בורסת היהלומים הישראלית בע"מ
THE ISRAEL DIAMOND EXCHANGE LTD.

התאחדות תעשייני היהלומים בישראל
ISRAEL DIAMOND MANUFACTURERS ASSOCIATION LTD.

Financial Crimes Enforcement Network
P.O. Box 39
Vienna, Va 22183
U.S.A.

July 20, 2005

Via E-Mail

Subject: Anti-Money Laundering Programs for Dealers in Precious Metals, Stones, or Jewels. Request for Submission of Comments. **RIN 15-06-AA58**

Dear Sir,

The Israel Diamond Exchange Ltd. and The Israel Diamonds Manufacturers Association wishes to address FinCEN's issuing of the Interim Final Rule for the AML/CFT Programs for Dealers in Precious Metals, Stones, or Jewels. In reference to the *Federal Register* notice of June 9, 2005, and your request for comments, we appreciate having the opportunity to make some observations before the final rule is being issued.

This letter particularly addresses the "Effects on Small Business" and your repeated request to receive comments on the economic impact on small businesses or other small entities.

Our two organizations represent some 2,700 Israeli diamond traders, manufacturers and exporters. Israel is the single largest supplier of polished diamonds for the U.S diamond and jewelry industry. According to U.S. government statistics, Israeli polished diamond exporters supplied (last year) well over 50% of all U.S. diamond imports, providing the U.S. jewelry industry with $7.13 billion worth of polished diamonds out of $13.77 billion of total U.S. polished diamond imports.

Though many of our members have offices within the United States, many of our member exporters are smaller units which enjoy direct relations with the U.S trading partners, many of whom are small diamond jewelry retailers. Our organizations are concerned that the Interim Final Rule in its current draft will impose a costly compliance program obligation on these American retailers if they are to continue or expand their direct business relationship with Israeli-based suppliers, though they would be exempted from these obligations if they were to switch the supply relationship to U.S. domestic dealers. This might have a serious economic impact on the U.S. small diamond jewelry retailer.

It is in this context that we would like to urge FinCEN to include in its Final Rule fare rules so that the small retailers can continue this long term relationships with its trusted overseas suppliers in the Israeli diamond exchange and elsewhere.

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The economic benefit to the small U.S. retailer are self-evident and involves much more than just the supplies:

- Israeli exporters, with the support of the Israeli (FATF) compliant banks, provide the U.S. diamond buyers with well over a few billions of dollars worth of supplier's credit. Israeli commercial banks are financing the majority of these exports on basis of export documents and the Israeli AML/CFT regime applicable to the financial sector, under direct supervision of the Bank of Israel. These direct relationships between Israeli suppliers to the small U.S. retailer are thus strictly scrutinized, also by the banks involved.

- Presently, the U.S. retailer purchases directly from Israeli exporters as they enjoy access to a much larger diamond assortments than can be offered by local dealers and they "shorten" the supply line both in terms of time and because there are fewer "middlemen" involved. There is an anti-competitive element in the present Rule which gives a U.S. domestic trading sector (the domestic dealers) advantage over foreign suppliers something that may cause a rise of diamond prices in the domestic market.

To the best of our knowledge, the Israeli government is currently finalizing a specific diamond industry AML/CFT compliance program and our industry is presently engaged in a consultation with our government to ensure that the compliance will meet international standards in the diamond trade. It must be appreciated by FinCEN that the import and export of diamonds in Israel is also supervised and regulated by the "Controller of Diamonds" which is a state officer. Those engaged in the business need to have a government license and must meet professional standards, and in this context is it stressed that Israel is upholding the high standards which are customary in the diamond industry, that all imports and exports of rough diamonds must be accompanied by a Kimberley process system certificate, which assures that no conflict diamonds are used. Moreover, all those engaged in the business are also subject to Israel's very stringent anti money laundering and anti terrorist financing laws.

In addition, all international transactions which are carried out through the Israeli banking system are subject to international standards.

Another level of compliance in to the members of the Israel Diamond Exchange is provided by our organizations' laws and by-laws, which contains the strictest codes of conduct and best practice principles. Any violation of these principles and/or codes of conduct may lead to sanctions, which even include expulsion from membership.

We are guided by the principle that the international war against money laundering and terrorist financing can be battled more effectively if there is both harmonization and reciprocity between the trading partners in Israel and the U.S.
We recall the words spoken by FinCEN director William Fox at a meeting of the World Diamond Council in early 2004: "FinCEN's mission is quite simple – to safeguard the U.S. financial systems from the abuses imposed by criminals and terrorists. There are

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two points I would like to make about this mission that are, in my view, quite important. First, while FinCEN's mission is focused on protection of the U.S. financial systems, we recognize that this is a global problem. Finance today knows no borders. It is important that we first understand and then work with our colleagues around the globe to address the challenges that confront the global community. Second, we are not so arrogant that we pretend we can address this problem alone. We are acutely aware that we cannot be successful in our mission without assistance and commitment from the private sector."

Mindful of these words by Mr. Fox, we believe that in the case of the diamond industry, recognition of mutual reciprocity will greatly further FinCEN's mission objectives. It is a "win-win" formula.

Moreover, the acceptance of the principle, and incorporating it in the Final Rule, may avoid any possible uncomfortable claims that the AML/CFT war has been used by interested commercial parties to cause FinCEN to (maybe unwittingly) create unnecessary and unjustifiable trade barriers, aimed at protecting certain segments of the U.S. diamond and jewelry industry. We are concerned that these barriers may not stand local and international scrutiny as they discriminate both against the U.S. diamond retailer and their foreign suppliers.

We hereby request that FinCEN will recognize the Israeli AML/CFT regime for the diamond industry that is currently being finalized, something which will probably also remove the aforementioned trade barrier. At the end of the day this will strengthen our collective global efforts to combat money laundering and terrorist financing which is the ultimate objective of the international community.

We stand at your disposal if you need further clarifications or if you wish to discuss this with our respective organizations, to assure the continued competitiveness and optimum terms of trade in the relations of small U.S. businesses and their foreign suppliers.

Sincerely yours,

Avi Paz, President
Israel Diamond Exchange Ltd.

Moti Ganz, President
Israel Diamond Manufacturers Association

Cc:
Mr. Yehuda Shefer – Director, Israel Money Laundering Prohibition Authority, Tel Aviv.

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