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FINANCIAL INTELLIGENCE ANALYSIS UNIT
ANNUAL REPORT 2014

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FINANCIAL INTELLIGENCE ANALYSIS UNIT

COMPOSITION OF THE BOARD OF GOVERNORS

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Dr Peter Grech, LL.D.

DEPUTY CHAIRMAN

Dr Anton Bartolo, LL.D.

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Mr Anthony P. Cortis, ACIB

Assistant Commissioner Silvio Valletta

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Dr Manfred Galdes, BA, LL.M. (Leic.), LL.D.

DIRECTOR

Dr Manfred Galdes, BA, LL.M. (Leic.), LL.D.



From left: Assistant Commissioner Silvio Valletta, Dr Manfred Galdes, Dr Peter Grech, Dr Anton Bartolo and Mr Anthony P. Cortis

LETTER OF TRANSMITTAL TO THE MINISTER FOR FINANCE

Hon. Minister of Finance
30, Maison Demandols
South Street
Valletta VLT 1102

30 March 2015

Dear Minister

In accordance with Article 42(1) of the Prevention of Money Laundering Act, Cap 373 of the Laws of Malta, I have the honour to transmit a copy of the Annual Report on the operations of the Unit and a copy of the annual accounts certified by the auditors for the Unit's financial year ended 31 December, 2014.

Yours sincerely



Dr Peter Grech
Chairman

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ABBREVIATIONS

ACR	Annual Compliance Report
AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Directive
AMLR	Proposal for a regulation on information accompanying transfer of funds
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
DNFBP	Designated Non-Financial Business and Profession
EGMLTF	Expert Group on Money Laundering and Terrorist Financing
EU	European Union
FATF	Financial Action Task Force
FIAU	Financial Intelligence Analysis Unit
FIU	Financial Intelligence Unit
JCPMLFT	Joint Committee for the Prevention of Money Laundering and Funding of Terrorism
MGA	Malta Gaming Authority (formerly the Lotteries and Gaming Authority)
MFSA	Malta Financial Services Authority
ML/FT	Money laundering and funding of terrorism
MLRO	Money Laundering Reporting Officer
MONEYVAL	Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MoU	Memorandum of Understanding
NRA	National Risk Assessment
PMLA	Prevention of Money Laundering Act
PMLFTR	Prevention of Money Laundering and Funding of Terrorism Regulations
STR	Suspicious Transaction Report

STATEMENT OF THE CHAIRMAN



The bleak reality is that the proceeds of crime need to be laundered and that terrorism needs to be financed. It is the mission of the FIAU to act as the central legal entity for the purpose of combatting ML/FT, thereby also fighting crime, which itself often depends on financing.

Persons wishing to launder the proceeds of crime or to finance terrorism or activities that support terrorism will, from time to time, come up with different, innovative and well-thought-out schemes to achieve their purpose.

It is therefore not enough in this day and age to enact laws and to establish AML institutions. Those laws and the tools which they provide have to be used effectively and have to be updated frequently if they are to maintain their effectiveness.

Various situations raise money laundering flags.

A client may, among other things, be overly secretive or may refuse to provide information, may have known connections with criminals, known convictions, may be known to be under investigation or may have access to cash that is not explained by documentation. The client's age might seem unusual in relation to the type of transaction proposed or he or she may come from a high-risk jurisdiction.

The PMLA, which establishes the FIAU, and the PMLFTR provide the appropriate legal basis and tools to react to such situations to avoid the abuse of the financial system, thereby also protecting it.

During 2014 the FIAU has once again increased its level of activity and staff, and has been active in a number of fields both on the domestic and on the international levels to combat ML/FT, to assess the risk involved in each sector and to render account on the international level of the action that it is taking in these fields.

In fact 2014 saw major progress being achieved in the very important work on the NRA project, the absence of which had been pointed out as a deficiency in previous international evaluations. The final report on the Risk Assessment is currently being concluded and will certainly serve a very useful purpose in the evaluation of the effectiveness of regulation, apart from the evaluation of risk as such.

In the legislative sphere, 2014 saw the debate in Parliament on amendments being made to the PMLA and the Criminal Code, as well as the publication of amendments to the PMLFTR in December 2014.

Malta also underwent an assessment on its implementation of the Council of Europe Convention on the Laundering, Search, Seizure and Confiscation of the Proceeds of Crime and on the Financing of Terrorism (CETS 198). The FIAU played a pivotal role in preparing Malta's position and presenting its progress and achievements.

A rather long-awaited MoU with the MFSA, which regulates the *modus operandi* in supervisory co-operation between the two organisations, was also agreed and signed in 2014.

In July 2014 the FIAU issued a Guidance Note to financial operators on the obligations of subject persons when acting as registered agents under a Government Investment Registration Scheme. The provisions of the Legal Notice establishing the Scheme were also presented to MONEYVAL for its review prior to the launch of the Scheme.

The FIAU recognises that progress in implementing its mission cannot be achieved if it tries to act alone. The effectiveness of the FIAU, in fact, depends to a considerable extent on the co-operation that it receives from financial institutions and from other operators who are "subject persons" for the purposes of the relative ML/FT legislation.

In 2014 the FIAU has pursued its approach, which involves training, co-operation and communication with operators, analysis of operations and enforcement of discipline and the imposition of sanctions, where appropriate.

The provision of training by the FIAU was particularly intense during 2014. Although this is not a core function of the FIAU, it contributes significantly towards the understanding of the fight against ML/FT, mainly among professionals and operators, and also offers an opportunity for dialogue with those professionals outside the context of a particular problem or dispute.

Needless to say, one cannot purport to train others unless one is well trained oneself and during 2014 the FIAU has also continued to invest in the proper training of its own staff to increase its knowledge and skills base in the ML/FT sphere.

The FIAU's work in financial analysis and compliance monitoring also continued to intensify in 2014 and the increase in STRs witnessed during 2014 reflects an increased awareness of the need to take suspicions of ML/FT more seriously.

As in previous years, the FIAU's work in international fora and its work in co-operating with foreign FIUs and in seeking the assistance of foreign FIUs has mostly proceeded smoothly and effectively.

The year in review also saw the conclusion of a lease on new premises, which will enable the FIAU to increase its staff complement in accordance with a development plan authorised by the Ministry of Finance for the purpose of augmenting the FIAU's capacity, thereby also increasing the protection of Malta's financial system.

This report gives details of the FIAU's workings in 2014 and it is being presented in fulfilment of the FIAU's accountability obligations under the PMLA.

It is however also meant to contribute towards the public debate on the fight against ML/FT and it is hoped that politicians, public officials, judges, opinion leaders and all those interested in the economic, financial or banking sectors will find it interesting reading.



Dr Peter Grech
Chairman

1. THE FINANCIAL INTELLIGENCE ANALYSIS UNIT

ESTABLISHMENT AND COMPOSITION

A fully autonomous agency within the Ministry of Finance, the FIAU was set up on 1 October, 2002, following the publication of Legal Notice 297 of 2002. This brought into force comprehensive amendments to the PMLA (Chapter 373 of the Laws of Malta), enacted by means of Act XXXI of 2001.

Among the principal tasks and responsibilities of the Unit are the collection, collation, processing, analysis and dissemination of information to combat ML/FT. It is also responsible for ensuring that subject persons are compliant with the provisions of the PMLA and the Regulations issued under the Act.

A Board of Governors lays out the FIAU's policy in line with the PMLA and the Unit's executive head, the Director, is responsible for executing that policy.

The Unit operates through four distinct sections, each with its own responsibilities. These are responsible for financial analysis, compliance monitoring, legal and international affairs and the Unit's administration and IT.

FUNCTIONS

The FIAU focuses on three key areas, in accordance with Article 16 of the PMLA:

1. Receiving and analysing information on transactions or activities suspected to involve ML/FT

The FIAU's Financial Analysis Section examines disclosures made by institutions and individuals that have obligations under the PMLFTR to pass on information on any knowledge or suspicion of ML/FT to the FIAU within the timeframes set by law. If, after it has collected additional information from subject persons, public entities, other FIUs or any other person, it is established that there is a reasonable suspicion of ML/FT, the section submits an analysis report to the Police for investigation.

2. Exchanging information and co-operating with local and foreign supervisory authorities and with other FIUs

The FIAU can exchange information with both local and foreign supervisory authorities and other FIUs both spontaneously and following a request for information. Although the existence of an MoU is not necessary for the exchange of information to take place, the Unit enters into bilateral and multilateral MoUs with foreign FIUs, supervisory authorities and international

organisations where it is considered important to do so to strengthen the channels of communication with other entities and organisations.

3. Oversight and monitoring of compliance by persons and institutions subject to the provisions of the PMLFTR

Supervision of persons and institutions subject to the PMLFTR provisions is carried out both on-site and off-site on a risk-sensitive basis. On-site examinations are carried out both by the FIAU's compliance officers and by supervisory authorities acting on the Unit's behalf. Once the conclusions of an on-site examination are drawn up, the FIAU informs subject persons of the time period within which remedial action must take place and determines whether the circumstances warrant the imposition of an administrative penalty or other sanction when a shortcoming is identified.

Other areas of responsibility

Apart from these three key areas of responsibility, the FIAU also:

- On an ongoing basis gathers information on financial and commercial activities in Malta to detect those areas that may be vulnerable to ML/FT;
- Advises the Minister responsible for finance on all matters and issues related to the prevention, detection, investigation, prosecution and punishment of ML/FT;
- Monitors developments in methods, typologies and trends in ML/FT and provides guidance to subject persons;
- Compiles statistics and records, disseminates information and issues guidance and procedures for the implementation of the provisions of the PMLFTR;
- Promotes and provides training on matters related to the prevention of ML/FT;
- Advises and assists natural and legal persons to develop effective measures and programmes for the prevention of ML/FT;
- Participates in international fora, including the plenary and working group meetings of the Egmont Group and MONEYVAL, and the meetings of the EU-FIU Platform and the EGMLTF; and
- Reports any suspicion of ML/FT to the Police, even where the knowledge of the suspicious activity arises from other sources than a report filed in terms of the PMLFTR.

STRUCTURE OF THE ORGANISATION

The FIAU's governance responsibilities are split between the Board of Governors and the Director:

The **Board of Governors** sets the FIAU's policy.

The FIAU's operations, which fall within the Director's remit and responsibility, are carried out by four operational sections:

The **Financial Analysis Section**, which examines STRs, assesses the course of action that each report would require and provides responses to international requests for information;

The **Compliance Section**, which ensures that subject persons conform with their requirements under the provisions of the PMLA and the PMLFTR;

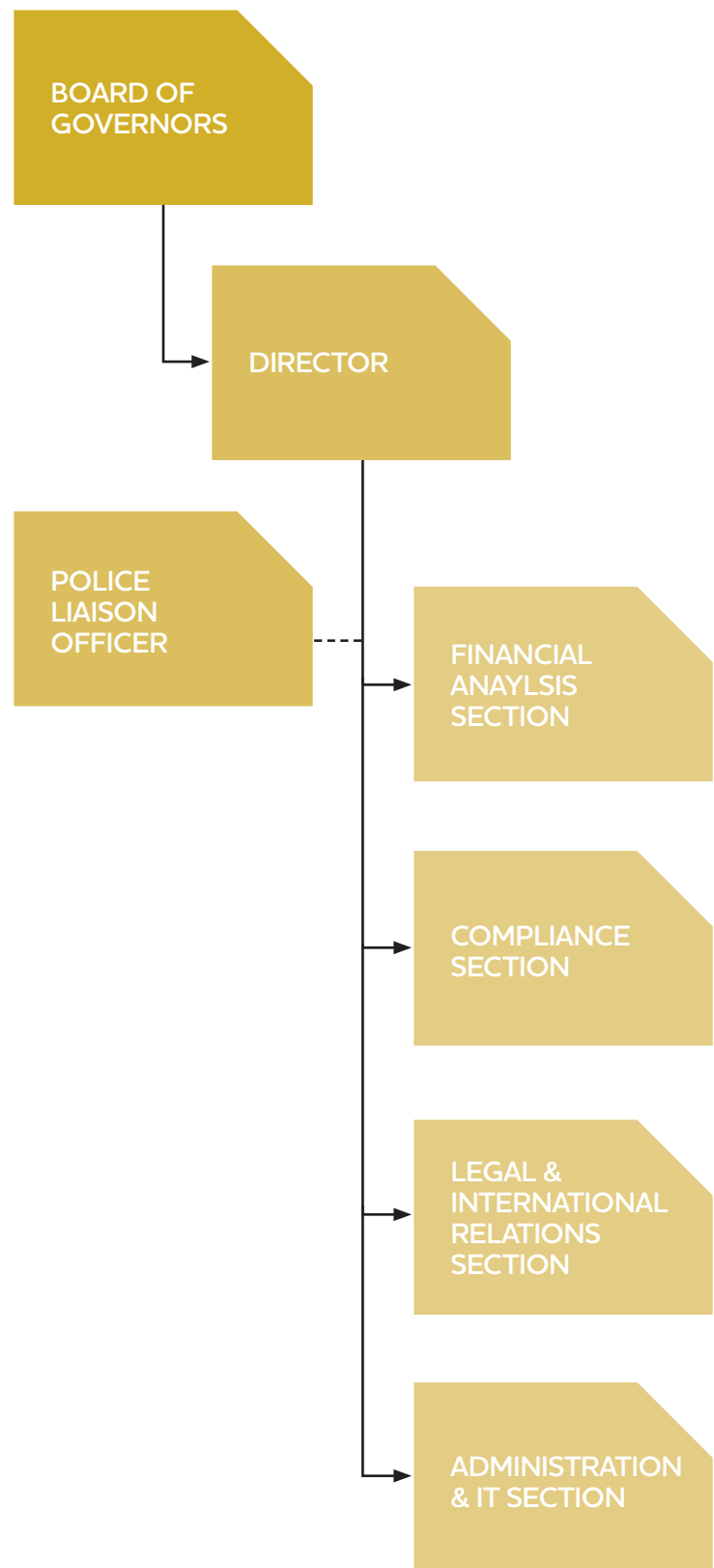
The **Legal & International Relations Section**, which is responsible for all legal matters and manages the relations with other FIUs and relations outside Malta; and

The **Administration & IT Section**, which handles the Unit's administrative, H.R., accounting and IT set-up.

Apart from executing the policies set by the Board of Governors, the Director also heads two internal committees, the Financial Analysis Committee and the Compliance Monitoring Committee, and chairs the JCPMLFT.

The Director also acts as secretary to the Board of Governors.

The PMLA also establishes the position of **Police Liaison Officer**, who is the Unit's direct contact within the Malta Police Force. This Officer makes police records available to the FIAU to help it in its work, and provides his assistance in the analysis and processing of STRs and other intelligence data.



2. OPERATIONS

FINANCIAL ANALYSIS

The Financial Analysis Section, the FIAU's investigative arm, is responsible for the receipt and analysis of STRs. This section collects, collates, processes, analyses and disseminates information on an ongoing basis with a view to combating ML/FT.

Almost all the STRs received by the Unit are submitted electronically through the FIAU's online submission system. On receiving an STR, a preliminary analysis is carried out to prioritise it and to determine whether it is indeed related to ML/FT and warrants further analysis.

Following a detailed analysis of the information obtained by the section, an analytical report is drawn up and presented to the Financial Analysis Committee. This internal committee, which is responsible for determining the outcome of cases presented to it, is chaired by the Director of the FIAU and is composed of the manager of the Financial Analysis Section, senior financial analysts, financial analysts and a legal and international relations officer.

If the Financial Analysis Committee determines that a reasonable suspicion of ML/FT does subsist, a detailed analytical report is disseminated to the Police for further investigation. It is pertinent to note that the STRs themselves are not forwarded to the Police; nor is any information on the identity of the person making the STR.

In certain circumstances the Financial Analysis Committee may send a spontaneous intelligence report to the FIU of another country involved in the case, if this is considered to be a suitable course of action.

In addition, the FIAU's Financial Analysis Section is responsible for carrying out periodical strategic analyses of all of the cases analysed by the Section to try to identify ML/FT patterns, trends and typologies. Through its strategic analysis, it also seeks to identify the existence of ML/FT threats to which the Maltese financial system and economy might be exposed. Further information on the conclusions of the strategic analysis exercise carried out is available in the typologies and trends section. This type of analysis also enables the FIAU to provide generic feedback to subject persons and supervisory authorities where this is considered to be necessary.

The Financial Analysis Section is also responsible for drawing up and maintaining comprehensive statistical data covering the functions of the FIAU falling within the sphere of competence of the Section. A detailed review of the data is provided in the following section, together with information on the trends and typologies identified during 2014.

STATISTICS

A record 202 STRs were received from subject persons during 2014, registering an increase of 59 disclosures over the 143 reports received during 2013. This is the largest increase in absolute terms and the second largest in percentage terms with a 41% increase over 2013. Naturally, the increase in the number of STRs received by the FIAU resulted in a similar record increase in the number of cases that were dealt with by the FIAU during 2014 both in absolute and in percentage terms. The difference between the number of STRs and the number of cases refers to cases in which more than one STR was filed by subject persons. During the year under review, the 202 STRs gave rise to 168 new cases as compared to the 121 cases of 2013.

In addition to the 202 new cases received during 2014, the FIAU generated another 12 cases that were initiated after the FIAU received information from various sources. Six of these cases were opened by the FIAU following spontaneous information from other FIUs. Therefore, the total number of new cases analysed by the FIAU during 2014 totalled 180.

When taking into consideration the 53 cases still open as at 31 December 2013 (48¹ from STRs and five from

cases generated by the FIAU), the total number of cases dealt with during 2014 amounted to 233, an increase of 57 cases over the previous year.

Table 1 lists the number of STRs received by the FIAU from subject persons, the resulting number of cases, and the cases generated by the FIAU for the period since 2007, clearly highlighting the marked increase in the number of new cases registered during 2014.

Table 1: STRs and cases (2007-2014)

	2007	2008	2009	2010	2011	2012	2013	2014
STRs made by subject persons	63	69	63	73	107	142	143	202
Cases subject to analysis following STR submission	55	67	53	55	91	103	121	168
Cases subject to analysis on the basis of other information received by the FIAU	13	3	13	8	11	17	11	12
Total number of cases subject to analysis	68	70	66	63	102	120	132	180

¹ According to the FIAU 2013 Annual Report, the total number of cases on which an analysis was still ongoing as at the end of 2013 amounted to 54. However, in view of the merging of two cases into one case and the re-classification of another two cases, 53 cases were actually carried forward from 2013 to 2014.

Chart 1 shows graphically the marked increase in the number of new cases that stemmed from STRs received by the Unit and the cases that were subject to analysis on the basis of other information received by the FIAU, in comparison with the total number of STRs received during 2014. The considerable growth registered between 2011 and 2012 seems to have picked up in

intensity once again with an even steeper gradient.

The total number of STRs since the FIAU was established has therefore increased to 1148 while the total number of cases increased to 959. During 2014 the FIAU received 34 STRs which were connected to other cases already subject to prior or current analyses by the Unit.

Chart 1: STRs and cases (2007-2014)

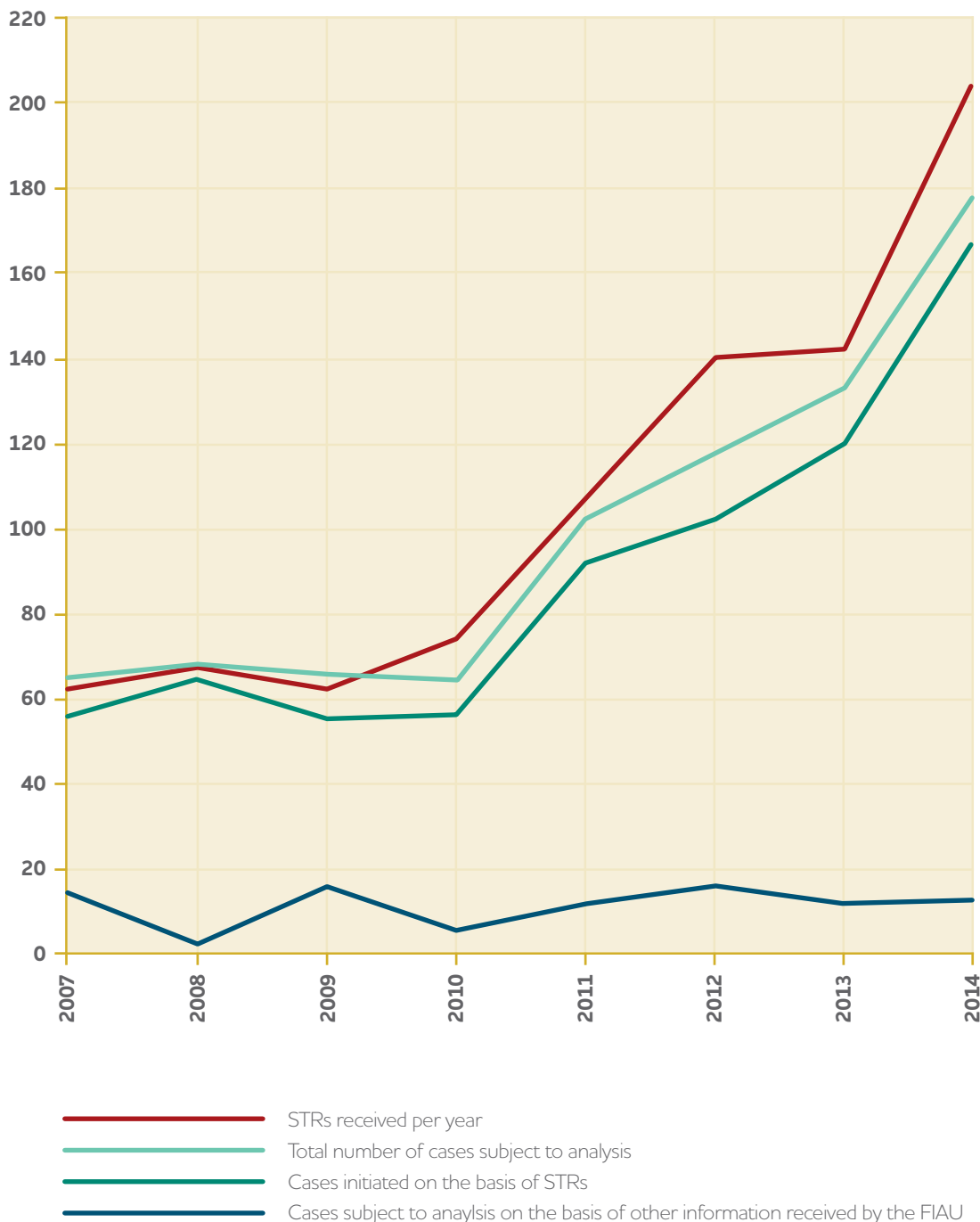


Table 2: STRs received by the FIAU per quarter (2007–2014)

	2007	2008	2009	2010	2011	2012	2013	2014
Quarter 1	27%	23%	24%	26%	14%	20%	23%	20%
Quarter 2	21%	36%	25%	23%	18%	30%	29%	31%
Quarter 3	27%	28%	21%	27%	40%	30%	29%	22%
Quarter 4	25%	13%	30%	23%	28%	20%	18%	28%

STRs by categories of subject persons

Table 3 lists the STRs filed by type of reporting entity in absolute numbers and as a percentage of the total number of STRs for the respective years from 2007 to 2014.

Fifteen different categories of subject persons filed the 202 STRs as compared to 12 categories for 2013. These included all the categories of 2013 with the addition of disclosures from casino licensees, real estate agents and, for the first time, retirement investment administrators.

Five categories of subject persons were recorded to have submitted more STRs than the previous year. However, the increase in the number of STRs filed during 2014 stems mainly from the large increase in the number of STRs filed by credit institutions, with 112 STRs being filed during 2014 as compared to the 66 disclosures filed in 2013. This constitutes 55% of all the reports received during the year and marks an increase of nine percentage points over the 46% filed during 2013.

The 112 STRs were received from 12 credit institutions. While confirming once again the important role that credit institutions have in the fight against ML/FT, this figure is also indicative that a high level of awareness and vigilance is prevalent among this category of reporting institutions.

From the STRs filed by credit institutions during 2014, 77 were filed by the five core domestic banks² in comparison to 45 STRs received during 2013 by the same group. These 77 STRs represent 69% of the 112 STRs filed by credit institutions. This percentage seems to confirm a pattern of between 60 and 70% recorded in previous years for this group.

The non-core domestic banks filed 34 STRs during 2014 as compared to the 20 disclosures filed during 2013. The 34 STRs were filed by six non-core domestic banks. Twenty-five of these STRs were received from one single bank, with the other nine being filed by five other banks. As noted for 2013, the considerably high number of STRs filed by one of the non-core domestic banks is likely to result from the broad scope of international clients that that specific institution serves. Further analysis in fact reveals that 22 of these 25 STRs involved only foreign legal and physical persons, and were not connected to any Maltese natural or legal persons.

One STR was received from a credit institution classified as an international bank, a category of banks having very limited connections to the Maltese economy.

Another major increase in the number of STRs was noted in the number of submissions received from financial institutions, which more than doubled from eight reports in 2013 to 17 STRs in 2014. This relatively significant increase is in part attributable to a number of STRs submitted to the FIAU by financial institutions that

² For classifications used in this section of the report reference should be made to the Central Bank of Malta Financial Stability Review 2011, p 47; http://www.centralbankmalta.org/updates/Downloads/pdfs/FSR_2011.pdf.

provide services other than the traditional exchange bureau services, such as financial institutions providing e-money, acquiring and payment services. On the other hand, all of the STRs received during 2013 from this category of reporting entities were reported by financial institutions providing exchange bureau services.

Other increases were registered in STRs filed by remote gaming companies, trustees and fiduciaries

and supervisory authorities.

Fewer STRs were filed by five categories of reporting institutions – investment services licensees; independent legal professionals; accounting professionals; company service providers; and other entities that are not subject to the PMLFTR. No particular reason could be determined as to why fewer STRs were received from these persons or entities.

Table 3: STRs filed by type of reporting entity in absolute numbers and as a percentage of the total number of STRs (2007–2014)

Type of reporting entity	2007		2008		2009		2010		2011		2012		2013		2014		TOTAL	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%*
Credit Institutions	39	62	44	64	26	41	38	52	26	24	58	41	66	46	112	55	409	47
Financial Institutions	11	17	13	19	6	10	4	5	6	6	12	8	8	6	17	8	77	9
Investment Services Licensees	2	3	-	-	3	5	2	3	8	7	3	2	10	7	9	4	37	4
Insurance Licensees	2	3	2	3	-	-	4	5	5	5	-	-	1	1	1	-	15	2
Supervisory Authorities	1	2	1	1	3	5	3	4	6	6	4	6	2	1	3	1	23	3
Independent Legal Professionals	1	2	1	1	3	5	3	4	1	1	3	2	8	6	5	2	25	3
Remote Gaming Companies ³	-	-	3	4	3	5	4	5	37	35	14	10	17	12	22	11	100	12
Casino Licensees	-	-	-	-	1	2	2	3	6	6	6	4	-	-	1	-	16	2
Trustees & Fiduciaries	2	3	3	4	2	3	4	5	6	6	13	9	7	5	12	6	49	6
Real Estate Agents	-	-	-	-	2	3	-	-	-	-	-	-	-	-	2	1	4	-
Accounting Professionals	4	6	-	-	4	6	3	4	1	1	5	4	3	2	2	1	22	3
Regulated Markets	1	2	-	-	3	5	-	-	-	-	1	1	1	1	1	-	7	1
Company Service Providers	-	-	2	3	3	5	5	7	5	5	18	13	15	10	13	6	61	7
Retirement Scheme Administrators	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1	-
Others	-	-	-	-	4	6	1	1	-	-	5	4	5	3	1	-	16	2
TOTAL	63	100	69	100	63	100	73	100	107	100	142	100	143	100	202	100	862	100

* Due to rounding up of figures, the percentages provided may not add up to 100%

3 Although remote gaming companies are not subject persons in terms of the PMLFTR, a number of reports are received annually from operators in this area.

Persons in respect of whom disclosures were made

During 2014 a total of 395 natural and legal persons were the subject of the 180 new cases dealt with by the FIAU. Seventy-one per cent of these were natural persons and the remaining 29% were legal entities. Maltese nationals and companies registered in Malta constituted 31% of the total number of subjects. Fifty-four per cent of those who were Maltese subjects were individuals; the other 46% were legal entities.

Almost 65% of the natural persons, subject to an analysis following the receipt of a report from a subject person or the opening of a case by the FIAU on the basis of other information available to it, were nationals of EU member states, and 66% of the legal entities reported to the FIAU were entities registered in EU member states.

In 81% of all the reports dealt with by the FIAU during 2014 at least one foreign natural person or legal entity was involved. This is slightly more than 78% registered during the previous year. As indicated in the previous years, these figures once again highlight the strong international element present in the cases analysed by the FIAU, a fact which is clearly in line with what would be expected in a country having a growing financial services sector.

The different nationalities of the natural persons involved in the reports dealt with by the FIAU, including internal reports, totalled 55, of which 35% were nationals of EU member states. The countries with which Malta has most contact, either through historic ties or through commercial activity, were the most represented. These included Italy, Germany and the United Kingdom, which had 24, 23 and 19 physical or legal persons, respectively, who were the subject of FIAU analyses during 2014.

Requests for information

During 2014, the FIAU made 2,335 requests for information to 270 entities, including persons subject to the PMLFTR, foreign FIUs, the Police, supervisory authorities, Government departments, ministries and agencies.

Due to the increase in the number of STRs received by the Unit and the number of international requests for information submitted to the FIAU during 2014, the number of requests for information made by the FIAU increased by 335 requests in comparison with the previous year.

As illustrated in **Chart 2**, 74% of the requests for information were made by the FIAU during the analysis of cases initiated following the receipt of an STR. Another 385 requests were made by the FIAU to obtain information following the receipt of a request from foreign FIUs. In 2013, the requests for information made by the FIAU following the receipt of a request from a foreign FIU amounted to 279. The larger number of requests made during 2014 is mainly attributable to the increase in the international requests for information received by the FIAU during 2014.

Unsurprisingly, credit institutions continue to be the primary source of information to enable the FIAU to pursue its duties, followed by foreign FIUs.

Chart 2: Requests for information made by the FIAU by type of initial disclosure (2014)

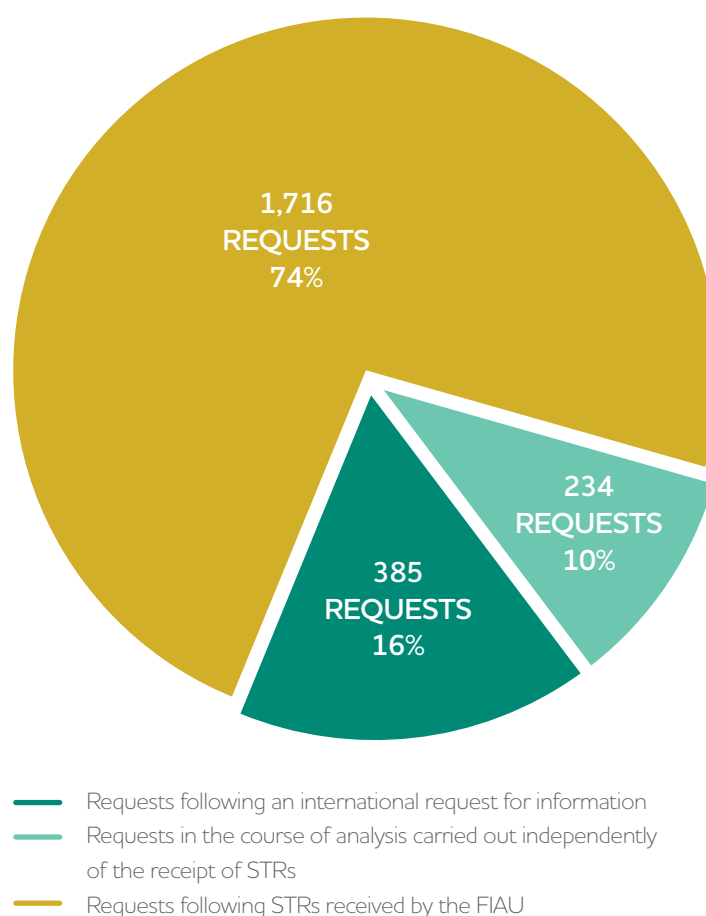
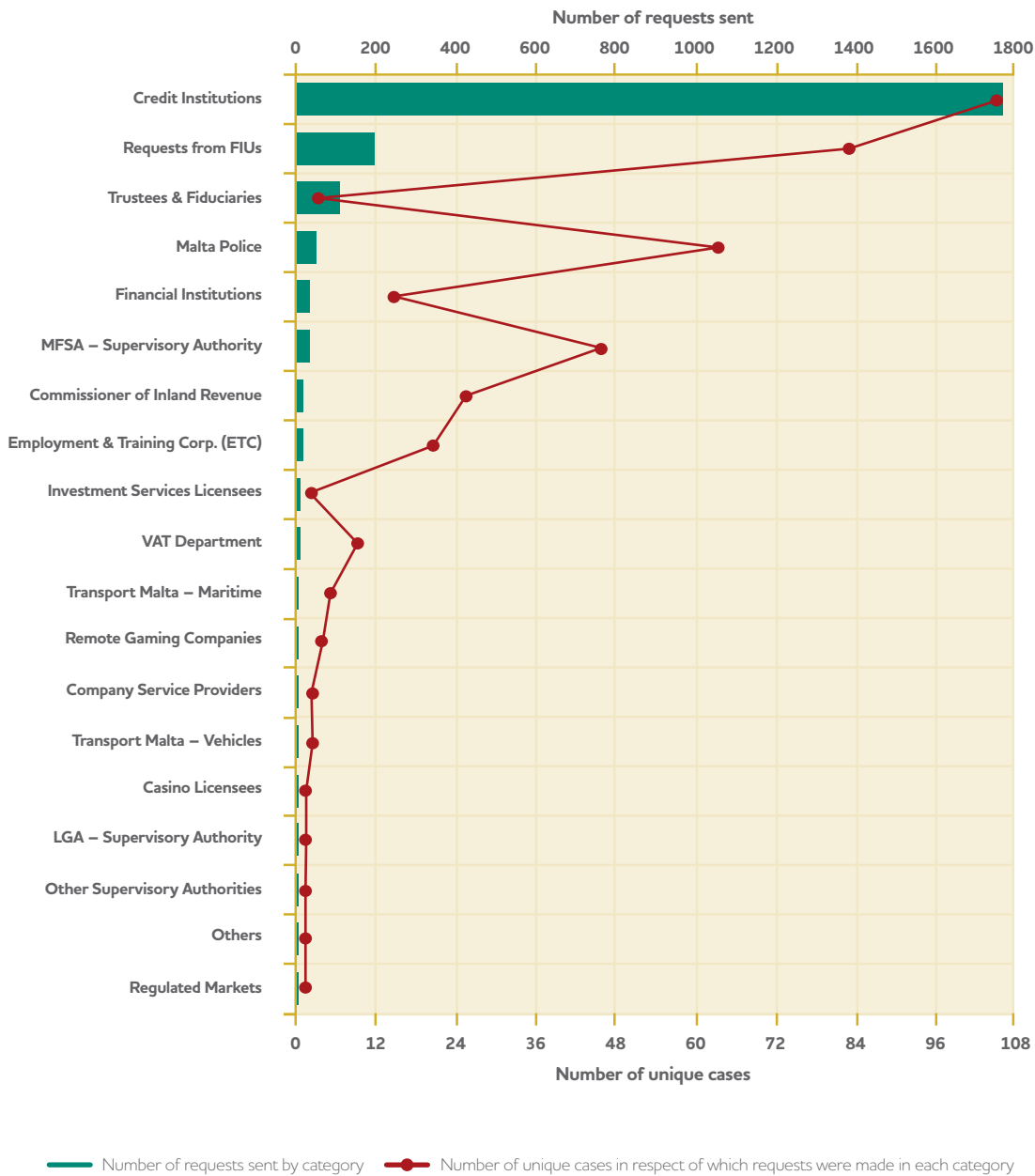


Chart 3: Number of requests for information made and number of unique cases in respect of which the requests were made – per category (2014)



Outcome of analysis

During 2014, the Financial Analysis Section dealt with 233 cases. Of these, 180 cases were initiated during 2014 on the basis of STRs or other information received by the Unit. The remaining 53 cases, which were dealt with by the Unit during 2014, were initiated prior to the year under review.

Of the 233 cases, the Unit concluded 154, and the remaining 79 cases were carried forward to 2015.

Of the 154 cases concluded by the FIAU during 2014, 27 cases were forwarded to the Police for further investigation, which amounts to 17.5% of the cases concluded by the Unit.

Most of the cases that were referred to the Police for

further investigation during 2014 originated from STRs that were reported to the FIAU by credit institutions. These amounted to 15 of the 27 cases. The remaining cases originated from STRs that were submitted to the FIAU by financial institutions, remote gaming companies, independent legal professionals, supervisory authorities and other sources.

As one may note from **Table 4**, the percentage of cases forwarded to the Police for investigation in comparison with the total number of cases concluded by the Unit reached a record-low percentage in the past five years. From the table, one may also note that a general downward trend in the percentage of cases forwarded to the Police has been recorded over the past five years which is mainly attributable to the higher level of analysis being carried out before a determination is made on the subsistence of a reasonable suspicion of ML/FT.

Table 4: Percentage of cases referred to the Police for further investigation (2010-2014)

	2010	2011	2012	2013	2014
Percentage	34%	20%	20%	24%	18%

Table 5: Outcome of STRs and cases (2007-2014)

Outcome of STRs and cases where the STR was received from subject persons: 2007-2014

	2007		2008		2009		2010		2011		2012		2013		2014	
	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases
Referred to Police for investigation	24	22	41	39	20	16	34	19	25	18	45	23	48	26	30	26
No reasonable suspicion of ML/FT – no further action	26	25	30	29	21	20	40	37	69	61	102	87	55	54	74	64
Report unrelated to ML/FT – no analysis carried out	4	4	2	2	-	-	-	-	-	-	6	4	33	33	63	58
Ongoing analysis	30	27	27	25	48	41	47	39	60	51	49	40	56	48	91	68

Outcome of STRs and cases where analysis was based on other information received by FIAU: 2007-2014

	2007		2008		2009		2010		2011		2012		2013		2014	
	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases
Referred to Police for investigation	2	2	2	2	2	2	4	4	1	1	3	3	4	4	1	1
No reasonable suspicion of ML/FT – no further action	5	5	6	6	3	3	8	8	11	11	11	11	6	6	4	4
Report unrelated to ML/FT – no analysis carried out	-	-	-	-	-	-	-	-	1	1	2	2	-	-	1	1
Ongoing analysis	6	6	1	1	9	9	5	5	3	3	4	4	5	5	11	11

Outcome of all STRs and cases: 2007-2014

	2007		2008		2009		2010		2011		2012		2013		2014	
	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases	STRs	Cases
Referred to Police for investigation	26	24	43	41	22	18	38	23	26	19	48	26	52	30	31	27
No reasonable suspicion of ML/FT – no further action	31	30	36	35	24	23	48	45	79	71	113	98	61	60	78	68
Report unrelated to ML/FT – no analysis carried out	4	4	2	2	-	-	-	-	1	1	8	6	33	33	64	59
Ongoing analysis	36	33	28	26	57	50	52	44	63	54	53	44	61	53	102	79

A further 127 cases were concluded where no information was disseminated to the Police. Fifty-nine of these cases involved situations where either a preliminary analysis was carried out and it was determined that the STR submitted to the FIAU was unrelated to ML/FT or where additional information could not be obtained through the channels normally pursued by FIUs to enable the Unit to carry out a comprehensive analysis to determine whether a reasonable suspicion of ML/FT does actually subsist.

Most of the STRs that did not result in an in-depth analysis by the FIAU were submitted by credit institutions. However, although they account for most of such STRs, only 19.6% of the STRs from credit institutions did not give rise to an in-depth analysis and this fact is not particularly indicative of a deterioration in the overall quality of the STRs submitted by credit institutions. This was followed by STRs from remote gaming companies and STRs from trustees and fiduciaries.

Suspected predicate offence

Table 6 lists the number of cases referred to the Police for further investigation and the suspected predicate offence. Fraud once again remained the predominant suspected predicate offence in the cases referred to the Police for further investigation by the FIAU, accounting for 33%, or nine cases. In three of these cases, it was suspected that the type of fraud that generated the proceeds of crime was mass marketing

fraud, and another two cases related to the use of remote gaming companies to launder the proceeds of pre-paid cards that were acquired fraudulently.

The predicate offence of drug trafficking was suspected to be linked to three cases which were disseminated to the Police for further investigation. Three of the cases which were referred to the Police for further investigation were believed to relate to the laundering of funds linked to corruption or embezzlement. Two of

Table 6: Suspected predicate offences in cases referred to the Police on suspicion of ML/FT (2007-2014)

Suspected Predicate Offence	2007	2008	2009	2010	2011	2012	2013	2014	TOTAL	% OF TOTAL*
Drug Trafficking	5	7	1	2	1	1	-	3	20	10%
Fraud	1	-	5	6	3	13	10	9	47	24%
Forgery	-	-	-	-	-	-	-	-	0	0%
Usury	1	4	-	-	1	-	-	-	6	3%
Undeclared Income	-	4	-	1	2	1	2	1	11	6%
Unlicensed Financial Services	3	3	-	3	-	-	1	1	11	6%
Organised Crime	2	2	1	1	1	1	2	2	12	6%
Human Trafficking	1	2	-	-	-	-	-	1	4	2%
Theft	-	-	-	-	2	-	-	-	2	1%
Illegal Gambling	-	1	-	-	-	1	1	-	3	2%
Identity Theft	1	-	-	-	-	-	-	-	1	1%
Living off the earnings of Prostitution	-	-	1	-	-	-	-	1	2	1%
Phishing	1	-	-	-	-	-	-	-	1	1%
Corruption	-	-	-	1	4	4	2	2	13	7%
Unknown to the FIAU	6	16	7	4	4	4	6	5	52	27%
Misappropriation	-	-	-	-	-	-	1	1	2	1%
Embezzlement	-	-	-	-	-	1	2	1	4	2%
Contraband	-	-	-	-	-	-	2	-	2	1%
TOTAL	21	39	15	18	18	26	29	27	193	98%
Funding of Terrorism	1	-	1	1	-	-	-	-	3	2%
GRAND TOTAL	22	39	16	19	18	26	29	27	196	100%

these three cases relate to predicate offences that are suspected to have taken place in foreign jurisdictions, and only one of these three cases was linked to a predicate offence which is believed to have taken place in Malta.

In five of the cases that were referred to the Police, the suspected predicate offence was not identified by the FIAU. In these cases, although no clear link to a predicate offence could be established, the elements necessary to form a reasonable suspicion of ML/FT were still present and such cases were therefore referred to the Police.

Typologies and trends

The predominant typologies observed in the cases leading to an analytical report being forwarded to the Police were the involvement of companies incorporated in Malta, which are linked to foreign nationals and the attempt to misuse services or products provided by credit institutions situated in Malta. In fact, in over 74% of the cases referred to the Police, the financial activities subject to FIAU analysis involved the use of bank accounts situated in Malta, and the use of one or more companies registered in Malta was noted in a third of the cases that were referred to the Police.

The frequent use of the services offered by credit institutions was, once again, a key feature in the typologies observed by the FIAU in 2014. Other than the use of bank accounts, the second most utilised service offered by credit institutions identified in the cases referred to the Police was the use of electronic money transfers using SWIFT or SEPA. These transfers featured in almost half the cases referred to the Police for investigation.

It was also noted that in nearly half the cases, the subjects had received services from Maltese professionals and service providers. However, there was no evidence to suggest that the professionals and service providers had acted in bad faith.

Instances of companies licensed by the MGA being used by customers to carry out suspicious transactions reduced when compared to previous years. With regard to financial services, no cases were referred to the Police in which companies in possession of a licence or authorisation from the MFSA were suspected to have participated in the laundering of the proceeds of crime.

As stated earlier, the misuse of Maltese company structures and accounts held with Maltese credit institutions by foreign nationals was identified in a number of cases. Indeed, in seven of the cases referred to the Police, the *modus operandi* was quite similar in

that foreign nationals incorporated companies under the Companies Act and opened bank accounts in the name of the newly-registered companies with credit institutions licensed in Malta. Substantial amounts of money were transferred to these accounts that were then, either immediately or after some time, wired to bank accounts in the name of other companies situated in other jurisdictions.

In most cases, the funds in relation to which suspicions arose were received in one transaction and then remitted out of the bank account in separate transactions of different values. It was also noticed that in various cases, the purported reason for the execution of the transaction that resulted to be suspicious was that it was a shareholder's loan.

Credit institutions featured in a number of cases where fraud was the suspected predicate offence. The nine cases involving fraud that were analysed by the FIAU during 2014 were related to at least five different types of fraud. In six of these cases, bank accounts situated in Malta were used as conduits to channel money generated from the suspected illegal activity, and in five of these six cases wire transfer services offered by credit institutions were also used.

In the other three fraud cases no bank accounts in Malta were used since these cases related to remote gaming activity. In these latter cases the money was placed with the remote gaming company through the use of credit card and pre-paid card information that was acquired fraudulently. In all these cases the clients of the remote gaming companies held bank accounts in their country of residence and requested the remote gaming companies to transfer the funds held in their remote gaming account to their bank account.

The use of Maltese companies and Maltese bank accounts to launder criminal proceeds

Suspensions involving companies registered in Malta which were beneficially owned by non-Maltese nationals once again featured prominently. In two of the eight cases referred to the Police involving the use of Maltese corporate structures, the bank accounts of the companies involved were used to receive funds directly from the victims of mass-marketing-fraud schemes. In another case funds originating from foreign companies directly involved in a mass-marketing-fraud scheme were remitted to the bank accounts of a company incorporated under Maltese law. Other cases involved the creation of such set-ups for the receipt of funds potentially originating from organised crime and for tax evasion purposes and the laundering of the undeclared income.

In one case it was discovered that a company established in Malta received funds from a foreign legal person which were then used to purchase immovable property in the same country where the money originated.

Company service providers and licensed financial institutions

During the year under review, a significant increase was noted in the number of cases reviewed by the FIAU in which the services of company service providers were sought. Indeed, of the 27 cases referred to the Police for investigation, nine involved a company service provider giving services to the person who was the subject of the FIAU analysis. Cases ranged from the layering of funds originating from fraudulent activity through the bank account of the company incorporated by the service provider to other cases involving similar set-ups being used for the receipt and remittance of funds originating from tax evasion, VAT fraud, misappropriation and organised crime.

In the three cases involving the use of licensed financial institutions providing money remittance services that were referred to the Police, the suspected predicate offences were fraud, drug trafficking and human trafficking.

The red flags that were reported to have triggered suspicion in these three cases included the availability of adverse open source information, the absence of

any reasonable economic purpose and the failure to provide a credible justification for the receipt of funds.

The use of cash

Cash deposits featured in six cases that were referred to the Police. In two cases considerable amounts of money were deposited in cash by persons known to be connected to drug trafficking in the bank accounts of individuals whose known profile did not tally with the volume of deposits.

The use of cash was also noted in cases where the suspected predicate offence was contraband and in situations where the predicate crime could not be determined but where other elements that are indicative of ML/FT could be observed.

In the STRs reported to the FIAU involving the use of cash, the common red flag indicators that led to a suspicion included the volume of deposits not being in line with the customer's profile, the failure to provide supporting documentation on the origin of the funds being deposited in cash and the lack of co-operation by the person depositing the funds.

The use of false documentation

The use of false documentation was once again detected in a number of cases referred to the Police for further investigation, albeit on a smaller scale than in 2013.

INTERNATIONAL CO-OPERATION

International co-operation is crucial in combating ML/FT and thus FIUs are required by international standards and conventions, which also require the removal of all legal obstacles, to provide the broadest range of international co-operation. The FIAU is authorised in terms of the PMLA to exchange information with foreign counterparts to provide assistance in ML/FT analyses being carried out in other jurisdictions. To this effect, the FIAU can provide any information that it has in its possession or that it has access to, both when it is requested by these foreign counterparts but also spontaneously when links or connections to these jurisdictions are detected.

Information can be exchanged with any foreign FIU, irrespective of its set-up and without the necessity of having an MoU or any specific agreement in place. Nonetheless the FIAU still actively pursues the conclusion of MoUs with foreign FIUs, in particular with those situated in countries whose laws impose the existence of such formal instruments for the exchange of information to take place.

During the year under review the FIAU entered into two MoUs with the FIUs of the Holy See (Vatican City State) and Georgia, bringing the total number of MoUs entered into by the FIAU up to 13.

Information is ordinarily exchanged through secure channels.

Requests for assistance and co-operation

The number of international requests for assistance made by the FIAU to foreign FIUs during 2014 increased substantially over 2013 (a 29% increase), with 196 requests being made in connection with 83 cases. The number of requests for assistance received by the FIAU in 2014 also rose marginally over the previous year.

Table 7 provides the figures related to the requests for information made in comparison with the requests received by the FIAU between 2007 and 2014. The table also provides the percentage difference between the requests made by the FIAU and the requests it received.

Table 7: Requests for co-operation and assistance (2007-2014)

Year	Number of requests received by the FIAU	Number of requests made by the FIAU	Percentage difference between requests made by the FIAU and requests made to the FIAU
2007	29	29	0%
2008	44	28	-36%
2009	46	83	80%
2010	45	75	67%
2011	97	142	46%
2012	74	179	142%
2013	96	152	58%
2014	100	196	96%
TOTAL	531	884	66%

Chart 4 graphically illustrates a comparison between the number of requests for information received by the FIAU and the number of requests made by the FIAU between 2007 and 2014.

In accordance with internal procedures, every request for assistance received by the FIAU is routinely reviewed to ascertain whether the request meets

the requirements of the regulations that govern the exchange of information between FIUs.

As in previous years, an exercise was carried out by the FIAU to determine the time taken to reply to requests for assistance from foreign FIUs and the time taken by foreign FIUs to respond to FIAU requests. **Tables 8** and **9** provide the relevant statistical information in this

Chart 4: Comparative analysis of requests received and requests made by the FIAU (2007-2014)

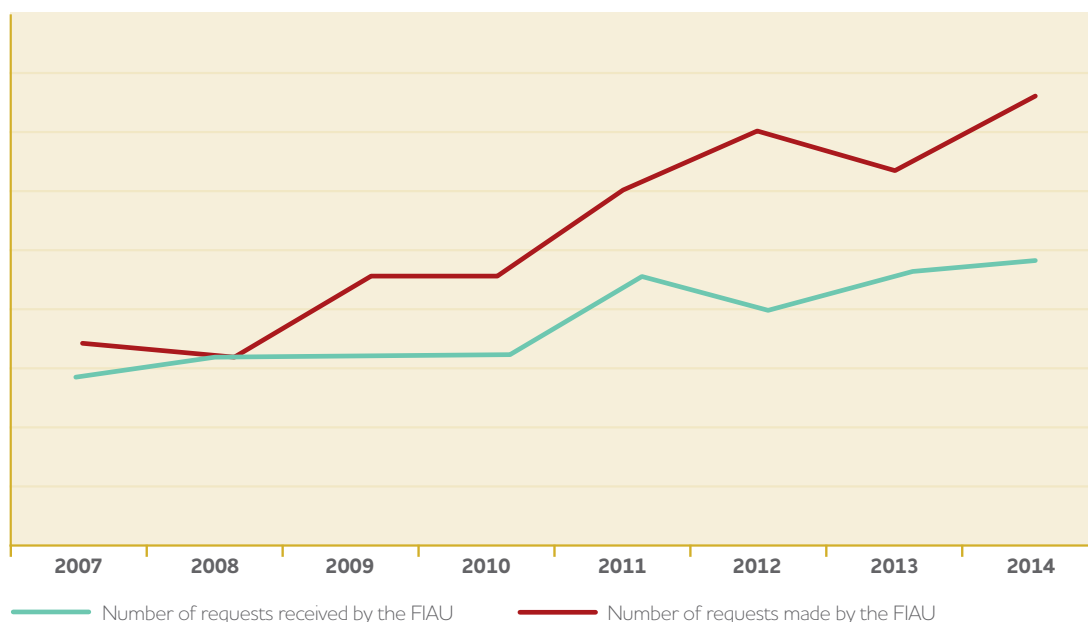


Table 8: Timeliness of responses by the FIAU to requests for assistance received from foreign FIUs (2014)

Range of working days taken for the FIAU to reply	Number of requests replied to within the specified range*	Percentage of requests replied to within the specified range
1	22	23%
2-5	52	54%
6-10	7	7%
11-15	8	8%
16-20	2	2%
21-25	2	2%
26-30	2	2%
31+	2	1%

* The figures refer to requests in respect of which a response was provided by the FIAU. The figures do not include requests pending at the end of 2014.

respect. The figures presented indicate that more than 70% of the requests received by the FIAU were dealt with within five working days.

With regard to requests made to foreign FIUs, the data collected has revealed that, of the 196 requests in 2014, only 167 responses had been received before the end of 2014. As indicated in **Table 9**, responses to more than 50% of the requests made

by the FIAU to foreign FIUs were received within 15 working days. However, in a significant number of cases, responses were received after the lapse of 50 working days.

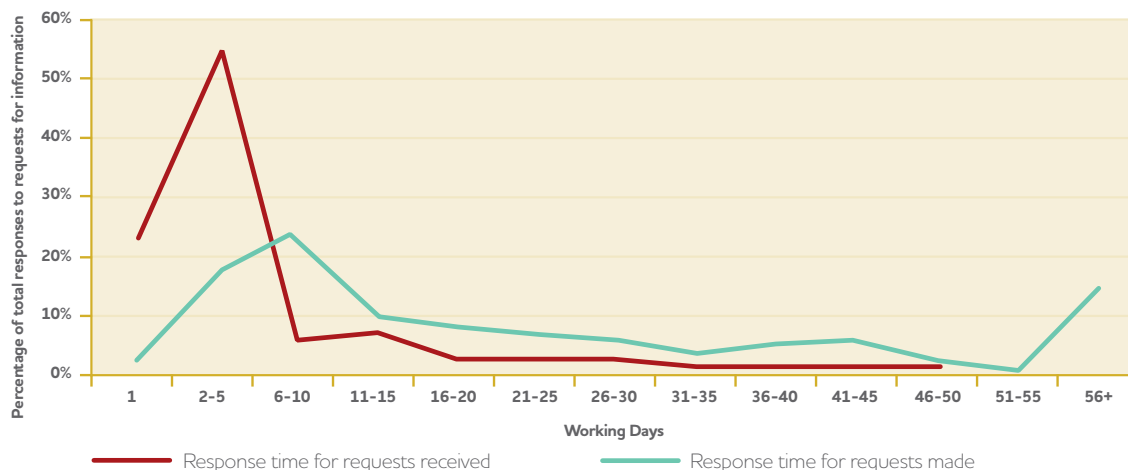
Chart 5 provides a comparison between the time taken for the FIAU to respond to requests made by foreign FIUs and the time taken by foreign FIUs to respond to requests for assistance made by the FIAU.

Table 9: Timeliness of responses by foreign FIUs to requests for assistance made by the FIAU (2014)

Range of working days taken for the foreign FIUs to reply	Number of requests replied to within the specified range*	Percentage of requests replied to within the specified range
1	5	3%
2-5	27	16%
6-10	39	23%
11-15	18	11%
16-20	15	9%
21-25	11	7%
26-30	9	5%
31-35	4	2%
36-40	7	4%
41-45	8	5%
46-50	3	2%
51-55	1	1%
56+	20	12%

* The figures refer to requests to which a reply was received by the FIAU. The figures do not include requests pending at the end of 2014.

Chart 5: Response time for requests for assistance received and requests made by the FIAU (2014)



Requests for assistance made by the FIAU

As in previous years, the majority of the international requests for co-operation made by the FIAU during 2014 were directed to FIUs of EU member states. The FIU of the United Kingdom, with 21 requests for assistance, was the prime recipient of such requests made by the FIAU. This was followed by the FIUs of Italy with 13 requests, and of Germany and Switzerland with 10 requests for assistance each. The FIUs of the Czech Republic, the Russian Federation and Hong Kong received eight requests each for assistance.

Requests for assistance made by the FIAU can be summarised as follows:

- 115 requests were made to FIUs in 24 EU member states. This represents almost 58% of the total number of requests made.
- 28 requests for assistance were directed to FIUs in eight non-EU countries. This represents over 14% of the requests.
- 26 requests for assistance were made to eight Asian countries. This amounts to 13% of the requests for assistance made.
- 23 requests were made to FIUs in ten countries forming part of the Americas. This amounts to 12% of the requests made.
- Three requests for assistance, which represent just over one per cent, were made to three African nations.
- One request for assistance was made to the FIU of Australia.

Table 10: Requests for assistance made by the FIAU – by region and number of FIUs (2014)

REGION	Number of Requests made by the FIAU	Number of FIUs to which a request was made by the FIAU
EU	115	24
Europe (non-EU)	28	8
Asia	26	8
Americas	23	10
Africa	3	3
Oceania	1	1
TOTAL	196	54

Requests for assistance made by foreign FIUs

From the data recorded in relation to requests received from foreign FIUs during 2014, 72% of the requests originated from 18 EU countries. This figure marginally exceeds what was recorded during the previous year. Another 11% of the requests originated from non-EU European countries, meaning that, in total, 83% of the requests received by the FIAU originated from European FIUs.

The largest number of requests for assistance to the FIAU was made by the Italian FIU, with 13. The FIU of the United Kingdom followed with 12 requests for assistance. The Netherlands' FIU made six requests for assistance, which was followed by the FIUs of France and Luxembourg with five requests each.

The requests for assistance by foreign FIUs to the FIAU can be summarised as follows:

- 72 requests for assistance were received from the FIUs of 18 EU countries. This represents 72% of the requests for assistance received by the FIAU.
- 11 requests were received from the FIUs of six non-EU European countries. This amounts to 11% of the requests for assistance received, representing a 9% drop compared to the previous year.
- Seven requests for assistance were received from FIUs in five countries in the Americas, representing 7% of requests received by the FIAU.
- Six requests were received from FIUs from six Asian countries. This amounts to 6% of the requests received, indicating a slight increase over the preceding year.
- Four requests were received from FIUs from three African countries, representing 4% of all requests received from foreign FIUs. Once again, a slight increase was recorded over the previous year.

Table 11: Requests for assistance received by the FIAU – by region and number of FIUs (2014)

REGION	Number of requests received by the FIAU	Number of FIUs from which a request was received by the FIAU
EU	72	18
Europe (non-EU)	11	6
Asia	7	5
Americas	6	6
Africa	4	3
TOTAL	100	38

Table 12 lists the 2014 figures relating to the requests for assistance made by the FIAU and those made to the FIAU by country.

As stated earlier in the report, the FIAU also exchanges information spontaneously with foreign FIUs where it is

considered appropriate and necessary to do so.

In 2014, the FIAU received 23 spontaneous intelligence reports from 11 FIUs. During the same period, the FIAU compiled 50 spontaneous intelligence reports, which were sent to the FIUs of 31 countries.

Table 12: Requests for co-operation and assistance (2014)

Requests received by the FIAU		Jurisdiction	Requests made to other FIUs	
Number	Replies		Number	Replies
1	1	Argentina	1	1
-	-	Australia	1	1
4	4	Austria	5	4
-	-	Bahamas	1	-
1	1	Bahrain	-	-
4	4	Belgium	6	6
-	-	Belize	3	-
-	-	Brazil	1	-
-	-	British Virgin Islands	1	1
3	2	Bulgaria	3	-
-	-	Canada	5	4
-	-	Colombia	1	1
1	1	Curacao	-	-
2	2	Cyprus	6	3
-	-	Czech	8	7
-	-	Estonia	2	2
-	-	Finland	1	1
5	5	France	2	1
1	1	Germany	10	10
-	-	Gibraltar	1	1
2	2	Greece	2	2
1	1	Guernsey	-	-
-	-	Hong Kong	8	7
2	2	Hungary	1	1
-	-	India	2	2
1	1	Ireland	3	3
1	1	Israel	2	2
13	12	Italy	13	13
3	3	Jersey	3	3

Requests received by the FIAU		Jurisdiction	Requests made to other FIUs	
Number	Replies		Number	Replies
3	3	Latvia	5	4
-	-	Liechtenstein	2	2
3	3	Lithuania	2	2
5	5	Luxembourg	-	-
-	-	Macedonia	1	-
-	-	Malaysia	1	1
1	1	Moldova	-	-
-	-	Monaco	2	2
6	6	Netherlands	4	4
1	1	Nigeria	-	-
3	3	Norway	-	-
1	1	Panama	1	-
-	-	Philippines	1	1
-	-	Poland	2	2
-	-	Portugal	2	2
1	1	Romania	5	5
-	-	Russia	8	7
1	1	South Korea	-	-
1	1	Seychelles	1	1
-	-	Singapore	4	4
-	-	Slovakia	3	3
2	2	Slovenia	2	2
-	-	South Africa	1	1
3	3	Spain	6	5
1	1	Sri Lanka	-	-
1	1	St Vincent & Grenadines	-	-
-	-	Sweden	1	1
2	2	Switzerland	10	9
2	2	Tunisia	1	-
1	1	Turkey	1	1
1	-	Turkmenistan	-	-
-	-	United Arab Emirates	7	6
1	1	Ukraine	1	-
12	12	United Kingdom	21	17
-	-	Uruguay	2	2
3	3	USA	7	7
100	97	TOTALS	196	167

COMPLIANCE MONITORING

In terms of Article 26 of the PMLA, the FIAU is tasked with the responsibility of ensuring that subject persons comply with their AML/CFT obligations, which principally emanate from the provisions set out in the PMLFTR and the Implementing Procedures. This central role of the FIAU is fulfilled by the Compliance Section through off-site and on-site examinations on subject persons who fall within the definitions of 'relevant activity' and 'relevant financial business', as per Regulation 2 of the PMLFTR.

The FIAU has adopted a risk-based supervisory approach to monitor the level of AML/CFT compliance by subject persons. The compliance monitoring programme adopted has been designed in line with international best practice, and ensures that the resources of the FIAU are allocated in accordance with the perceived ML/FT risks posed by subject persons. In fulfilment of this methodology, information is obtained through desk-based monitoring (which includes the ACRs and internal AML/CFT policies and procedures), on-site compliance examinations carried out by the FIAU itself or by supervisory authorities on its behalf, as well as any other salient information that is brought to the FIAU's attention.

Compliance Monitoring Committee

In line with its terms of reference, the Compliance Monitoring Committee met on a regular basis during the year to review oversight assessments and to assess cases of potential breaches of the PMLFTR and Implementing Procedures by subject persons. Decisions as to whether an administrative penalty or other regulatory sanction should be imposed are taken by this Committee, and are subsequently brought to the attention of the Board of Governors.

On-site monitoring

On-site compliance examinations are conducted to verify the level of adherence with AML/CFT obligations, to identify any issues that might give rise to any regulatory concern and to provide assistance to subject persons, wherever required. An on-site

examination may either entail a broad examination of the principal obligations or a thematic review involving a more detailed focus on specific obligations.

In line with previous years, the FIAU has continued to work in tandem with other supervisory authorities, which carry out AML/CFT on-site compliance examinations on subject persons falling within their respective competences. In this respect, the FIAU has entered into MoUs with the MFSA and MGA, which regulate the process. The FIAU remains responsible for communicating the findings of the on-site examinations that would have been carried out.

The level of co-operation between the MFSA and the FIAU was further enhanced with the signing of a new MoU in March 2014 with this supervisory authority. Besides dealing with AML/CFT on-site compliance examinations, it also outlines several other areas of co-operation, particularly the rendering of assistance to each other and the exchange of information between the authorities.

The Compliance Section draws up a compliance programme every year. This programme and the corresponding supervisory actions are based on an internal risk assessment that is carried out, as explained earlier in the report.

In practice, a broad, on-site examination comprises of an interview with the MLRO and possibly other officials of the subject person, a comprehensive file review as well as an assessment of the AML/CFT policies and procedures that subject persons are required to draw up and implement. Wherever applicable, compliance officers would also review the latest AML/CFT audit report.

FIAU officials also conduct more focused thematic reviews to assess the level of implementation of specific AML/CFT obligations. In fact, in the year under review the FIAU directed a more intensive focus on the customer due diligence carried out by a number of investment services companies. Supplementary on-site examinations are also conducted from time to time to determine whether subject persons have taken the necessary remedial measures, in line with any earlier recommendations made by the FIAU.

Following an on-site compliance examination, FIAU officials carry out an assessment of the findings and draw up a compliance report. The report outlines any deficiencies that were identified during the examination, as well as any recommendations deemed necessary for the subject person to bring itself in line with the legislative provisions.

During the year under review, a total of 46 on-site examinations were conducted. **Table 13** below

indicates the visits conducted by the FIAU and those by the MFSA on behalf of the FIAU that included an AML/CFT assessment.

The number of compliance visits conducted by the FIAU has again increased, and is the largest number conducted in a given year to date. The FIAU visits were evenly spread out between the financial sector and DNFBPs, though the examinations carried out on the former were generally more focused.

Table 13: On-site AML/CFT examinations conducted by category of subject persons and by authority (2014)

Sector	FIAU	MFSA	TOTAL
Accountants/Auditors	2	-	2
Advocates	1	-	1
Company Service Providers	2	-	2
Credit Institutions	2	-	2
Financial Institutions	-	1	1
Fund Administrators	1	6	7
Insurance Brokers	1	-	1
Insurance Principals	1	-	1
Investment Service Providers	9	7	16
Notaries	3	-	3
Real Estate Agents	2	-	2
Trustees & Fiduciaries	-	9	9
TOTAL	24	23	47

Off-site monitoring

As outlined earlier in the report, monitoring of compliance by subject persons is also conducted on an off-site basis. This takes the form of a desk review, and typically focuses on particular areas. To complete such an exercise, subject persons are requested to provide specific data.

In addition to any request for information, subject persons are also required to submit on an annual basis a completed ACR. This report further assists the FIAU in carrying out its off-site oversight, and plays an instrumental part in evaluating the level of risk of the subject person.

The information collected through the ACR includes data on the subject persons' activities, customer base, policies and procedures, level of compliance, internal controls and training. Details of internal and external reports made on suspicious activities are also recorded.

The FIAU has designed two forms (and the related guidance notes), which are reviewed on a yearly basis: a standard form and an abridged version for sole practitioners, both of which are submitted electronically through the FIAU's website. Once submitted, the reports are analysed by FIAU staff.

On the basis of the information submitted by subject persons through the ACR, the FIAU is able to determine the ML/FT risk faced by subject persons. In this respect, a methodology is being developed that will enable the FIAU to dedicate more resources to those subject persons considered to be at a higher risk to be used for ML/FT and/or are less aligned with the relevant legislative provisions.

Sanctions

As mandated by law, the FIAU may sanction subject persons for breaches of the PMLFTR and the Implementing Procedures. It is the responsibility of the Compliance Monitoring Committee to determine whether there has been a breach of the pertinent rules as well as the appropriate sanction that should be imposed.

In fulfilment of this responsibility, and prior to the imposition of the relative sanction, the Committee considers a number of factors, including the nature, seriousness and extent of the breach, previous AML/CFT failings and the subject person's conduct prior and/or following the breach. The types of sanctions imposed include administrative penalties, reprimands and warnings.

In 2014, several administrative penalties were levied against subject persons who infringed the provisions set out in the PMLFTR and Implementing Procedures. The total penalties amounted to €68,750, which included one aggregate penalty of €58,000 being imposed against an investment services company operating in the online trading business.

Moreover, 32 administrative penalties amounting to a total of €8,000 were levied against subject persons for having failed to submit the 2013 ACR in terms of the Implementing Procedures.

In this reporting period, other infringements warranted the imposition of a reprimand in writing. A total of 35 subject persons received pecuniary penalties and 65 subject persons received non-pecuniary sanctions.

MONEY LAUNDERING CASES

During 2014, there were six money laundering convictions involving seven persons. This section of the report will provide a brief summary of five⁴ of these money laundering judgments, with a specific focus on the way the courts of criminal jurisdiction interpret the money laundering offence under the PMLA.

The Police

v.

Mark Brincat

**Court of Magistrates (Malta)
as a Court of Criminal Jurisdiction
23 July, 2014**

On 23 July, 2014, the Court of Magistrates found Mark Brincat guilty of money laundering following his involvement in an arrangement in which he acted as an intermediary for stolen funds to be transferred to third parties through his account. In this case the Court examined whether the accused knew that the funds he was purportedly laundering were the proceeds of crime⁵.

The Court held that Brincat's actions indicated that he acted knowingly. The fact that the accused did not trust the other parties with whom he was involved in this arrangement (so much so that he was worried that they could pilfer funds from his account and that he asked for the bank's advice on how to protect his account), clearly showed that he believed that something illicit was taking place but he still opted to participate in this arrangement.

The Court also made reference to various other indicators that confirmed this belief, such that he was receiving funds every day and of the same amount; that he never questioned the origin of these funds; that he was transferring these funds to jurisdictions that were known to process illicit transactions; and that he never questioned why he was requested to transfer funds using other modes of transfer, such as money remittance, when it was more convenient to make bank transfers.

The Court held that, given the accused's expertise and knowledge in the information technology sector, he should have known what he was participating in, and this reinforced the Court's belief that Brincat acted knowingly.

Before handing down judgment, the Court sought to determine what criteria could be relied on to establish the quantum of the penalty for money laundering offences, stressing the importance of taking into consideration the amount of money that was actually laundered. The Court sentenced the accused to two (2) years' imprisonment suspended for four (4) years and also ordered the forfeiture in favour of the Government of Malta of the funds the accused earned from his involvement in the criminal arrangement.

The Police

v.

Charity Ofame Ovbiagele

**Court of Magistrates (Malta)
as a Court of Criminal Jurisdiction
16 October, 2014**

Charity Ofame Ovbiagele, a 23-year-old Nigerian woman, was charged with money laundering and drug possession. Police investigations and searches at the accused's residence led to the identification of suspicious substances, which albeit not resulting to be illegal, were commonly used as cutting agents for heroin, and various expensive valuables. Through the same investigation, it emerged that the accused had a relationship with a certain Ferdinand Onovo, who was already charged in Court with drug possession and another Nigerian woman, who had known connections with drug traffickers.

The accused, a student, only had part time jobs to finance her studies. The investigations showed that the accused was finding it difficult to make ends meet, and she often relied on her mother's help and also on Onovo, who paid her rent and had also given her a number of gifts, including the valuables found in her possession by the Police.

While the charges for drug possession were eventually dropped by the prosecution, the Court still considered the money laundering accusations. The Court made reference to article 2(2)(a) of the PMLA, which stipulates that a person may be convicted of a money laundering offence even in the absence of a conviction for an underlying criminal activity, and also to article 3(3) of the PMLA, which through a cross reference to the Dangerous Drugs Ordinance establishes that where the prosecution manages to demonstrate that there was no reasonable explanation to show that the funds or properties belonging to the accused were of licit origin, the

⁴ The sixth judgment could not be included in this report since it had not been published by the time this report was sent for publication.

⁵ In 2005, when the events related to this case took place, the mental element of the money laundering offence did not as yet include the element of suspicion but only that of knowledge that funds were derived from illicit origins.

burden to proof of the licit origin of such belongings would shift on the accused himself/herself.

In interpreting these two articles the Court made reference to previous judgments and held that for a money laundering conviction to be successfully proven the prosecution had to prove the nexus between the criminal activity and the proceeds (even based on circumstantial evidence), while the accused had to explain, also based on the same level of proof, the licit provenance of the proceeds.

On the basis of the evidence presented, which showed that Ovbiagele had links with persons having a criminal background, the fact that she was in possession of cutting agents and also provided no reasonable explanation to show the lawful origin of the various valuables found in her possession, the Court found her guilty of money laundering. The Court held that the evidence referred to above indicated that the accused had more than a sound suspicion that the valuables in her possession and the funds used to pay her rent were derived from illegal activities. Subsequently, she was sentenced to two years' imprisonment suspended for four years.

The Police
v.
Freddie Delia & Rodrick Delia

Court of Magistrates (Malta)
as a Court of Criminal Judicature
28 October, 2014

From police investigations it transpired that the brothers Freddie and Rodrick Delia were selling and providing drugs to various persons, and that they were in possession of luxury vehicles even though they were unemployed and living off social benefits. On this basis, the two accused were charged and found guilty by the Court of Magistrates of procuring or providing drugs, of being in possession of drugs and of money laundering.

On the money laundering conviction, the Court of Magistrates held that the prosecution had amply proven the existence of actual criminal activity (drug-related offences) from which the money laundering subsisted. The Court moreover stated that the prosecution had managed to demonstrate that it was inconceivable that the two accused, who were unemployed and living off social benefits, could be in possession of luxury vehicles, one of which was bought in cash for €24,000.

The Court went on to state that, in such cases, the burden of proof shifted on to the accused to prove the legitimate origin of these assets. Since no such explanation was provided in this case, the accused were found guilty of money laundering, along with other drug-related offences and sentenced to a term of imprisonment of four and a half years together with a fine of €10,000 each. The Court also ordered the confiscation of various motor vehicles, a sum of money (seized by the Police) and mobile phones pertaining to the accused.

The Police
v.
Osita Anagboso Obi

Court of Magistrates (Malta)
as a Court of Criminal Judicature
9 December, 2014

Osita Anagboso Obi travelled to Malta from Berlin on 10 March, 2010. The Police were closely monitoring his whereabouts in Malta, following confidential information received by the Police, which had raised suspicion in his regard. On 11 March, 2010, while boarding a flight from Malta to Madrid, he was apprehended by the Police and Customs officials and found to be in possession of €31,492. A declaration was not made to the Customs authorities in respect of these funds in accordance with the Cash Control Regulations.

The Police also reported that the German authorities had searched the accused's apartment, following his arrest in Malta, and various drugs and other items connected with the use and trafficking of drugs had been seized.

The accused had given conflicting statements to explain his behaviour and the reason he had travelled to Malta. Initially he stated that he was travelling to Malta for business purposes, since his family owned a tile manufacturing business. However, in a subsequent statement, he stated that he was travelling to Malta to deliver funds to a Nigerian national, who was known to the Police for his involvement in drugs.

The Court, quoting various preceding judgments, such as that of the Court of Criminal Appeal in the case the Republic of Malta vs John Vella (29 November 1999) and in the case The Police vs Carlos Frias Mateo (19 January, 2012), held that, when a person is charged for money laundering in terms of the PMLA, the prosecution is required to prove a nexus between

the assets subject to the investigation and a criminal activity, a link that can even merely be made on the basis of circumstantial evidence.

The Court went on to explain that, once this requirement was satisfied, the burden of proof shifted onto the defendant who, in order to prove his innocence, was required to show that the funds in question were of lawful origin. In this particular case, the Court held that the prosecution did manage to prove that a link existed between the accused and criminal activity. A link was also established with other criminals, and it was also determined that the funds in his possession were not reflective of the low standard of living he claimed to have. The accused also failed to produce any evidence to prove the legitimate origin of the funds found in his possession.

The Court found Obi guilty of money laundering and of carrying cash in excess of €10,000 on entering or leaving Malta without making the necessary declaration in terms of the Cash Control Regulations. The accused was sentenced to four years' imprisonment and a €20,000 fine was imposed. The Court also ordered the confiscation in favour of the Government of Malta of all the funds involved.

The Police

v.

Fabio Zulian

**Court of Magistrates (Malta)
as a Court of Criminal Judicature
16 December, 2014**

The accused, Fabio Zulian, was a member of a group of Italian nationals who, on various occasions between November and December 2006, visited the Casino di Venezia and allegedly exchanged stolen cheques and bank drafts for casino chips. The prosecution explained that investigations began following a report from the casino on these stolen cheques and bank drafts, which could not be cleared when presented by the casino.

From investigations carried out, it transpired that the accused and other members of the group would distribute the chips acquired fraudulently through the stolen cheques and bank drafts among themselves. They would then cash in these chips individually after gaming at the casino. In this way the amounts they each cashed individually would be lower than the values of the various cheques and bank drafts that had been used to obtain the chips in the first place.

Such a scheme would have prevented the casino from returning any of the stolen cheques or bank drafts that had initially been presented since the value of the chips being cashed in by each of the individuals would necessarily be lower than the amount of the aforementioned instruments and since the large majority of chips were not cashed by the persons who had acquired them from the casino in the first place.

The Court found Zulian guilty of various criminal offences, including that of belonging to a criminal organisation, conspiring to commit a criminal offence, fraud, forgery, making use of false acts, writing instruments or documents and money laundering. With regard to the money laundering offence, the Court upheld the principles that a money laundering conviction could be obtained without there being a conviction for the underlying criminal activity and that the link with the criminal activity could be proved on the basis of circumstantial evidence.

In respect of this particular case, the Court had already established that the cheques or bank drafts used were illicitly obtained and, hence, it only needed to be convinced that Zulian knew that the cheques or bank drafts that he cashed at the casino were illicitly being used, a fact that, according to the Court, was amply proved. It is important to note that in 2006, when the criminal acts were perpetrated, the mental element of money laundering still consisted only of knowledge that funds were derived from criminal activity and did not as yet include also suspicion, an element that was added following the amendments to the PMLA carried out in 2007. Zulian was sentenced to seven years' imprisonment and handed a €20,000 fine.

3. MANAGEMENT & TRAINING

THE BOARD OF GOVERNORS

A newly composed Board of Governors was appointed with effect from 21 January, 2014, following the end of the three-year term of office of the previous Board.

Dr Peter Grech and Dr Anton Bartolo were confirmed in their respective positions as Chairman and Deputy Chairman. Mr Anthony P. Cortis and Assistant Commissioner Silvio Valletta were appointed as members of the Board, while Dr Manfred Galdes, the Director of the FIAU, was appointed to act as Secretary to the Board.

Eleven meetings of the Board of Governors were held during 2014.

THE DIRECTOR

The Director, as operational head of the institution, oversaw the exercise of the Unit's functions within the different sections of the FIAU.

The year was characterised by a strong commitment to strengthen the effectiveness of the FIAU in all its areas of competence. To this effect important steps were taken to enhance the capabilities of the Unit through the recruitment of additional staff and the provision of additional training to the staff. This was also made possible through the conclusion of a lease agreement on new premises, which will enable the FIAU to increase its staff complement in 2015 in accordance with the FIAU development plan.

Guidance and training to subject persons was also high on the FIAU's agenda as were the amendments to the PMLA, the PMLFTR and the Implementing Procedures to address shortcomings outlined in the 4th Round MONEYVAL Mutual Evaluation Report. Contributions were also made to the development of international standards and EU legislation, particularly through the participation of FIAU staff in discussions within international fora.

Initiatives to continue to strengthen the collaboration with other supervisory authorities and foreign FIUs were undertaken during the year, including the conclusion of MoUs and the holding of bilateral meetings on the margins of international events.

Increased efforts were also made to bring together all stakeholders concerned to develop an NRA for Malta

and to put in place an IT infrastructure to maintain statistics on crime, investigations, prosecutions, convictions and asset freezing and recovery. Important progress was achieved in these areas with the foundations being laid for the work planned for 2015.

TRAINING

Training received by FIAU staff

In 2014 FIAU staff attended a number of seminars, training workshops, conferences and courses, both in Malta and abroad. This is in line with the FIAU's policy and objective to ensure that its officials are kept abreast with legislative, operational and other developments that impact on the ability to carry out their duties.

Officers within the FIAU's Financial Analysis Section attended three EU-funded FIU.NET workshops, held in Budapest, Rome and The Hague, designed to train officials on the use of the FIU.NET decentralised computer network used for the exchange of information among FIUs. An FIAU analyst also attended a three-week training course in Strasbourg on 'Financial Crimes Investigation', which was run by the European College of Financial Investigations and Analysis of Financial Crimes.

An FIAU official participated in the Egmont Strategic Analysis Course which was held in Strasbourg, from 25 to 29 August 2014 at the Council of Europe's headquarters. The purpose of this course was to strengthen and expand the capacity of FIUs to conduct strategic analysis.



FIAU Training

The Senior Legal and International Relations Officer participated in a MONEYVAL evaluator training seminar between 3 and 7 November, 2014, also at the Council of Europe headquarters in Strasbourg. The seminar was mainly intended to train future evaluators for MONEYVAL's 5th round of mutual evaluations.

Officers in the Compliance Section participated in the 'Anti-Money Laundering Examination Seminar', organised by the U.S. Federal Reserve in Washington, the '10th Annual AML & Financial Crime Conference Europe', organised by the Association of Certified Anti-Money Laundering Specialists (ACAMS) in London, as well as two webinars entitled 'Filling the Gaps: Are you falling short of AML requirements?' and 'The Anatomy of Enhanced Due Diligence'.

In addition, the Director was invited to attend a workshop on financial crime, organised jointly by the Federal Reserve, the International Monetary Fund and the World Bank in Washington, during which he was asked to deliver a presentation.

FIAU officials also attended training events on legislative provisions relating to the new legislative regime regulating the provision of corporate services, whistleblowing legislation, the supervision of capital markets, BitCoin and other virtual currencies, tax evasion, the establishment of voluntary organisations, trust and escrow services, data protection law, the acquisition of Maltese citizenship and Maltese company law.

The FIAU also organised in-house training, including a team building seminar and training on the use of MS Office, which was held following the implementation of a software upgrade within the Unit.

Training provided by the FIAU

The provision of training to subject persons to ensure that they are informed about their AML/CFT obligations and updated on developments is considered to be one of the priorities of the FIAU, as is manifested by the number of training events organised by the FIAU or in which FIAU officials participated as speakers.

One of the main events was the training course 'AML & CFT Obligations – A Practical Approach', organised by the FIAU over a six-week period between May and June 2014. This course was provided by FIAU officials, and was aimed at MLROs, designated employees and other officers employed within the compliance department of subject persons.



FIU.Net Workshop

FIAU personnel also delivered presentations during other training courses run by private entities, or representative bodies. These included nine training events specifically focused on AML/CFT, which dealt with the functions and duties of the FIAU, the local AML/CFT legislative provisions, the FIAU Implementing Procedures, the implementation in practice of AML/CFT obligations and the risk-based approach to AML/CFT.

The FIAU also participated in other initiatives where AML/CFT issues formed an integral part of a wider programme. These included a presentation on AML supervisory programmes for the effective oversight of capital markets during the conference 'Effective Oversight of Capital Markets', sponsored by the U.S. Securities and Exchange Commission and the MFSA, and a talk on the AML/CFT implications of BitCoin and other virtual currencies held during an event organised by a private entity.

In addition, the FIAU's Legal and Compliance Manager was invited to deliver a talk on 'Customer Due Diligence: Experiences from the Eurozone' during the First Annual Customer Due Diligence and Corporate Governance Forum, held in Dakar, Senegal, between 28 and 29 October. The forum aims at developing best practices in customer due diligence and corporate governance among African banks.

On 23 and 24 June officers of the Serbian FIU attended a training programme during a study visit to Malta to understand the AML/CFT supervisory set up in Malta. The Director also participated as a speaker in a workshop on the legal requirements and reporting obligations related to the fight against organised crime, held in Podgorica (Montenegro). Both events were organised with the support of the European Commission's DG Enlargement within the framework of TAIEX, aimed at assisting candidate countries for EU membership in adhering with the *acquis communautaire*.

4. OTHER DEVELOPMENTS & INITIATIVES

JOINT COMMITTEE FOR THE PREVENTION OF MONEY LAUNDERING AND FUNDING OF TERRORISM

The JCPMLFT is composed of bodies representing the entities and persons subject to AML/CFT obligations, the FIAU and other competent authorities involved in the fight against ML/FT. This Committee, chaired by the Director of the FIAU, provides a forum for the sharing of views and best practices, the dissemination of relevant information, the review of international developments and consultation prior to the issuance of relevant laws or guidance.

The JCPMLFT met on four occasions during 2014: on 4 February, 25 April, 24 September and 17 December.

During these meetings the Committee continued to follow the discussions within the Council of the European Union on the 4th AMLD and the revised funds transfers regulation, focusing closely on matters that were of particular relevance to Malta. The Committee was also kept abreast with other developments that took place throughout the year, such as carrying out the AML/CFT self-assessment by the MFSA in collaboration with the FIAU and the MGA, the presentation of progress reports by Malta to MONEYVAL to detail the actions taken in fulfilling the recommendations made by MONEYVAL in the 4th round mutual evaluation of Malta, and the NRA, which required the participation of a number of Committee members.

The JCPMLFT actively participated in the consultation process relating to the PMLFTR amendments, providing feedback and proposals prior to the finalisation of the draft legal notice that was eventually submitted to the Minister for Finance for publication. Other significant items that featured on the agenda during meetings in 2014 included the AML/CFT obligations of subject persons acting as registration agents under the Investment Registration Scheme introduced by the Government of Malta and the AML/CFT risks associated with such schemes, the various statements issued by the FATF and MONEYVAL throughout the year on high risk jurisdictions and the drafting of sector-specific implementing procedures.

AMENDMENTS TO THE PMLFTR, THE PMLA AND OTHER LAWS RELATED TO THE PREVENTION OF MONEY LAUNDERING AND THE FUNDING OF TERRORISM

2014 was a particularly active year as concerns amendments to AML/CFT legislation. These legislative developments were mainly motivated by the need to address a number of shortcomings that have been identified in the MONEYVAL 4th round mutual evaluation report for Malta of 6 March, 2012, while also introducing or amending other provisions to clarify and strengthen the current AML/CFT regime.

Legal Notice 464 of 2014, published on 16 December, 2014, brought into effect a series of amendments to the PMLFTR. Prior to finalisation and submission to Government, these amendments were the subject of a consultation process that involved various authorities, as well as representatives of subject persons sitting on the JCPMLFT.

The amendments to the PMLA and the Criminal Code, which eventually became Act III of 2015, were also finalised throughout the year under review and were published as a bill before Parliament following a first reading on 20 October, 2014. Certain amendments that were of particular relevance to subject persons were also subject to a consultation process involving the JCPMLFT. The Bill is expected to be enacted into law early in 2015.

The FIAU was also involved in reviewing draft amendments to the Voluntary Organisations Act and other ancillary laws aimed at introducing a more robust regulatory regime for voluntary organisations. These amendments, once adopted, will require the implementation of certain measures intended to prevent the sector from being misused for criminal purposes, in particular the funding of terrorism.

It is also worth noting that the amendments referred to in this section of the report, specifically those with an AML/CFT scope, will be implementing

recommendations to the sector made by MONEYVAL and confirmed in the above mentioned mutual evaluation report, while also ensuring that the legal regime would be in line with the latest FATF Recommendations when it comes to combating the financing of terrorism.

THE NATIONAL RISK ASSESSMENT

The AML/CFT NRA, a project aimed at identifying, assessing and understanding the ML/FT risks faced by Malta, was another significant project the FIAU was responsible for throughout 2014. This project, carried out with the technical assistance of the World Bank, saw the active participation of various competent authorities, as well as various entities and persons involved in the prevention of ML/FT both from the public and private sectors.

Following the initial three-day introductory workshop, held in November 2013, the participants, organised into seven working groups focusing on different areas and sectors, embarked on the first stage of the project – that of collecting the necessary data and information. This data and information were subsequently analysed by the various working groups, in line with a pre-established methodology, to understand and rate the risks pertaining to the specific sectors that were under review.

This led to the drafting of sectorial reports and action plans to mitigate identified risks that were discussed during a second workshop, held in July, 2014. During the second workshop these findings and proposed actions were presented to a number of persons in policy-making roles, including the Minister for Finance, the Attorney General, the Governor of the Central Bank, the Director General of the MFSA, a representative of the Courts Registrar and a representative of the Commissioner of Police.

Currently, the FIAU is working on the final NRA report, which is to summarise the findings and action plans of all working groups. This NRA report, which is intended to be completed in 2015, will eventually be presented to the Government of Malta for its consideration prior to the publication of the main findings.



National Risk Assessment (DoI)

FATF STATEMENTS

The FATF on an ongoing basis monitors jurisdictions that manifest significant deficiencies in the implementation of AML/CFT measures. The scope of this process is two-fold: to encourage and stimulate these states to comply with the international AML/CFT standards; and to keep the international community aware of particular ML/FT risks associated with high-risk jurisdictions so that it can be better protected.

As part of this process, the FATF issues two public documents three times each year, following the holding of plenary meetings. These two public documents categorise jurisdictions according to the level of AML/CFT deficiencies they present, ranging from jurisdictions that are subject to countermeasures due to their continued non-application of international AML/CFT standards to other jurisdictions that would be co-operating and are committed to address identified deficiencies. In 2014 these public documents were published on 14 February, 27 June and 24 October.

In order to ensure that all subject persons are aware of these public documents, the FIAU ordinarily circulates them electronically to all subject persons, as well as to the relevant industry bodies and associations represented on the JCMPLFT, together with a related guidance note. These public documents are also available constantly on the FIAU's website.

GUIDANCE NOTE ON THE INVESTMENT REGISTRATION SCHEME 2014

During 2014 the Government of Malta launched a registration scheme termed the Investment Registration Scheme, through which persons residing in Malta who held eligible assets or property without declaring the relevant income under the Income Tax Act were given the opportunity to regularise their position within a specified period of time established by law. A Guidance Note was issued by the FIAU concurrently with the issuance in July of the Legal Notice under the External Transactions Act establishing the registration scheme.

This note addressed the money laundering risks posed by the potential abuse of this scheme and provided unequivocal guidance to subject persons involved in the operation of this scheme on the actions that would need to be taken to mitigate these higher money laundering risks.

The FIAU was also involved in reviewing the registration scheme proposal prior to its establishment to ensure that it respected and was in line with recommendations made by MONEYVAL and the FATF on voluntary tax compliance programmes.

A copy of the Legal Notice in draft form was, in fact, presented to the MONEYVAL Secretariat for an analysis to be carried out to assess whether the scheme was consistent with the FATF basic principles applicable to such programmes. The conclusion of the MONEYVAL Secretariat presented at the 45th MONEYVAL Plenary established that the necessary arrangements were in fact in place to ensure that these basic principles are effectively complied with and for the programme not to have a negative impact on AML/CFT measures in Malta.

INTERPRETATIVE NOTE – THE AML/CFT OBLIGATIONS OF PROFESSIONALS AND PROFESSIONAL FIRMS

Following discussions held with the Malta Institute of Accountants and the Chamber of Advocates, the FIAU on 28 January, 2014, issued an interpretative note on the AML/CFT obligations of professional firms and professionals who are employed with or form part of these firms.

This interpretative note was intended to resolve the uncertainty that existed on whether professional firms that did not have a legal personality could be considered as subject persons in their own right. In doing so, the interpretative note clarified the legal position and established that individual professionals employed by or providing services on behalf of these firms would not be considered subject persons themselves.

The interpretative note established a set of criteria that professional firms had to satisfy to be considered as subject persons in their own right, and noted that those set-ups that were merely office-sharing or resource-sharing set-ups would not qualify as professional firms for the purposes of this interpretative note.

MEMORANDUM OF UNDERSTANDING BETWEEN THE FIAU AND THE MFSA

The FIAU and the MFSA share a common goal of safeguarding the integrity of Malta's financial services sector by ensuring that it is properly supervised for the purposes of the prevention of ML/FT. For this

purpose the FIAU and the MFSA signed an MoU on 18 March, 2014, aimed at enhancing the level of co-operation between the two institutions.

The basis for this co-operation in the AML/CFT field is the common supervisory function in terms of the respective legislation, which the FIAU and the MFSA administer in respect of persons and entities providing financial services that are required to be licensed, authorised, enrolled, recognised or registered by the MFSA. The co-operation between the FIAU and supervisory authorities such as the MFSA in ensuring AML/CFT compliance is not only acknowledged, but also specifically provided for by the PMLA.



Although the MoU mainly deals with on-site AML/CFT compliance examinations, particularly in cases where the MFSA is acting as an agent for the FIAU, it also outlines several other areas of co-operation, including the rendering of mutual assistance and the exchange of information.

SUSTAINABLE DEVELOPMENT

In terms of article 7(3)(c) of the Sustainable Development Act (Cap 521 of the Laws of Malta), the Director of the FIAU had been designated as the Sustainable Development Focal Point of the Unit. In fulfilling this role, the Director will assist the permanent secretary within the Ministry of Finance, who acts as a Sustainable Development Co-ordinator, in developing the Ministry of Finance's position in relation to any request by the Ministry for Sustainable Development, the Environment and Climate Change.

In line with previous years, the FIAU has continued to implement a number of environmental policies with the intention of minimising energy usage and the reduction of the Unit's carbon footprint. In this regard, a number of actions have been taken, which include the continued application of a policy requiring double-sided printing, the installation of energy-efficient lighting elements, the acquisition of Energy Star certified computers as well as the activation of energy saving features on all monitors and printers to ensure that they switch to sleep mode when not in use. The FIAU continued the process of segregating waste through the use of degradable recycling bags.

In 2014, the decision taken during the previous year for the annual report of the FIAU to be released exclusively in electronic format and distributed by means of a USB drive was re-confirmed. This is not only a cost-effective measure but also reduces paper usage.

MoU – MFSA and FIAU

5. PARTICIPATION IN INTERNATIONAL FORA

THE EXPERT GROUP ON MONEY LAUNDERING AND TERRORIST FINANCING

The EGMLTF is an expert group composed of representatives from each EU member state. The EGMLTF is tasked with advising the EU Commission on AML/CFT issues, while also serving as a forum for the exchange of views between member states and the EU Commission on AML/CFT matters. Malta is represented on this expert group by the FIAU.

The EGMLTF was convened twice during 2014, on 7 February and 13 June. During these two meetings members exchanged views on various topical matters, most notably of all the carrying out of NRAs by member states and the EU supra-national risk assessment, which will be required to be undertaken in terms of the 4th AMLD to be published in 2015, and the AML/CFT risks associated with virtual currencies.

Members agreed to the setting up of an ad-hoc working group within the EGMLTF, which will focus on the carrying out of the EU supra-national risk assessment. Individual members, especially those who had already started working on their NRAs, evaluated how they could contribute to the EU supra-national risk assessment and what information they could eventually share for the benefit of this process.

The EGMLTF also served as a forum for the EU Commission to keep member states updated on the state of play of negotiations on the 4th AMLD and the proposal for a regulation on information accompanying transfers of funds, while also allowing member states to discuss certain themes under review within the FATF and MONEYVAL.

EU-FIU PLATFORM

The EU-FIU Platform is an informal group that brings together FIUs from all EU member states in a bid to foster more co-operation. The EU Commission is represented on and supports the operation of this Platform. The FIAU participated at the three meetings held in 2014, on 6 February, 12 June and 18 November.

The need to step up co-operation and strengthen the fight against terrorism and the financing of terrorism was a recurrent theme of discussion, given the international incidents that occurred throughout 2014. The EU-FIU Platform in this regard served as a means for FIUs to share best practices and to explore possible solutions to enhance their co-operation in addressing this international struggle.

The EU Commission also availed itself of this Platform to keep EU FIUs informed of legislative and policy developments of interest to EU FIUs, such as the 4th AMLD and AMLR, the cash control regulations, and the potential proposal for the adoption of an EU legislative instrument to criminalise money laundering.

Other matters which were discussed during these meetings were the technical developments within FIU.NET, the embedding of the FIU.NET system within a similar network administered by EUROPOL for police information and the role of the EU-FIU Platform in carrying out the EU AML/CFT supra-national risk assessment.

THE EGMONT GROUP

During 2014 a continued growth of the Egmont Group to 147 members was registered. The Heads of FIUs adopted the Egmont Group Strategic Plan 2014-2017 and the new Egmont Group Regional Footprint during the 22nd Plenary Meeting held in Lima, Peru, in June, both of which set out the future objectives and approach for the organisation.



Egmont Plenary Peru



Egmont Plenary Peru

The Strategic Plan outlines the Egmont Group's key strategies and sharpens the organisation's focus on enhancing the effective exchange of information between FIUs, the facilitation of adherence to international standards, and the development and sharing of expertise among FIUs. It was also agreed by the Heads of FIUs that co-operation with international partner organisations and an effective and sustainable Egmont Group infrastructure, to include a properly resourced Secretariat, are critical components towards the implementation of the Strategic Plan.

The new Global Footprint is an undertaking recognising that the growth of the organisation requires a more focused regional approach. The Global Footprint, with an amended configuration methodology, involves designating members to new regions that are aligned more with Egmont Group Observers like the FATF Style Regional Bodies.

The Heads of FIUs also formally adopted the Support and Compliance Process document, which positively responds to the call for the Egmont Group to be more proactive in addressing members' compliance with the Egmont standards.

The Plenary Meeting, which was attended by two FIAU officials, saw the participation of more than 320 participants representing FIUs from 115 jurisdictions, 10 observer organisations and three International AML/CFT partner organisations. More than 60 bilateral co-

operation agreements were signed between Egmont Group members on the margins of the plenary meeting, including the MoU entered into between the FIAU and the Holy See (Vatican City State).

Eight FIUs were welcomed into the Egmont Group as new members: UIF Angola, FIE-AMBD Brunei Darussalam, NAFI Chad, FIC Ghana, FID Jamaica, FIC Namibia, MOT Sint Maarten and FIU Tanzania.

Earlier in the year, the Egmont Committee meetings and Working Group meetings were held in Budapest, Hungary. This event was attended by over 220 delegates from 87 FIUs, including representatives from three candidate FIUs, six observer organisations and three International AML/CFT Partner organisations. The FIAU was represented by one official, who participated in the discussions held within the Operational Working Group.



MoU - Holy See and FIAU

COUNCIL OF THE EUROPEAN UNION – WORKING PARTY ON FINANCIAL SERVICES

During 2014 the EU Commission's proposal for a regulation on information accompanying transfers of funds, which was published in February, 2013, together with the 4th AMLD proposal, was subject to discussions within the Council of the European Union. For this purpose various working party meetings were held during which this legislative proposal was reviewed at a technical level. Technical working party meetings were then followed by meetings at attaché level, which were attended by financial services attachés within the Permanent Representation of Malta to the EU.

These discussions led to an eventual agreement on a final text adopted by the Council of the European Union. This adopted version, along with the final text of the 4th AMLD agreed upon at Council level, was subject to intra-institutional negotiations held between the EU Commission, the European Parliament and the Council of the European Union. An agreement on the final draft of both legislative instruments was eventually reached at the end of the year. The official text of both the 4th AMLD and the AMLR is expected to be published and brought into force by mid-year 2015.

MONEYVAL

The Deputy Chairman and the Director of the FIAU participated in the three MONEYVAL plenary meetings held in Strasbourg during the year. Dr Barolo, as current Chairman of MONEYVAL, chaired all these three plenary meetings.

During the April plenary, the Maltese delegation presented a detailed progress report outlining the action taken by Malta to address the recommendations contained in the 4th Round Mutual Evaluation Report adopted by the plenary in March 2012. A follow-up interim report was then presented in December. Detailed reports on Malta's voluntary tax compliance programme, as explained earlier, were also provided to the MONEYVAL Secretariat and the plenary during the year.

ASSESSMENT ON THE IMPLEMENTATION OF THE COUNCIL OF EUROPE CONVENTION ON THE LAUNDERING, SEARCH, SEIZURE AND CONFISCATION OF THE PROCEEDS OF CRIME AND ON THE FINANCING OF TERRORISM (CETS NO. 198)

The Conference of the Parties to CETS No. 198 adopted the assessment report of Malta at its 6th meeting held in Strasbourg between 29 September and 1 October, 2014. Malta, as a signatory to the 2005 Council of Europe Convention on the Laundering, Search, Seizure and Confiscation of the Proceeds of Crime and on the Financing of Terrorism, is subject to the monitoring mechanism of the Conference of the Parties set up to ensure that the obligations set out in the Convention are being adhered to by signatory states.

Being a desk-based review, the Maltese authorities were required to provide detailed information on the application of the Convention through the compilation of a questionnaire sent for the purpose. The findings of the reviewers were discussed with the Maltese delegation during a so-called pre-meeting held in Strasbourg in April during which important clarifications were provided.

The assessment report on Malta concluded that significant steps had been taken to bring the national legislation in line with the provisions of the Convention. However, some concerns were raised on the effectiveness of the implementation of some of these laws.

As for the FIAU, the assessment report established that its general practice and the rules it follows meet the requirements of international co-operation envisaged under article 46 of the Convention. Specific reference was, however, made to the inability of the FIAU to postpone or suspend suspicious transactions when requested to do so on behalf of a foreign FIU. The assessment report, nevertheless, acknowledged that the situation is being remedied through amendments to the PMLA, which are expected to come into force early in 2015⁶.

6 Various Laws (Prevention of Money Laundering and Funding of Terrorism) (Amendment) Act, 2015 (Act III of 2015)



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