

COMPLIANCE OFFICER

Introduction

1. Because of the complexity and development of banking activities, banking corporations must be rigorous about adhering to the various obligations incumbent upon them in their business relations with customers.

In recent years the consumer's viewpoint has become the focus of legislative processes and the attitude of the authorities both in Israel and abroad. One of the results of this trend has been the proliferation of subjects associated with the obligations of the banking corporation vis-à-vis customers, with all the organizational, procedural, and business repercussions of this.

2. The appointment of a compliance officer is required in the general framework of a banking corporation's risk management, as this can assist the management and board of directors in meeting its responsibilities with regard to meeting the requirements of the law and other regulatory demands in the spheres of consumer relations and prevention of money laundering, reducing the likelihood of violations of the law and regulations, leading to the early disclosure of any such violations, reducing the exposure of the corporation and its managers to claims, including those pertaining to the obligation to exercise caution and prevent any breach of confidence by office-holders, to prevent financial losses that could result from those incurred by the banking corporation, and to uphold its reputation.

Application

3. This regulation shall apply to banking corporations and to the corporations defined in sections 11(a) (3) through (3c) and 11(b) of the Banking (Licensing) Law, 5741–1981.

Definitions

4. In this regulation:

“Compliance officer” - A senior manager in the banking corporation who is responsible for matters pertaining to compliance with the consumer regulations within the banking corporation.

“Consumer regulations” - The laws, procedures, and regulations pertaining to banking activity in Israel with regard to the relations between the bank and its customers in the framework of the banking corporation’s obligations in this sphere (examples of consumer regulations may be found in the appendix to this regulation), including the Prohibition of Money Laundering Law, 5760–2000, and the Prohibition of Money Laundering (Banking Corporations’ Requirement Regarding Identification, Reporting, and Record Keeping) Order, 5761–2001.

“Audit committee” - As defined in section 25 of the Proper Conduct of Banking Business [Regulations no. 301](#) (Board of directors).

Appointing a compliance officer

5. A banking corporation shall appoint a compliance officer who shall be competent, experienced, and knowledgeable enough to discharge his duties and responsibilities as prescribed in this regulation.

6. The compliance officer shall be appointed by the general manager, subject to the approval of the board of directors.

Independence

7. The compliance officer shall be a member of the banking corporation's senior management, or directly subordinate to such a member.

8. The compliance officer shall not be removed from his position without his agreement unless the board of directors so decides after accepting the position of the audit committee, and after the compliance officer has been given a reasonable opportunity to state his views before the board of directors and the audit committee.

9. (a) The compliance officer shall not hold another position that creates or could create conflict of interests with his position as compliance officer, or that could interfere with the discharge of his duties as compliance officer; this also applies to the possibility that his other tasks do not leave him sufficient time to discharge his duties as compliance officer.
(b) The compliance officer shall not be the banking corporation's internal auditor or an employee in the office of the internal auditor.

10. The compliance officer and persons appointed by him shall have access to all the banking corporation's units and assets, wherever they may be, and to all its records and information if in his view this is necessary for his work.

Compliance program

11. (a) The banking corporation's board of directors shall hold a meeting to determine the compliance program. The program shall be based on the contents of this regulation and shall specify the way the banking corporation shall implement it.
(b) The banking corporation's board of directors shall verify that the work program of the internal audit meets the requirements of the compliance program as regards both the character and frequency of internal auditing practices.

12. The compliance program shall include *inter alia* the following topics:
- (a) A definition of the compliance officer's spheres of authority and responsibility.
 - (b) Details of the consumer regulations to which the compliance officer shall refer in the framework of his work, including those appearing in the appendix to this regulation.
 - (c) The kinds of tools and measures that shall be made available to employees and managers and will support ongoing internal control with regard to compliance, including clear-cut work procedures, computer reports, and the ongoing training and guidance of managers and employees in the areas relevant to their work.
 - (d) The kinds of report and reporting mechanisms that will be made available to the compliance officer in order to enable him to verify the banking corporation's readiness to comply with the consumer regulations before embarking on a new activity, and prior to the determination of a new consumer regulation.
 - (e) The kinds of sanction that will be imposed on managers and employees who have violated the consumer regulations.
 - (f) The kind, format, and frequency of reports which the compliance officer must submit to the management of the banking corporation and the board of directors.
13. The board of directors shall set out the ways in which employees are to be informed of the main features of the compliance program, and the importance it attaches to the disciplinary norms deriving from it.

Tasks of the compliance officer

14. The compliance officer shall be responsible for the implementation of the compliance program as determined by the board of directors. In the framework of his work the compliance officer shall coordinate the compliance of the various departments of the banking corporation whose job it is to support the implementation of the compliance program (e.g., the legal, organization development (OD), Information Technology (IT), training, and public enquiries departments).

15. The compliance officer shall verify that:

(a) The Legal Department

- (1) Undertakes a comprehensive survey in order to identify the consumer regulations that are relevant for the banking corporation on the day this regulation goes into effect (including the examples of consumer regulations listed in the appendix to this regulation).
- (2) Has identified the legal implications arising from the consumer regulations, and the nature of the banking corporation's possible exposure.
- (3) Is organized to recognize on an ongoing basis the legal implications and exposure arising from changes in the activity of the banking corporation or from a new consumer regulation from the day this regulation goes into effect.

(b) The Organization Development (OD) Department

Has, by putting clear-cut and up-to-date work procedures into writing, expressed the work of the employees and managers at the banking corporation's various levels, as derived from the consumer regulations and the compliance program determined by the board of directors.

(c) The Information Technology (IT) Department

Has developed the necessary tools and measures for implementing the above work procedures, including reporting tools and ongoing control mechanisms.

(d) The Training Department

Provides training and seminars for the various functions within the banking corporation which meet the needs, with regard to content and frequency, required from work procedures in general, and the various managerial and employee echelons in particular. In this respect, the compliance officer shall also verify that managers and employees are acquainted with the consumer regulations which apply to the banking corporation and are relevant for its spheres of activity.

(e) The Public Enquiries Department

Deals appropriately with complaints submitted to it regarding consumer regulations, and that it has set out in advance and in coordination with him the kinds of complaint that will be brought to his attention.

The compliance officer should review the various kinds of complaint in order to draw conclusions from them about the banking corporation's controls and work procedures that are relevant for compliance.

16. Before the banking corporation embarks on a new activity, and prior to the determination of a new consumer regulation, the compliance officer shall report to the general manager of the actions to be taken in order to meet the requirements of the relevant consumer regulations deriving from the new activity or regulation, as the case may be.

Monitoring and reporting

17. (a) The compliance officer must verify that faults found regarding compliance with consumer regulations are remedied, including those in the various audit reports (of the internal auditor, the external auditor, and the Supervisor of Banks).
- (b) The compliance officer shall report to the general manager at least once a quarter, and to the board of directors at least once a year. These reports shall include *inter alia*: a summary of his activities (planning vis-à-vis implementation) and his recommendations, details of violations of the consumer regulations that were identified during the period, and his recommendations regarding the measures which should be taken in that regard.
- (c) The compliance officer shall immediately report to the general manager any substantive violation of the consumer regulations.

Compliance coordinating committee

18. (a) The banking corporation's general manager shall appoint a committee to assist the compliance officer in his work (henceforth, the compliance committee).

(b) The compliance committee shall include, at the least, a representative of each of the departments mentioned in section 15 above, and shall be headed by the compliance officer.

19. The committee shall receive written reports from the representatives of the departments and shall act to enhance the cooperation between the departments, in order to implement the compliance program determined by the board of directors.

20. The committee shall meet at least once a quarter, and shall document its decisions in writing.

Survey of the banking corporation's infrastructure supporting compliance with the consumer regulations

21. At least once every five years, a banking corporation shall undertake a survey to ascertain that it is appropriately prepared to implement and meet its obligations arising from the consumer regulations. The results of the survey shall constitute *inter alia* the infrastructure for preparing the compliance officer's work programs.

22. The survey shall include *inter alia* an outline of the consumer regulations and the appropriate procedures in place in the banking corporation, identifying the gaps and lacunae found, as well as recommendations for the changes required in the compliance program.

23. The management of the banking corporation shall bring the results of the survey, and its reactions to these results, before the board of directors for discussion within 45 days of the implementation of the survey.

Compliance officer's work program

24. The compliance officer's annual work program shall be brought before the management for discussion and for approval to the board of directors or to the audit committee.

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25. The compliance officer's annual work program shall be based *inter alia* on:
- (a) The compliance program determined by the board of directors.
 - (b) The survey of infrastructures supporting the banking corporation's compliance with the consumer regulations.
 - (c) The results of the audit of compliance (by the internal auditor, the external auditor, and the Supervisor of Banks).
 - (d) Customers' complaints.
 - (e) New consumer regulations and ongoing amendments to existing ones.
 - (f) Changes in the activities of the banking corporation.

APPENDIX TO REGULATION NO. 308

Examples of Consumer Regulations

A. LAWS (INCLUDING REGULATIONS BASED ON THEM)

- Banking (Service to Customer) Law, 5741–1981
- Regulation of Investment Counselling and Portfolio Management Law, 5755–1995
- Joint Investment Trust Law, 5754–1994
- Sundry matters in the area of bank-customer relations included in the Banking Ordinance, 1941 (e.g., fee for early repayment of loan, dormant deposits, etc.)
- Debit Card Law, 5746–1986
- Checks Without Cover Law, 5741-1981
- Uniform contracts Law, 5743 - 1982
- Securities Law, 5728-1968
- Encouragement of Savings (Guarantee of Loans, Income Tax Reductions) Law, 5716–1956;
- Interest Law, 5717–1957
- Trust Law, 5739–1975
- Agency Law, 5725–1965
- Guarantee Law, 5727–1967

APPENDIX TO REGULATION NO. 308 (CONTINUED)

Examples of Consumer Regulations

B. PROPER CONDUCT OF BANKING BUSINESS REGULATIONS

- [Regulation no. 322](#): Capital-Market Activity of the Banking System
- [Regulation no. 402](#): Business Day in Banking Corporations
- [Regulation no. 407](#): Investment on a Customer's account Without his Explicit Agreement
- [Regulation no. 409](#) Charging Customers for Legal Fees
- [Regulation no. 415](#): Procedures Regarding Fees
- [Regulation no. 416](#): Minors' Accounts
- [Regulation no. 431](#): Checkbooks
- [Regulation no. 432](#): Closing a Customer's Account
- [Regulation no. 434](#): Joint Accounts
- [Regulation no. 435](#): Telephone Instructions
- [Regulation no. 438](#): Offsetting Against Savings Schemes
- [Regulation no. 439](#): Debits by Authorization
- [Regulation no. 451](#): Procedures for Extending Housing Loans
- [Regulation no. 452](#): Loan Management Procedures
- [Regulation no. 453](#): Third-Party Guarantees in favor of a Banking Corporation
- [Regulation no. 454](#): Early Repayment Fee on a Non-Housing Loan
- [Regulation no. 455](#): Providing Credit for the Purchase of Financial Assets
- [Regulation no. 461](#): A Banking Corporation's Dealings in Securities on its Customer's Behalf
- [Regulation no. 462](#): Customers' Investments in Financial Assets via Portfolio Managers

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