**Guidelines**”). This client update provides a brief overview of key elements of the Guidelines.

Conditions for reducing risk

The Guidelines mention certain deficiencies in the implementation of international anti-money laundering and anti-terrorist funding standards in the UAE noted by the Financial Action Task Force (FATF) and the MENA-FATF in their recent report of April 2020. The Guidelines also mention that the UAE is included in the list of “at risk” countries and territories under the Israeli Prohibition on Money Laundering Order.¹

Against that background, the Guidelines lists conditions that Israeli banks are required to examine with respect to bank transfers and other financial activity that are essential for trade (e.g., the issuance of bank guarantees and letters of credit) between the UAE and Israel. Per the Guidelines, the meeting of **all** of the following conditions would reduce the risk associated with a transaction:

- 1. Transferring Party:** the UAE entity transferring the funds (the “**Transferring Party**”) should be registered in the UAE Mainland (i.e., any area other than the Free Financial Zones and the Commercial Financial Zones). Otherwise, the bank is required to apply additional scrutiny with respect to the Transferring Party and the transaction in accordance with AML guidelines issued by the Supervisor. In addition, the holding structure of the Transferring Party should be transparent and comprehensible to the bank, and evidenced in a confirmation from an internationally renowned law firm or accounting firm, among others identifying the ultimate beneficial owners of the Transferring Party. The Transferring Party should not be held by a trust company service provider and its ultimate beneficial owners should be local citizens and residents of the same area. Note that the conditions mentioned in this section do not apply in case the Transferring Party is a government entity or agency (including governmental companies or government-owned investment funds).
- 2. Transferring bank:** the financial institution from which funds are transferred should either be: (a) a local branch of an international correspondent bank that is registered and supervised in an OECD country (an “**OECD Correspondent Bank**”); or (b) a local bank supervised by the Central Bank of the UAE that manages a correspondent account in US Dollars or Euros at an OECD Correspondent Bank.
- 3. Correspondent bank:** the transfer should be made in US Dollars or in Euros through an OECD Correspondent Bank.
- 4. Recipient:** The Israeli side of the transaction should be a customer of the Israeli bank or otherwise known to the bank.
- 5. Government authorizations:** Israeli government authorizations for the transaction (if required) should be presented to the bank.
- 6. Source of funds confirmation:** the bank should receive a confirmation from an international renowned law firm or accounting firm as to the source of funds and whether such funds originated from other accounts of the holder of the account from which the transfer was made. This requirement, as others, are irrespective of the amount of money transferred.
- 7. Cooperation:** the bank should receive from the transferring bank information necessary for risk management and the customer should provide information on the underlying transaction.

The Supervisor clarified that the list of conditions is not a closed list and that banks are required to exercise discretion and examine each case on its circumstances.

The Supervisor further mentioned that banks should apply strict risk management with respect to other services connected to activities in the UAE (e.g., correspondent banking) in a careful and gradual manner and invest appropriate resources in studying the financial and commercial environment in the UAE and familiarizing themselves with the local financial institutions.

Ending note

This is of course an important development and a step forward in implementing the financial and business opportunities the Abraham Accords bring to our region. However, it is fair to assume that the Israeli banks will be careful in managing risks associated with incoming wire transfers from the UAE and will need some time to adjust and learn the legal and business environment and structures of UAE entities in order to conduct the diligence required under the Guidelines. The Supervisor mentions that the need to update the Guidelines will be examined in the future. As the Guidelines in their current form impose very significant requirements on the banks and therefore on the business parties from both countries, we hope that once both the Israeli and UAE financial sectors become more knowledgeable about each other, the Guidelines will indeed be reevaluated (and if possible eased) to allow smooth but yet compliant on-going business relationships between the two countries.

For further in information please contact:



Timor Belan, Partner

✉ timorb@gornitzky.com



Assaf Harel, Partner

✉ assafh@gornitzky.com

¹ Prohibition on Money Laundering (The Banking Corporations' Requirements regarding Identification, Reporting, and Record-Keeping for the Prevention of Money Laundering and the Financing of Terrorism) Order, 5761-2001