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Draft Directive on Providing Banking Services in the Context of Sanctions Regimes

Client Updates

Following the outbreak of the war in Ukraine, the United States, European Union, United Kingdom, and other countries imposed sanctions on Russia, Belarus, and related entities. In this context, the Supervisor of Banks in Israel (the "**Supervisor**") previously issued a [letter](#) to bank managers highlighting the risks of engaging with sanctioned entities.

The Supervisor has now published for public comment a [draft](#) Proper Conduct of Banking Business Directive titled "Providing Services to Customers in the Context of Sanctions Regimes" (the "**Draft Directive**"). The Draft Directive aims to establish provisions that will allow balancing between effective risk management and provision of appropriate banking services to customers affected by sanctions regimes.

Key provisions of the Draft Directive include:

1. **Risk Management Policy Requirement** – Banks must adopt internal policies and procedures for using sanctions lists, taking into account the risks of violating or circumventing sanctions.
2. **Prohibition on Blanket Service Refusal** – The Draft Directive clarifies that risks should not be managed by broadly refusing in advance to provide services to customers affected by sanctions regimes. Each case must be assessed individually, based on the specific circumstances and the nature of the requested service.
3. **Transparency Obligations Toward Customers** – When a customer's financial activity is restricted, the bank must notify the customer in writing, as soon as possible, detailing the reasons for the restriction. The bank must also inform the customer about permitted transactions and available service channels.
4. **Reasonable Refusal** – A refusal to provide service in accordance with a bank's risk management policy related to sanctions lists will not be deemed an unreasonable refusal under the Banking (Service to Customer) Law, 5741-1981.

The Draft Directive emphasizes the importance of balancing the management of risks associated with sanctions regimes (which may include compliance, money laundering, legal, and reputational risks) with the obligation to provide banking services in accordance with applicable law and regulatory directives.

It should be noted that the Draft Directive does not derogate from obligations established by law and other Proper Conduct of Banking Business Directives, such as Directive No. 310 on "Risk Management".

The draft is open for public comment until June 26, 2025.

We are happy to assist with any questions on the matter.

* This update is intended to provide general and concise information only. It does not constitute a full or complete analysis of the issues discussed, does not constitute a legal opinion or legal advice, and should not be relied upon as such.

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