



FINANCIAL INTELLIGENCE ANALYSIS UNIT
ANNUAL REPORT 2016

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FINANCIAL INTELLIGENCE ANALYSIS UNIT

COMPOSITION OF THE BOARD OF GOVERNORS



CHAIRMAN
Dr Peter Grech
LL.D.



DEPUTY CHAIRMAN
Dr Anton Bartolo
LL.D.



MEMBER
Mr Anthony P. Cortis
ACIB



MEMBER
Assistant Commissioner of Police
Silvio Valletta



**ACTING DIRECTOR
& SECRETARY**
Mr Alfred Zammit
B.Com. (Hons) Econ.

LETTER OF TRANSMITTAL TO THE MINISTER FOR FINANCE

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

30 March, 2017

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, 2016.

Yours sincerely



Dr Peter Grech
Chairman

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ABBREVIATIONS

ACR	Annual Compliance Report
AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Directive
AML/CFT	Anti-Money Laundering and the Combating of Financing of Terrorism
CSP	Company Service Provider
CMS	Compliance Monitoring System
CMC	Compliance Monitoring Committee
CDD	Customer Due Diligence
DNFBP	Designated Non-Financial Businesses and Professions
EGMLTF	Expert Group on Money Laundering and Terrorist Financing
EU	European Union
FATF	Financial Action Task Force
FAC	Financial Analysis Committee
FIAU	Financial Intelligence Analysis Unit
FIU	Financial Intelligence Unit
JCPMLFT	Joint Committee for the Prevention of Money Laundering and Funding of Terrorism
LEA	Law Enforcement Agency
MFSA	Malta Financial Services Authority
ML/FT	Money Laundering and the 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
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 financial services industry has developed into one of the main pillars of the Maltese economy.

The strength of the industry, like that of every other sector or business, depends to a large extent on its reputation and credibility.

The State also enforces public order, not allowing the industry to be abused for the laundering of the proceeds of crime or for financing terrorism.

2016 was a significantly eventful year for the FIAU, but it was also a year in which there was a noteworthy increase in the Unit's activity and resources.

In the field of Financial Analysis, 2016 saw the filing of the highest number of Suspicious Transaction Reports (STRs) to date: 565, representing a rise of 284 over 2015. This demonstrates an increased sensitivity to legal obligations in the sector, which is certainly welcome.

Spontaneous disclosures made by the FIAU to foreign Financial Intelligence Units increased by 75% over 2015. Similarly, the number of spontaneous disclosures received by the FIAU from other FIUs increased by 63% over the previous year.

The Financial Analysis section referred 39 cases for further investigation to the Police – almost double the 20 cases referred in 2015.

The Compliance section saw a total of 60 on-site visits and a further 36 visits relating to money laundering and the financing of terrorism were carried out by the Malta Financial Services Authority on the FIAU's

behalf. This represents an increase of 25 visits over 2015.

The Compliance section also issued 173 sanctions, again representing a significant increase of 97 over 2015.

The number of ACRs processed by the FIAU increased at a slower rate (9%) when compared to 2015 when it had increased by 25% over 2014.

The Compliance section is also engaged in the "Compliance Monitoring System" project, which aims at improving the methodology adopted by the Unit to implement risk-based supervision.

As regards the Legal and International Relations section, this should also be congratulated for concluding the revision process relative to Part 1 of the Implementing Procedures that led to the publication of revised Implementing Procedures in January 2017.

The revised set of procedures provides further guidance on the implementation of AML/CFT requirements, introduces technological measures to carry out CDD and aims to facilitate compliance with legislative amendments.

"The FIAU has successfully weathered 2016 and has emerged as a stronger organisation"

This section is also responsible for proposing amendments to Maltese AML/CFT legislation. Throughout the year, it actively committed to the transposition of the 4th EU Anti-Money Laundering Directive. This work involved participation in several transposition workshops organised by the EU Commission.

The Legal section covers Maltese and FIAU participation in international fora, including EU Commission expert groups such as the Expert Group for Money Laundering and Financing of Terrorism, the EU FIU-Platform and the Council of Europe MONEYVAL committee. Officers from this section represented Malta as technical experts on EU Council

Working Parties where the amendments to the 4th EU AMLD were discussed.

Preparations for the current Maltese Presidency of the European Union were in full swing in 2016 and two officers from the Legal section have now taken up the role of deputy chairs on two EU Council Working Groups. These are heading the discussion at EU level on the adoption of a directive in relation to the criminalisation of money laundering activities and on a directive to amend the 4th EU AMLD.

Throughout 2016 the Ministry for Finance supported the FIAU in increasing its administrative capacity through recruiting more staff, which is essential to the proper performance of the organisation's mission.

The FIAU is dedicating more time and resources to outreach in the private sector. In 2016, it introduced a new feature of newsletter subscription to its website and it is more effectively reaching out to actors in the sector through the organisation of more seminars and training sessions. This is also reflected in the work programme for 2017.

Staff are the organisation's main resource in a sector where competition for talent is high and staff turnover a constant challenge. The maintenance of a loyal, motivated workforce is one of the organisation's priorities and the Unit does its best to cultivate this HR management aspect within the limits of its resources. During 2016, the HR front saw the introduction of a revised performance appraisal system and the introduction of a study leave policy aimed at encouraging officers to further improve their academic qualifications and skills.

It would not be appropriate to conclude without mentioning the departure from the FIAU of its former Director for eight years, Dr Manfred Galdes, who resigned in June 2016 to take up a legal practice. Dr Galdes was instrumental in actively transforming the organisation over the years in which he was its Director. It is more than appropriate that he should be thanked for his valuable contribution and hard work.

A member of the Board of Governors, Mr Tony Cortis is nearing retirement after a long career at the Central

Bank and is no longer on the Board in 2017. His insight of the banking and financial sectors, his dedication and sharp contributions to board discussions have always been appreciated. He must also be thanked for his services. He is replaced on the Board by another long-serving colleague at the Central Bank, Mr Jesmond Gatt, who I take the opportunity to welcome.

2016 also saw the FIAU going through a meticulous, competitive and rigorous process to recruit a new Director, which ended in the appointment of Mr Kenneth Farrugia, a former Director General at the Internal Audit and Investigations Department, as Director in early 2017. I take this opportunity to welcome Mr Farrugia to the organisation and wish him every success in his new leadership post.

A word of thanks is also due to Mr Alfred Zammit, Deputy Director of the Unit, for carrying out the duties of Director in an acting capacity while the post of Director was vacant.

The FIAU has successfully weathered 2016 and has emerged as a stronger organisation better prepared to face the challenges of 2017 and the future. In the near term the Unit faces, *inter alia*, a number of evaluations by international organisations that are of critical importance to the FIAU and to the Maltese financial services sector in general. They will require a lot of preparation and well-co-ordinated work, which has already started and which we look forward to complete.

I am confident that this Annual Report will, as usual, provide both interesting reading and an important element of analysis and documentation of the work undertaken in Malta to combat money laundering and the financing of terrorism.



Dr Peter Grech
Chairman

1. THE FINANCIAL INTELLIGENCE ANALYSIS UNIT

ESTABLISHMENT AND COMPOSITION

The FIAU was established on 1 October, 2002, following the publication of Legal Notice 297 of 2002. This legal notice brought into force comprehensive amendments to the PMLA (Chapter 373 of the Laws of Malta), enacted by means of Act XXXI of 2001.

The Unit is set up as an autonomous agency within the structure of the Ministry for Finance, with the policy of the FIAU being established by the Board of Governors, appointed in terms of the PMLA. Heading the day-to-day operations of the FIAU, the Director of the Unit is responsible for executing the policy established by the Board of Governors.

The Unit operates through four separate sections, each having its own responsibilities. These sections are tasked with carrying out operational and strategic analysis, monitoring of compliance by subject persons, legal and international affairs and the Unit's administration and IT.

FUNCTIONS

Article 16 of the PMLA establishes the functions of the Unit. These functions focus on three primary areas.

1. The receipt and analysis of information on transactions or activities suspected to involve ML/FT or suspected to involve the proceeds of crime

One of the principal functions of the FIAU is to receive and analyse reports made by subject persons in terms of the PMLFTR on suspicions of ML/FT and the proceeds of crime. The Financial Analysis Section is responsible for carrying out the analysis of STRs received by the FIAU and for obtaining further information to determine whether a reasonable suspicion of ML/FT subsists. Where such a determination is reached, a detailed analytical report is disseminated by the Section to law enforcement authorities for further investigation.

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

Another significant role of the FIAU is to exchange and co-operate with local and foreign supervisory authorities, FIUs and LEAs. This function is key in the

global fight against ML/FT, particularly in the light of Malta's position as a financial services centre. The FIAU routinely exchanges information with its foreign counterparts on a spontaneous basis or when submitting or receiving an international request for information. Since its establishment, the FIAU has also entered into several MoUs with FIUs and supervisory authorities to ensure, where necessary, that the process of exchanging information is strengthened. Under Maltese legislation, the conclusion of an MoU is not mandatory to enable the FIAU to exchange information. However, the presence of an MoU at times facilitates the exchange of information or is required by some of the FIAU's foreign counterparts.

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

The supervisory function is another of the FIAU's essential roles. To fulfil this function, the Unit conducts off-site and on-site examinations of legal and natural persons who are carrying out relevant business or activity as defined in the PMLFTR. These visits are also carried out by supervisory authorities who act on behalf of the Unit in carrying out visits of persons regulated under their authority. Once the conclusions of an on-site examination are drawn up, the findings are disseminated by the FIAU to the subject persons who are also informed of the time period within which they must take remedial action where necessary. Where non-compliance is ascertained, the FIAU's CMC is tasked with the responsibility of determining whether the circumstances warrant the imposition of an administrative penalty or some other sanction.

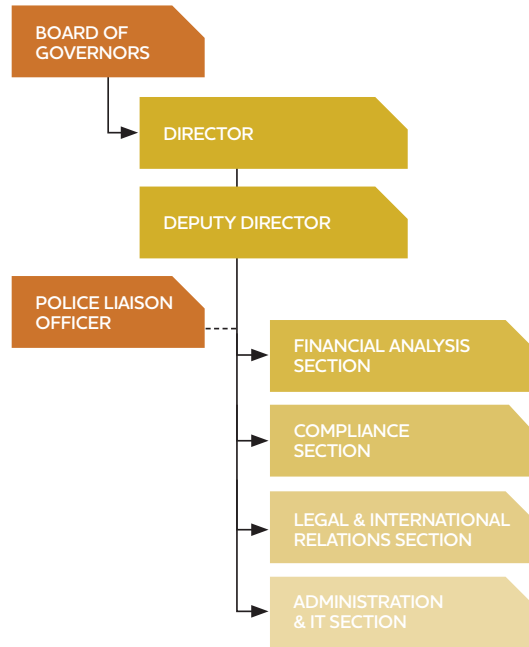
Other areas of responsibility

In addition to the key areas of responsibility outlined above, the FIAU is also tasked with carrying out several other functions also set out in Article 16 of the PMLA. These include:

- To instruct any subject person to take such steps as the Unit may deem appropriate to facilitate any ML/FT analysis in general or the analysis of any particular report received by the Unit;
- To gather information on the financial and commercial activities in the country for analytical purposes with a view to detecting areas of activity which may be vulnerable to ML/FT;
- To compile statistics and records, disseminate information, make recommendations, issue guidelines and advise the Minister on all matters and issues relevant to the prevention, detection,

analysis, investigation, prosecution and punishment of ML/FT;

- To promote the training of, and to provide training for, personnel employed with any subject person in respect of any matter, obligation or activity relevant to the prevention of ML/FT;
- To advise and assist persons, whether physical or legal, to put in place and develop effective measures and programmes for the prevention of ML/FT;
- To participate in international fora, including the working group and plenary meetings of the Egmont Group and MONEYVAL, and the meetings of the EU-FIU Platform and EGMLTF; and
- To report to the Commissioner of Police any activity which the Unit suspects involves money laundering or the underlying criminal activity, or funding of terrorism and of which it may become aware, even independently from the receipt of STRs, in the course of the discharge of any of its functions.



setting of the FIAU's policy and the **Director**, who heads the FIAU's operations, is responsible for executing that policy.

The FIAU has four operational sections:

The **Financial Analysis Section** handles the receipt and analysis of STRs and the exchange of information with other FIUs and LEAs. This Section is also responsible for strategic and tactical analysis;

STRUCTURE OF THE ORGANISATION

The FIAU's governance responsibilities are divided between the Board of Governors and the Director. The **Board of Governors** is tasked by law with the



FINANCIAL ANALYSIS MANAGER
Mr Jonathan Ferris



COMPLIANCE MANAGER
Mr Charles Cronin



LEGAL AND INTERNATIONAL RELATIONS MANAGER
Dr Alexander Mangion



SENIOR ADMINISTRATIVE AND IT OFFICER
Mr Joseph Caruana



The **Compliance Section** carries out the supervisory and monitoring functions of the FIAU to ensure that subject persons are in conformity with the requirements under the provisions of the PMLFTR;

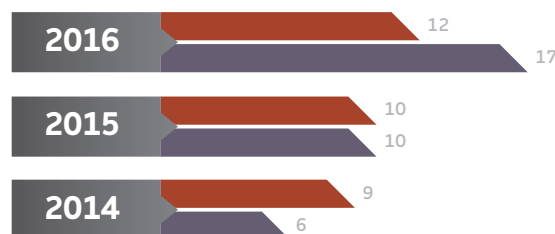
The **Legal & International Relations Section** deals with all internal legal matters, assists in the drafting of legislation and guidance, and manages relations with other FIUs and relations outside Malta; and

The **Administration & IT Section** manages the Unit's administrative, HR, accounting and IT set-up.

The Director also heads two internal committees, the **Financial Analysis Committee** and the **Compliance Monitoring Committee**, chairs the JCPMLFT, and acts as the 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, who is appointed by the Commissioner of Police, 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.

complement, a further five positions were vacant as at the end of the year, including the Director's position, and those of officers within the Legal and International Relations Section and the Financial Analysis Section. The number of female employees at the FIAU also continued to increase and now exceeds half the staff complement. Furthermore, all but one of the persons recruited by the FIAU during 2016 have a qualification level which is equal to or higher than that of an NQF level 6.



FIAU STAFF

The total staff complement of the FIAU continued to increase during the year reaching a total of 29 employees in line with the FIAU's development plan for 2015 to 2017. In addition to this staff



2. OPERATIONS

FINANCIAL ANALYSIS

The core function of the FIAU is carried out by the Financial Analysis Section, which is responsible for collecting, processing and analysing information obtained from numerous sources, with the main source being STRs, which are filed by persons subject to the PMLFTR. All STRs are acknowledged and the FIAU provides feedback on the quality of the STR to the reporting entity.

Once a STR is assigned to an analyst, a preliminary analysis is carried out, the result of which determines whether the elements surrounding the case warrant further in-depth analysis. Moreover, the preliminary analysis also serves to determine whether the Unit holds any relevant information on the subjects reported in the STR, to prioritise the case and draw up a foreseeable action plan.

Following the completion of an in-depth analysis, the findings are presented to the FIAU's FAC, which in turn meticulously evaluates the analyst's findings and concludes whether there is a reasonable suspicion of ML/FT. In the event that the Committee determines that a reasonable suspicion of ML/FT subsists, a detailed analytical report is disseminated to the Police for further investigation. In some instances, the Committee may also determine that sending a spontaneous intelligence report to another country's FIU is a more appropriate course of action. Further

information on this aspect is provided in the international co-operation section of this report.

Apart from the operational analyses carried out by the Financial Analysis Section, the Section also carries out periodical strategic analyses to identify ML or FT patterns, trends and typologies. Further information on this matter is available in typologies and trends within the Statistics Reporting subsection of this report.

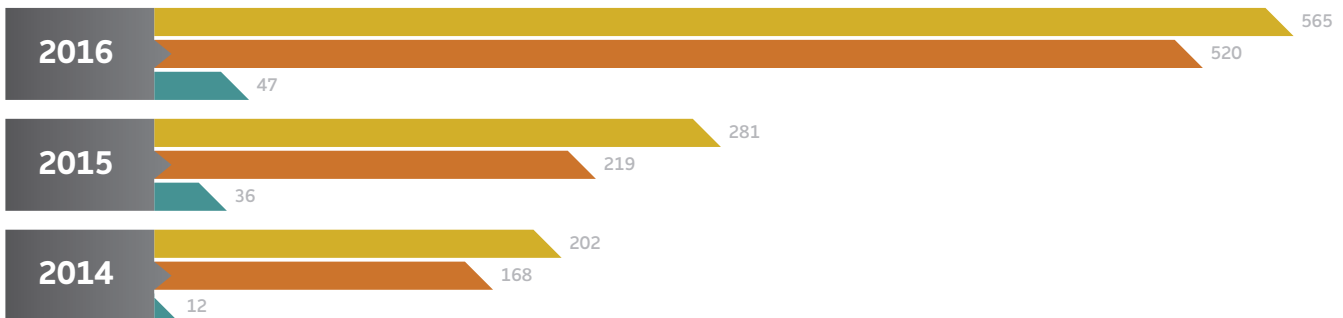
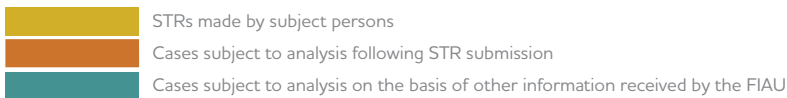
STATISTICS REPORTING

In 2016 there was an unprecedented increase in disclosures to the FIAU, with a further 284 disclosures received on top of those in 2015, bringing the total number of STRs submitted to 565. This resulted in the largest increase to date, both in absolute terms as well as in percentage terms, with a 101% increase over 2015.

As was the case in previous years, the increase in STRs led to an anticipated rise in the number of cases that the FIAU had to deal with. These STRs gave rise to 520 new cases, a 137% increase over 2015 and a 210% increase over 2014.

In addition to the 520 new cases that were generated as a result of STR submissions, the FIAU investigated a further 47 cases following the receipt of information from various other sources, bringing the total number

STRs & Cases (2014-2016)





of cases subject to an analysis by the FIAU during 2016 to 567. This is an increase of 122% over 2015.

The increase in the number of cases initiated by the FIAU over 2015 is partly attributed to the increase in international co-operation. During 2016, the receipt of information from its foreign counterparts contributed to almost 32% of the 47 cases initiated by the FIAU.

STRS BY CATEGORIES OF SUBJECT PERSONS

The STRs submitted to the FIAU during 2016 originated from 15 categories of subject persons. As was the case in 2015, a general increase was noted across practically all categories. For the fifth consecutive year, the increase in the absolute number of STRs was mainly attributed to an increase in reports from credit institutions, which in 2016 increased by 153% over 2015.

Of the 344 STRs filed by credit institutions during 2016, 313 were filed by the seven core domestic banks¹. In comparison to 2015, this marks an increase of 198% in STRs filed by this category of domestic banks. During 2016, the non-core domestic banks filed

22 STRs. The majority of these reports predominantly involved foreign, legal and natural persons having no connection to any Maltese natural or legal person.

Nine STRs were received in 2016 from credit institutions classified as international banks, which is a 125% increase over 2015. Customers of banks within this category have a very limited connection to the Maltese economy.

In addition to STRs filed by credit institutions, the FIAU noted a significant increase in the number of STRs received from remote gaming companies. The increase of 55 reports or 172% over 2015 related to foreign natural persons with limited connections to Malta.

Other increases were also noted in STRs filed by financial institutions, insurance licensees, trustees and fiduciaries, accounting professionals, company service providers and retirement scheme administrators.

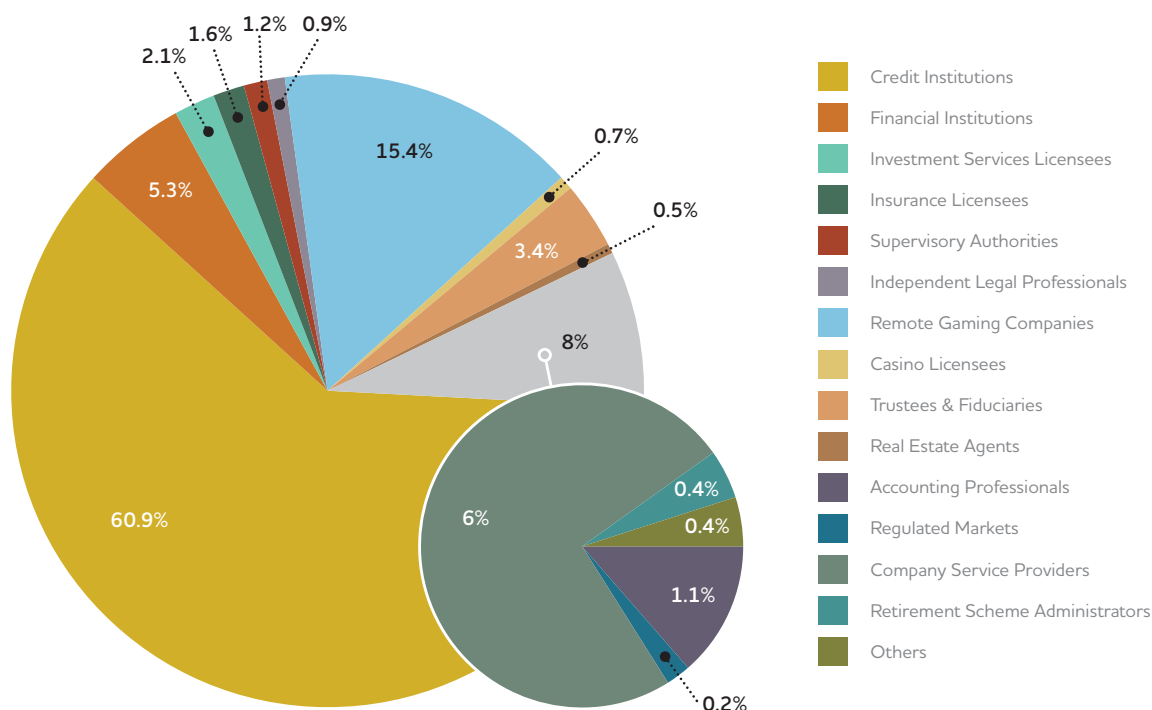
During the year under review, four sectors reported fewer STRs than reported in 2015. In particular, it was noted that the level of reporting by investment services licensees decreased by 54% compared to 2015, and reports from independent legal professionals decreased by 55%.

¹ Refer to Central Bank of Malta Financial Stability Review 2015, p 8, <https://www.centralbankmalta.org/financial-stability-report/>

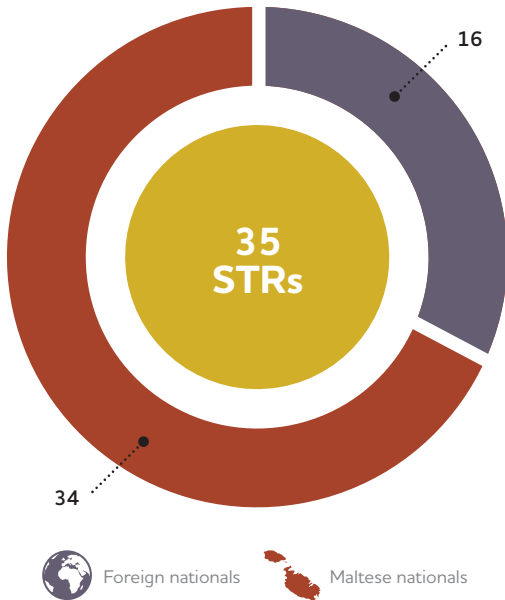
STRs filed by type of reporting entity in absolute numbers (2012-2016)

Type of reporting entity	2012	2013	2014	2015	2016
	N°	N°	N°	N°	N°
Credit Institutions	58	66	112	136	344
Financial Institutions	12	8	17	11	30
Investment Services Licensees	3	10	9	26	12
Insurance Licensees	0	1	1	7	9
Supervisory Authorities	4	2	3	10	7
Independent Legal Professionals	3	8	5	11	5
Remote Gaming Companies	14	17	22	32	87
Casino Licensees	6	0	1	3	4
Trustees & Fiduciaries	13	7	12	16	19
Real Estate Agents	0	0	2	6	3
Accounting Professionals	5	3	2	4	6
Regulated Markets	1	1	1	0	1
Company Service Providers	18	15	13	18	34
Retirement Scheme Administrators	0	0	1	1	2
Others	5	5	1	0	2
TOTAL	142	143	202	281	565

STRs filed by type of reporting entity as a percentage of the total number of STRs (2016)



STRs in which only legal persons were the subject of the report

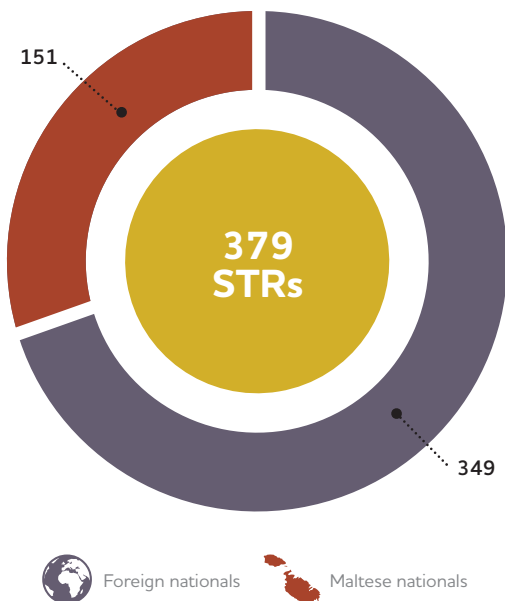


PERSONS SUBJECT TO STRS

The 565 STRs received in 2016 included reports on 971 natural and legal persons, which is a 61% increase over the previous year. This increase is mainly attributed to the larger number of disclosures made to the FIAU during 2016. It is pertinent to note that the following tables list a total of 562 STRs. The remaining three STRs, which are not accounted for in these tables, are reports that did not pertain to any named natural or legal person, but rather reported an offence in which the persons suspected of being linked to ML/FT were not identified.

Of the legal and natural persons reported to the FIAU during 2016, just over 63% were either non-Maltese nationals or foreign companies. As was noted in previous years, this underlines the strong international element to which Maltese reporting entities are exposed.

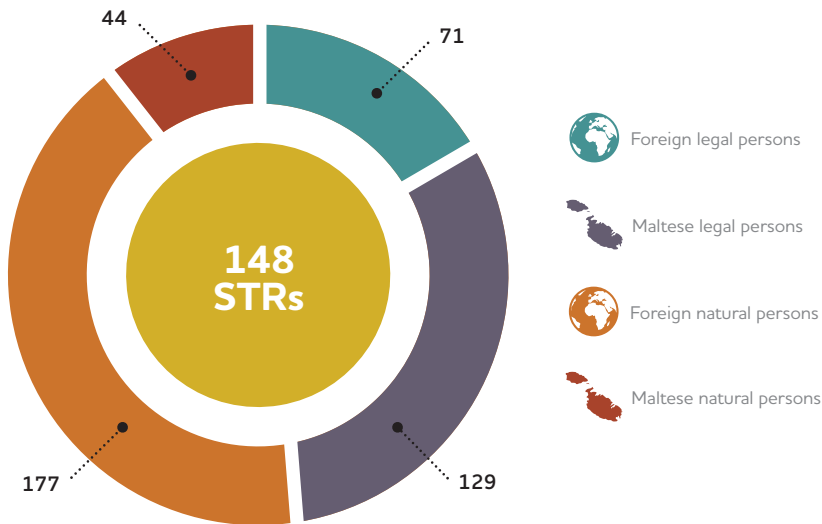
STRs in which only natural persons were the subject of the report



More than 67% of the STRs received by the FIAU in 2016 reported suspicions in respect of natural persons only, of which almost 70% were non-Maltese nationals. These reports were predominantly submitted by credit institutions

More than 26% of the STRs submitted to the FIAU during 2016 contained a suspicion in relation to at least one natural person and one legal person. A total of 421 natural and legal persons were reported to the FIAU under this category of STRs. As was the case in 2015, the majority consisted of foreign nationals who incorporated companies under Maltese law. This is representative of the typology the FIAU noted involving Maltese-registered companies that are owned by foreign nationals. Further information on this matter is available in the typologies and trends section of this report.

STRs in which at least one natural person and one legal person were subject of the report



REQUESTS FOR INFORMATION

In 2016 there was an increase of almost 39% over 2015 in requests for information made by the FIAU, with the FIAU approaching over 253 entities to gather information. This included persons subject to the PMLFTR, foreign FIUs, the Police, supervisory authorities, Government departments, ministries and agencies.

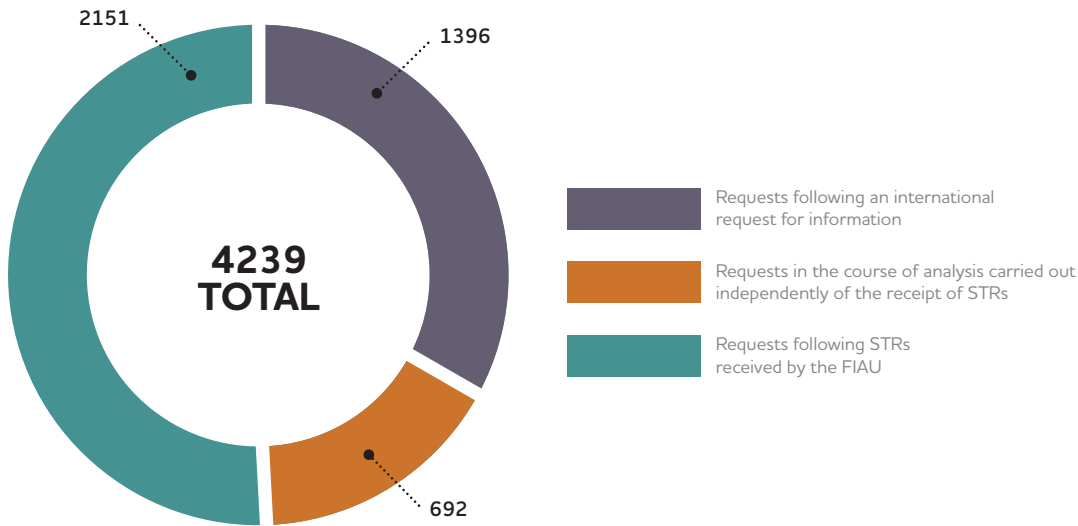
Requests made by the FIAU following the receipt of an international request for information contributed to 33% of all requests made in 2016 compared to 23% in 2015. In absolute terms this equates to an increase of 680 requests for information over the previous year.

As has been noted over previous years, credit institutions still remain the primary source of information for the FIAU. This is evident from the fact that more than 87% of all the requests for information sent by the FIAU in 2016 were directed towards such entities.

“...credit institutions remain the primary source of information for the FIAU.

...more than 87% of all requests for information sent by the FIAU in 2016 were directed towards such entities.”

Requests for information made by the FIAU by type of initial disclosure (2016)



Number of requests sent



OUTCOME OF ANALYSIS

The Financial Analysis Section of the FIAU dealt with 710 cases in 2016, 20% of which were initiated prior to the year under review. Of these cases, the FIAU concluded 364 cases, and a further 346 remained ongoing as at the end of the year.

The number of cases that were forwarded to the Police for further investigation also increased substantially in comparison to previous years, with a total of 39 analytical reports being sent to the Police

by the end of the year following a determination of reasonable suspicion of ML/FT. In addition to the cases that were forwarded to the Police, the Unit's officials concluded a number of other cases towards the end of the year. These were subsequently forwarded to the Police during 2017 and are therefore not included in the figure of 39 cases referred in 2016.

Despite the noticeable upturn in the total number of cases subject to an analysis by the FIAU in 2016, the percentage of cases forwarded to the Police

remained unchanged compared to 2015. Although, in percentage terms, the number of cases referred to the Police still amounted to 11% of the 364 cases concluded in 2016 (39), the Unit experienced an increase in the number of cases where it is considered more appropriate to send a spontaneous intelligence report to foreign FIUs rather than to trigger an investigation in Malta. Further information in relation to the sharing of spontaneous intelligence

reports is available in the international co-operation section of this report.

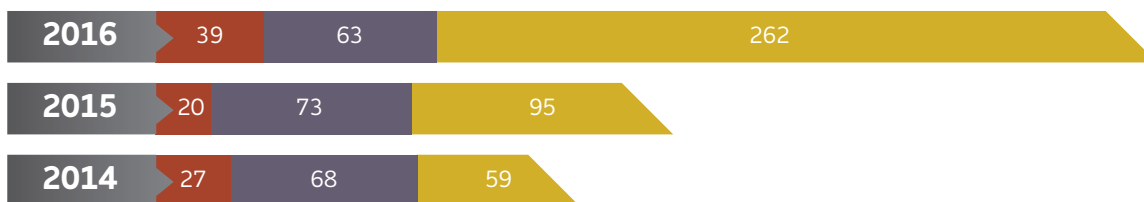
Over 64% of the cases referred to the Police for further investigation originated from STRs that were submitted to the FIAU by credit institutions. As was the case in previous years, this figure reiterates the salient role credit institutions have in protecting the financial system from ML/FT.

Percentage of cases referred to the Police for further investigation (2012-2016)



Outcome of cases (2014-2016)

Legend: Sent to Police (Red), No further action (Dark Blue), No case (Yellow)



Figures quoted do not correspond with the 2015 Annual Report due to the re-categorisation of cases following the receipt of additional information.

SUSPECTED PREDICATE OFFENCE

As has been noted over the past five years, fraud once again featured as the predominant predicate offence, accounting for over 23% of the cases referred to the Police for further investigation. In a number of these cases, a reasonable suspicion arose that foreign nationals made use of domestic entities to launder the proceeds of predicate offences carried out in foreign jurisdictions. Further information on these cases is available in the typologies and trends section of this report.

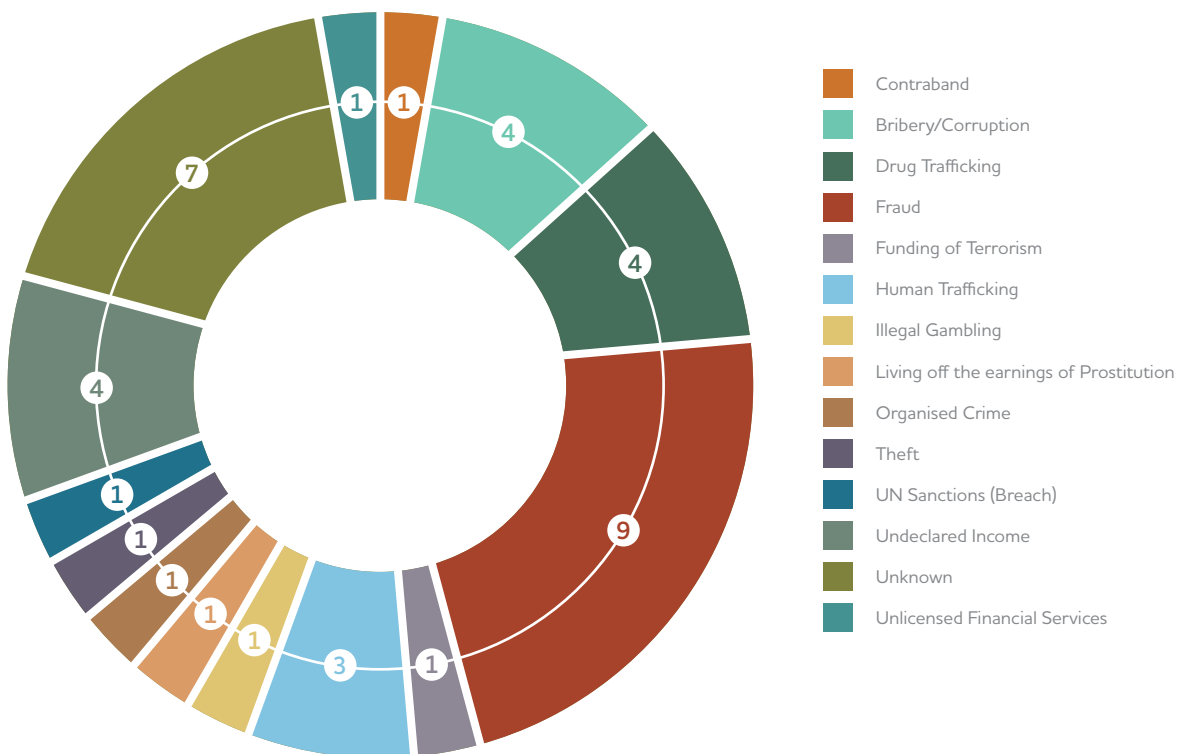
Funds suspected to be the proceeds of drug trafficking carried out domestically featured in a few cases, as did funds suspected to be proceeds of undeclared income. Other cases referred to the Police for further investigation were considered to relate to the

laundering of funds linked to bribery/corruption and human trafficking.

In light of recent events, the financing of terrorism once again featured prominently in the agenda of international bodies having AML/CFT functions. As a result, for the second year running, one case of suspected FT was identified and forwarded to the Police for investigation.

As was the case in previous years, some cases that were referred to the Police for further investigation did not identify the suspected predicate offence. Despite the lack of a precise indication of the underlying predicate offence, the elements necessary to form a reasonable suspicion of ML/FT were still evident in these cases.

Suspected predicate offences in cases referred to the Police on suspicion of ML/FT (2016)



TYOLOGIES AND TRENDS

The predominant typology observed in the cases analysed by the FIAU and forwarded to the Police during 2016 involved a number of foreign nationals, many of whom live in Malta and who possibly used the Maltese financial system to launder the proceeds of suspected illicit activity. As noted in previous years, the use of Maltese bank accounts, SWIFT and SEPA transfers featured prevalently.

In addition, the FIAU identified an increase in the use of financial institutions' services to move funds between different jurisdictions as a noteworthy typology. In 2016, the FIAU referred six cases to the Police for further investigation in which financial institutions were used by people suspected to be involved in human trafficking and fraud.

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

As was noted in previous years, suspicions involving domestic bank accounts pertaining to non-Maltese nationals featured prominently, as did the use of Maltese-registered companies that were beneficially owned by non-Maltese nationals. In fact, four cases sent to the Police during 2016 featured a Maltese-registered company, three of which in turn had the involvements of non-Maltese nationals. The domestic companies that featured in cases sent to the Police for further investigation were suspected to be formed as part of international networks used to launder proceeds of fraud and bribery.

The use of accounts held with domestic credit institutions featured in a number of cases where fraud was the suspected predicate offence. However, during the year under review, the use of domestic bank accounts was also noted in cases where the suspected predicate offence was bribery, corruption, illegal gambling, drug trafficking, undeclared income, unlicensed financial services and organised crime.

Company service providers and licensed financial institutions

An increase was noted in the use of services provided by company service providers in cases sent to the Police in 2016, with four cases featuring this use. The FIAU also noted an increase in the use of services



provided by financial institutions compared to 2015. Of the 39 cases that were sent to the Police for further investigation, 15% featured the use of financial institutions to move funds in cash between different natural persons and jurisdictions.

The use of cash

In comparison with 2015, an increase was noted in the number of cases sent to the Police involving the use of cash. The suspected predicate offence in the majority of these cases was drug trafficking. The most common red flag indicators in these cases were the volume of deposits that were not in line with the customer's profile as well as the failure to provide supporting documentation on the origin of the funds being deposited in cash.

As was the case in 2015, the use of cash was also noted in a case where the suspected predicate offence involved the provision of services of a financial institution by way of business without the required licence under the Financial Institutions Act by Maltese nationals who were involved in the encashment of a substantial number of third-party cheques.

The use of remote gaming companies

In the disclosures made to the FIAU during 2016 the predominant typology in the remote gaming industry was the use of stolen card and identification details. This trend highlighted a sector-specific method of ML in the remote gaming sphere.

INTERNATIONAL CO-OPERATION

The FIAU proactively co-operates and exchanges information with counterpart FIUs both when pursuing its analytical cases and when assisting counterpart FIUs in their functions, especially when these would be analysing cases that involve Maltese subjects or cases that have some form of link to Malta. Information is exchanged with counterpart FIUs following requests for information, or on a spontaneous basis, through specifically dedicated channels and systems. Members of the Egmont Group of FIUs exchange information via the Egmont Secure Web. In addition to the Egmont Secure Web, EU FIUs also avail themselves of the FIU.NET system.

To facilitate such co-operation and exchange of information, the FIAU has over the years signed a number of MoUs with foreign counterparts. Though not a necessity in terms of Maltese legislation, the signature of MoUs enables the FIAU to co-operate with FIUs that are required by their national laws to have MoUs in place to regulate the exchange of information. During 2016 the FIAU concluded a MoU with the FIU of Israel. Over the years, the FIAU has signed 15 MoUs with the FIUs of Belgium, Cyprus, the Principality of Monaco, Latvia, Slovenia, Romania, San Marino, Canada, South Africa, Japan, Tunisia, the Holy See, Georgia, Panama and Israel. A number of other MoUs are also currently being negotiated.

Over the years, the FIAU has signed 15 MoUs with the FIUs of Belgium, Cyprus, the Principality of Monaco, Latvia, Slovenia, Romania, San Marino, Canada, South Africa, Japan, Tunisia, the Holy See, Georgia, Panama and Israel.

Requests made by the FIAU to other FIUs

A decrease of almost 37% was noted in the number of requests for information made to other FIUs during 2016, despite the significant increase in the number of cases subject to an analysis by the FIAU.

As was the case during 2015, this reduction is in part due to the large number of STRs received by the FIAU that did not result in an in-depth analysis following a prima facie review. In addition, the Unit has seen an increase in the number of cases where sending a spontaneous intelligence report to foreign FIUs is considered to be the more appropriate course of action.

Just as in previous years, the majority of requests made by the FIAU were to FIUs of European countries. Requests made to these FIUs consisted of almost 70% of all requests for information made by the FIAU, with the top counterparts being Italy, the United Kingdom, the Czech Republic and Latvia. This was followed by the FIUs in the Americas, to which the FIU sent almost 16% of its requests and in Asia, to which the FIAU sent almost 9% of its requests.

Requests for co-operation and assistance (2012-2016)

Year	Number of requests received by the FIAU	Number of requests made by the FIAU
2012	74	179
2013	96	152
2014	100	196
2015	125	179
2016	132	113

The timeliness of foreign FIUs in replying to international requests for information made by the FIAU is considered to be satisfactory given that, 51% of the requests made were replied to within a month. However, as was noted in 2015, the delay in replies of the remaining 49% of the requests made is one of the main factors contributing to delays in concluding cases.

Requests for assistance made by the FIAU – by region and number of FIUs (2016)

Region	Number of requests made by the FIAU	Number of FIUs to which a request was made by the FIAU
EU/EEA	63	22
Europe (non-EU/EEA)	16	9
Asia	10	7
Americas	18	8
Africa	3	3
Oceania	3	2

Timeliness of responses by foreign FIUs to requests for assistance made by the FIAU (2016)

Time taken for the foreign FIUs to reply	Number of answered requests
Within 1 week	21
Within 1 month	37
Longer than 1 month	34
TOTAL	92

Requests received by the FIAU from other FIUs

An increase of almost 6% was noted in the number of international requests for information received by the FIAU during 2016 when compared to 2015, reaching a new record figure of 132 requests.

Over 78% of the requests received originated from 29 European countries, with the main originators of these

Requests for assistance received by the FIAU – by region and number of FIUs (2016)

Region	Number of requests received by the FIAU	Number of FIUs from which a request was received by the FIAU
EU/EEA	85	20
Europe (non-EU/EEA)	18	9
Asia	10	8
Americas	11	6
Africa	7	2
Oceania	1	1

requests being the United Kingdom and Italy. Europe was followed by the FIUs in the Americas from where 8% of the requests received by the FIAU originated, and Asia, which accounted for more than 7% of the requests received during 2016.

There was a decline compared to previous years in the time taken by the FIAU to reply to international requests for information. Of the 132 requests received by the FIAU during 2016, a total of 114 requests were replied to by the end of the year. Of these requests for information, 67% were replied to within a month of the date of receipt. This decline is partly attributed to the increase in complexity of these requests for information, as is evident in the requests for information section of this report where a significant increase was noted in the number of requests for information made by the FIAU following the receipt of an international request for information.

Timeliness of responses by the FIAU to requests for assistance received from foreign FIUs (2016)

Time taken for the FIAU to reply	Number of answered requests
Within 1 week	39
Within 1 month	49
Longer than 1 month	26
TOTAL	114

Spontaneous Intelligence Reports

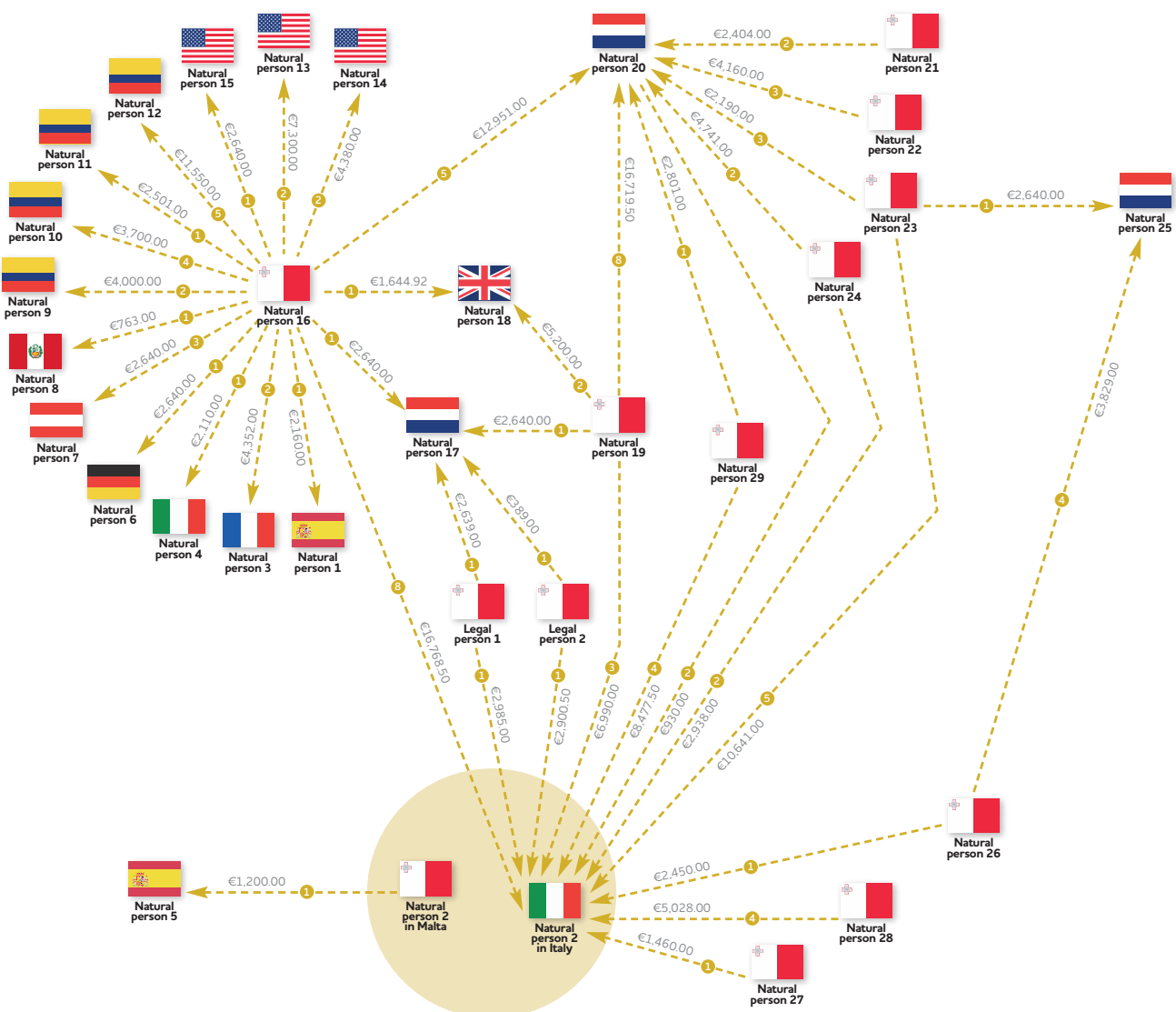
As has been noted throughout this report, the sharing of information between FIUs in the form of spontaneous intelligence reports continued to increase in 2016. A total of 135 spontaneous intelligence reports were disseminated by the FIAU to the FIUs in 54 countries. This represents an increase of over 75% compared to 2015 and 170% over 2014.

As was the case in 2015, one of the primary factors behind this development was the increase in the number of STRs that were made on persons who have a limited connection to Malta, such as persons of foreign nationality and residency who are suspected

of having used a gaming platform situated in Malta to launder funds, with the funds never being transferred to or through Malta. Due to the limited connection such STRs have to Malta, the FIAU typically determines that the dissemination of a spontaneous intelligence report to the FIU of the country or countries concerned is the more appropriate course of action.

A further increase over 2015 was also noted in the number of spontaneous intelligence reports received by the FIAU throughout the year: 85, a 63% increase over 2015. This further shows a continuous growth in the propensity of other FIUs to share information with countries linked to their cases.

Example of an analytical chart



All data and details shown in the above chart are entirely fictitious.



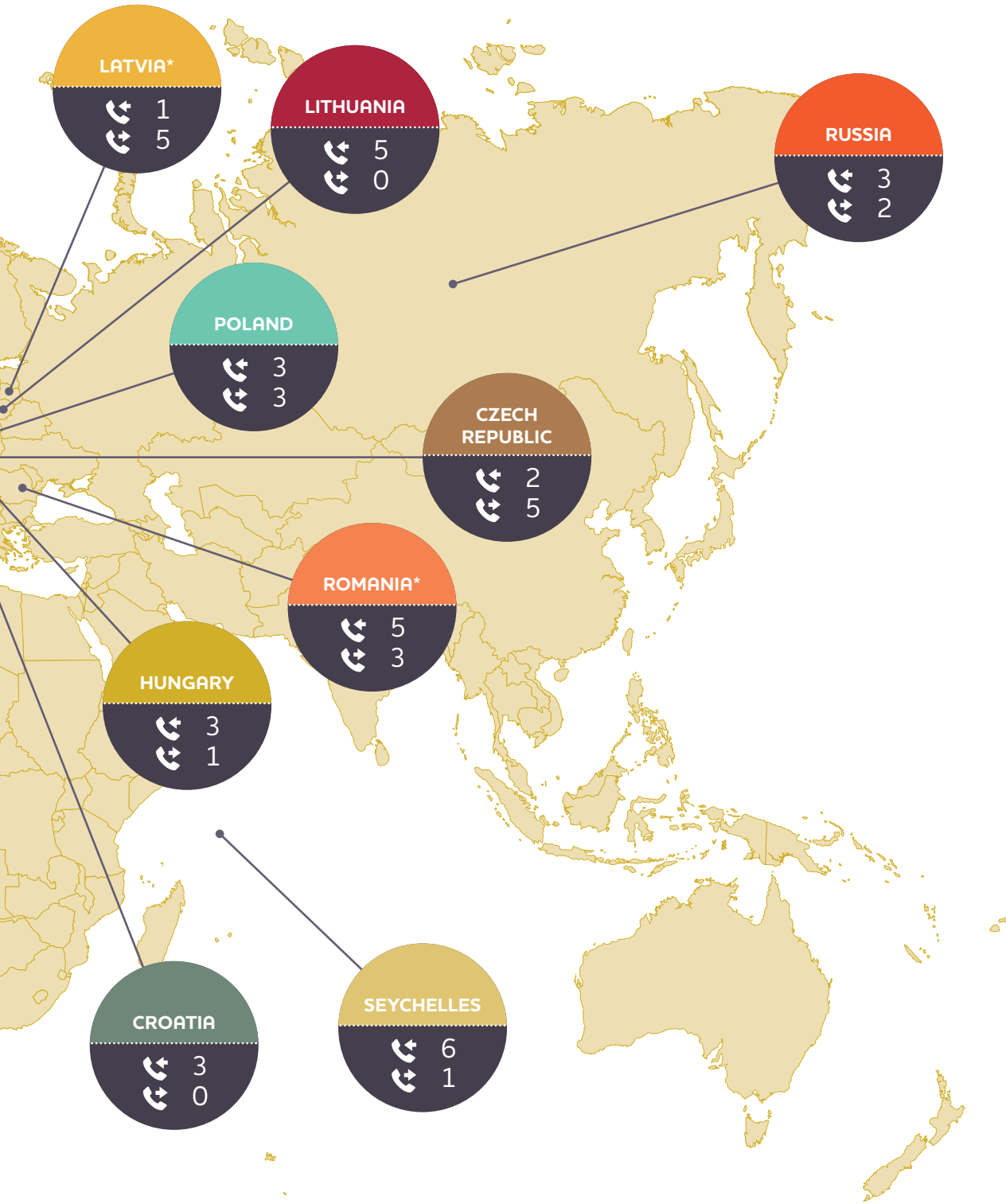
REQUESTS FOR CO-OPERATION AND ASSISTANCE (2016)

 Requests received by the FIAU

 Requests made by the FIAU

Full country list on pages 44-45

* Country with MoU signed with FIAU



COMPLIANCE MONITORING

Article 26 of the PMLA tasks the FIAU with the responsibility for monitoring and ensuring subject person compliance with the PMLFTR and Implementing Procedures. The Compliance Section of the FIAU is responsible for this task, which is achieved through on-site compliance examinations and off-site assessments of subject persons falling within the definitions of “relevant financial business” and “relevant activity” under the PMLFTR.

In line with international standards, the Compliance Section adopts a risk-based approach to manage the supervision of the large number of subject persons based in Malta. The Compliance Section considers multiple risk factors during its risk assessment, which evaluates the risk posed by each subject person. The results of this risk assessment directs the allocation of the Compliance Section’s supervisory resources.

The selection of subject persons for on-site examinations is a product of the above risk assessment, intelligence from the Analysis Section, and a sectorial weighting factor, which is also a product of the risk assessment.

While the Compliance Section primarily allocates its resources towards those sectors and subject persons perceived to present a higher level of ML/FT risk, an arbitrary factor is included in the selection procedure to maintain adequate supervision of all entities and individuals subject to the PMLFTR.

On-site monitoring

On-site supervision is the primary activity through which the Compliance Section monitors subject person compliance with the PMLFTR and the Implementing Procedures.

On-site supervisory examinations are either carried out by the FIAU, or by supervisory authorities acting as agents for the FIAU. As the competent authority, the FIAU is actively involved when other supervisory authorities act on its behalf. This involvement includes the sharing of information on the subject person prior to the on-site examination, together with any specific AML/CFT issues that the FIAU considers should be given more prominence during the examination. Post-examination support includes assistance with the preparation of compliance reviews and any examination findings. Irrespective of which authority leads the on-site examination, the FIAU has sole responsibility for issuing breaches and determining sanctions on subject persons.

An on-site examination typically involves off-site preparatory work, including the collection and review of various documentation from the subject person and other ancillary work. Typically, an on-site examination proceeds with an interview with the MLRO and, where appropriate, other employees. This is followed by a review of a sample of customer files selected by the Compliance Officers during the off-site preparatory work. Subject persons are provided with a list of customer files for review usually at the end of the MLRO interview.

Joint agreement between the FIAU and the MFSA

During the last quarter of 2015, the MFSA formed an Enforcement Unit with a remit and resources to act as the FIAU’s agent to supervise the subject persons of the financial sector for compliance within the PMLFTR and Implementing Procedures.

From January 2016, both supervisory authorities combined their resources with the aim of ensuring the adequate AML/CFT supervision of all subject persons, across all sectors. It was agreed that during 2016 the MFSA would carry out on-site compliance examinations on the financial sector as agents of the FIAU; while the FIAU would focus its resources on on-site compliance examinations on DNFBPs. Independently of this agency relationship, the FIAU remains the sole authority responsible for reviewing cases presented before it, and for taking decisions on any breaches and the sanctions imposed.

During 2016, a total of 60 on-site compliance examinations were carried out by the FIAU on DNFBPs, and 36 on-site compliance examinations were carried out by the MFSA on the financial sector. Some of the on-site compliance examinations carried out by the MFSA were carried out as joint visits with the FIAU.

The table below indicates the visits conducted by the FIAU and those carried out by the MFSA as agents of the FIAU.

On-site AML/CFT examinations conducted by the FIAU and the MFSA			
	2014	2015	2016
FIAU	24	47	60
MFSA	23	24	36
TOTAL	47	71	96

The number of compliance examinations conducted by the FIAU has increased throughout the past three years. As outlined above and indicated in the table below, in 2016 the FIAU has primarily carried out examinations on DNFBPs. As a result of the agency agreement with the MFSA and their contribution to the on-site examinations of the financial sector, the FIAU was able to focus its resources on compliance within the DNFBP group and to determine the extent of ML/FT risks found within each sector.

On-site AML/CFT examinations conducted by the FIAU subdivided into DNFBPs & the Financial Sector

	2014	2015	2016
DNFBPs	10	28	59
Financial Sector	14	19	1

Within the DNFBP group on which the FIAU focused its resources, the Unit's risk-based mechanism honed in on those sectors that are perceived to have higher risks of facilitating ML/FT. These are identified as the CSPs, Accountants/Auditors and Notaries. As confirmed in the table below, these four higher-risk sectors accounted for the majority of DNFBP on-site examinations.

Visits by category of subject persons

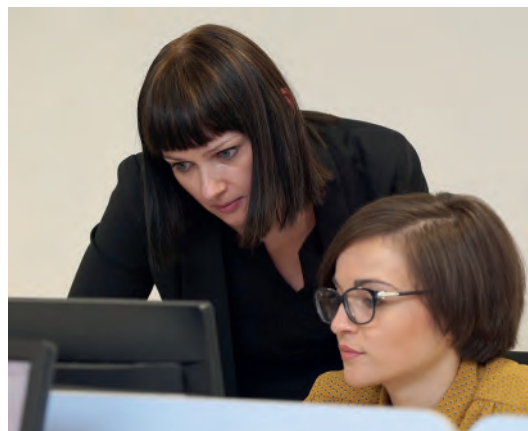
Category	Percentage
CSPs	28%
Accountant/Auditors	19%
Notaries	16%
Real Estate Agents	14%
Advocates	11%
Tax Advisors	9%
Investment Services – Category 2	1%
Credit Institutions	1%
Legal Procurators	1%

Off-site monitoring

Off-site monitoring is another important aspect of the Compliance Section's activity. Typically, off-site supervision is a process by which the Compliance Section conducts a thorough analysis of a subject

Typically, off-site supervision is a process by which the Compliance Section conducts a thorough analysis of a subject person's business to gain an in-depth understanding of the ML/FT risks associated with that business

person's business to gain an in-depth understanding of the ML/FT risks associated with that business. The process begins with a request for documentation and information from the subject person. This is supplemented by the collection of additional information from public sources. Together these resources are analysed and evaluated to determine the ML/FT risks inherent with the subject person's business, and to understand what measures the subject person has in place to mitigate and manage these risks. The process is usually followed up through a meeting with senior management and the MLRO to test and complete the analysis. On conclusion of the off-site inspection, the Compliance Section provides feedback of its analysis to the subject person.



Annual Compliance Report

Subject persons are required to complete and submit an ACR to the Compliance Section within the FIAU. The information obtained from the ACR assists the Compliance Section in carrying out its off-site oversight, and plays an instrumental part in evaluating the level of ML/FT risk inherent with the subject person's business. This risk information factors into the Compliance Section's risk assessment process, which in turn assists the section in its selection of subject persons for an on-site examination.

Over the past years the number of subject persons submitting the ACR has increased, as indicated in the table below. This increased body of information has allowed the Compliance Section to refine its analysis of the ML/FT risk exposure of different subject persons.

Failure to submit an ACR is an adverse risk indicator that the Compliance Section takes into consideration when determining the subject persons that should be subjected to on-site or off-site examinations.

Percentage increase in the submission of ACRs

Years	% increase
2013-2014	14%
2014-2015	25%
2015-2016	9%

Assistance on AML/CFT obligations of subject persons

A role entrusted to the Compliance Section is that of providing support to subject persons with respect to AML/CFT issues. The Compliance Section, in collaboration with the Legal and International Relations Section, provides legal interpretation on certain situations that may be encountered by subject persons while carrying out their business.

Compliance Monitoring System

During 2016, the Compliance Section initiated a project to upgrade its subject person database and risk analysis system, known as the CMS.

The CMS comprises of an integrated database of subject persons and their compliance data. The new CMS, with its increased functionality, will also include a reporting/analytical engine to streamline FIAU processes. A key feature of the new analytical engine will be a risk algorithm that enables the FIAU to score subject persons against a variety of risk criteria. Once functional, the risk algorithm will enable the Compliance Section to rapidly assess a subject person's absolute and relative risk and to re-evaluate that risk in response to a change in circumstances. This quantitative risk tool will support qualitative analysis to determine the level of supervision that is appropriate for each subject person. The last component of the new CMS will be a portal through which subject persons will submit their relevant forms and data, as well as their ACRs.

A number of proposals have been received from different system development companies bidding for the design and implementation of the new CMS. A team composed of a chairman, three evaluators and a secretary was set up to evaluate these proposals. The evaluators have reviewed and shortlisted the proposals. The successful bidder will be announced in early 2017 on completion of the adjudication process. It is anticipated that the new CMS will be fully operational in early 2018.

Sanctions

Article 18(3) of the PMLA assigns the responsibility to consider breaches of the AML/CFT legislative provisions and to take the appropriate actions to the Director of the FIAU. The Director's powers vested in Article 18(3) are exercised through the CMC. The CMC was established by the Board of Governors of



the FIAU, as a delegated body to consider cases brought before it by FIAU and MFSA case officers, in relation to potential breaches of the PMLFTR, the Implementing Procedures and other Guidance Notes issued by the FIAU. The members of the CMC are the Director of the FIAU, the Deputy Director, the Compliance Manager, the Legal and International Relations Manager and the three Senior Compliance Officers.

The main responsibilities of the CMC are the consideration of:

- Contraventions by subject persons of any of the provisions of the PMLFTR, the Implementing Procedures or Guidance Notes; and/or
- Failures by subject persons to comply with any lawful requirement, order or directive issued by the FIAU under the PMLFTR or PMLA.

The CMC considers the potential failures and breaches brought to its attention to determine whether to impose an administrative sanction (either an administrative penalty or a written reprimand). The CMC also decides the quantum of any administrative penalty.

In 2016 the CMC met 15 times to assess cases of potential breaches of the PMLFTR and/or the Implementing Procedures by the Financial Sector and the DNFBPs identified through on-site compliance examinations, off-site monitoring and other sources.

In reaching its conclusions, the CMC takes a number of factors into consideration. These include but are not limited to the seriousness of the breach, the extent to which the breach was deliberate or reckless, the financial resources and other circumstances of the subject person on whom the sanction is to be imposed, the subject person's conduct prior to and/or following the breach, the subject person's size and disciplinary record, and the subject person's compliance history.

In 2016 a number of penalties, reprimands and warnings were levied against subject persons who

infringed the provisions set out in the PMLFTR and the Implementing Procedures.

The table below indicates the number of penalties imposed by the FIAU on subject persons over the years.

Number of administrative sanctions over the past three years

	2014	2015	2016
Reprimands	65	20	6
Penalties	35	56	167

The total penalties levied in 2016 amounted to €126,775 of which €77,650 were imposed on Credit Institutions. Other administrative sanctions were issued to Trustees & Fiduciaries, Advocates, Accountants and Auditors, Notaries, Insurance Brokers, Investment Services Providers and Company Service Providers.

All subject persons who failed to submit the 2016 ACR were levied an administrative sanction of €250.

The table above illustrates a decline in reprimands and an increase in penalties over the last few years. These trends reflect a maturing of understanding by subject persons of their obligations under the PMLFTR and Implementing Procedures. As a consequence the CMC has become less tolerant of breaches in the PMLFTR and Implementing Procedures. This is particularly evident in 2016, where the CMC adopted a zero tolerance attitude for late filing of ACRs.

The table below breaks down the number of administrative sanctions imposed on different categories of subject persons.

Number of administrative sanctions given during 2016 according to sector – DNFBPs & the financial sector

	Reprimands	Penalties
DNFBPs	3	126
Financial Sector	3	41

€126,775 in administrative penalties were levied in 2016, of which €77,650 were imposed on Credit Institutions



MONEY LAUNDERING CASES

This section provides a review of judgments delivered by the Courts of Malta in relation to money laundering charges. In 2016 the Courts handed down four money laundering convictions and confirmed on appeal a money laundering conviction delivered by the court of first instance in 2015. In 2016 the Courts also acquitted two persons who were accused of money laundering.

IL-PULIZIJA VS OMISSIS

COURT OF MAGISTRATES (MALTA) AS A COURT OF CRIMINAL JUDICATURE 22 JUNE, 2016

Nature of laundering offence: Third-party laundering
Type of predicate offence: Fraud
Penalty: 2 years imprisonment

The accused was charged with money laundering and, following the filing of a guilty plea, sentenced to two years imprisonment, suspended for four years.

THE REPUBLIC OF MALTA VS JOHN JOSEPH EVANS

CRIMINAL COURT 6 JULY, 2016

Nature of laundering offence: Self-Laundering
Type of predicate offence: Drug related offences
Penalty: 12 years imprisonment and fine (*multa*) of €25,000

John Joseph Evans was charged with money laundering and drug related offences and pleaded guilty.

IL-PULIZIJA VS CHRISTIAN GRECH

COURT OF MAGISTRATES (MALTA) AS A COURT OF CRIMINAL JUDICATURE 6 OCTOBER, 2016

Nature of laundering offence: Self-Laundering
Type of predicate offence: Prostitution related offences

Penalty: 3 years imprisonment and a fine (*multa*) of €32,000

Christian Grech was accused of retaining and transferring to third parties the proceeds of a prostitution racket that was operated by his wife. Grech pleaded guilty to the money laundering charges brought against him.

**IL-PULIZIJA
VS
VINCENT ETIENNE VELLA**

**COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
30 NOVEMBER, 2016**

Nature of laundering offence: Self-Laundering

Type of predicate offence: Misappropriation

Penalty: Ten years imprisonment and fine (*multa*) of €95,000

Vincent Etienne Vella was employed as an accounts clerk with an online gaming company operating

from Malta. He was responsible for effecting payments on behalf of the company and, to this end, had access to its internet banking key to carry out the necessary fund transfers. In so doing, he also transferred funds to an account held in his father's name as well as payment on account for goods he acquired from another third party.

In the course of the proceedings, it transpired that the period during which his father's account had been operative roughly coincided with the accused's employment with the company. Funds deposited or received in that account were either withdrawn by the accused or used by him to acquire vehicles, some of which were registered in his father's name but used by him. His lifestyle was a further indication that he had access to significant financial resources which did not tally with his known activity. The Court considered this a textbook case of money laundering.

Appeals Cases

**THE POLICE
VS
ATINUKE NNE UGOJI**

**COURT OF CRIMINAL APPEAL
26 MAY, 2016**

The Court of Magistrates (Malta) as a Court of Criminal Judicature on 12 May, 2015, found Atinuke Nne Ugoji guilty of money laundering and for failing to make the necessary declaration to the Customs authorities while leaving Malta and carrying a sum in excess of €10,000.

The appellant contested the money laundering conviction arguing that the prosecution had failed to prove beyond reasonable doubt that it suspected that the money in her possession was linked to some illegal activity. The Court of Criminal Appeal concurred with the conclusions reached by the First Court and upheld the money laundering conviction. The First Court determined that the accused failed to provide sufficient proof to quell the doubts raised by the unconfutable evidence brought forward by the prosecution on her involvement in the drug trafficking operations of third parties linked to her.



Acquittals

IL-PULIZIJA
VS
JOHN FABER URUENA MOLINA

COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
28 JUNE, 2016

John Faber Uruena Molina was arrested at Malta International Airport on his arrival from Madrid along with two other men and a woman, Gloria Stella Vargas Pena, who was found in possession of drugs. Vargas Pena indicated that she was meant to deliver the drugs to the accused, who she had met on a previous occasion in Malta and had collected a sealed packet to be delivered to a person in Spain.

Uruena Molina was accused of conspiring to sell or deal in drugs and money laundering. He was found guilty by the Court of Magistrates for the first charge but was acquitted from money laundering charges, given that the prosecution failed to prove that the sealed packet contained monies, which were allegedly being laundered.

IL-PULIZIJA
VS
SHARON CAMILLERI

COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
13 JULY, 2016

Sharon Camilleri was charged with money laundering together with another man with whom she had a relationship and who was known to the Police. Though unemployed and receiving social benefits, Camilleri's assets included a safe deposit box which contained significant amounts of cash and jewellery, and to which her partner had access. Pending judgment, her partner passed away.

The Court considered that the prosecution had not managed to prove that the assets held by Camilleri were the proceeds of criminal activity. Notwithstanding her personal circumstances, her relationship with a person well known to the Police was not considered as sufficient to meet the necessary level of proof to establish this nexus. Though well known to the police her partner had never faced prosecution prior to this case and she had provided an explanation as to how she had derived the assets in her possession, which the Court considered as plausible to some extent.

The case is subject to appeal.

3. MANAGEMENT AND TRAINING



THE BOARD OF GOVERNORS

Thirteen meetings of the Board of Governors took place during 2016.

The Board met to discuss various high-level matters and a number of key decisions were taken, some of which were also aimed at improving the FIAU's policies and procedures. In fact, throughout the year, the Board approved and introduced a new policy on reduced hours to improve the Unit's family-friendly measures and also introduced a study leave policy to encourage members of staff to further their studies in areas of specialisation that are relevant to their duties. The FIAU also revised its performance appraisal system, making it more objective-oriented.

This Board's term came to an end on 20 January, 2017.

THE DIRECTOR

2016 has indeed been another year that was characterised by several major developments both at an operational and a governance level within the FIAU.

The FIAU continued to develop and strengthen its three operational sections in accordance with its development plan. Throughout the year, a total of

eight new positions were successfully filled in the Financial Analysis Section, the Compliance Section and the Legal and International Relations Section. The year was also marked by the appointment of three managers heading these sections; a development that has had a significant impact on the FIAU's output during the year.

2016 was also marked by the resignation in July of the Director of the FIAU, Dr Manfred Galdes, who served in this post since July 2008. On his resignation, the Deputy Director of the FIAU, Mr Alfred Zammit, was appointed by the Board of Governors as the Acting Director.

At an operational level, 2016 presented significant challenges at all levels. A major development that cannot go unnoticed is the record number of STRs received by the Unit: more than double the number of STRs received by the FIAU during 2015. The sudden increase in reporting is a positive development, indicating that reporting entities continued to become more vigilant. However, the sheer number of STRs has undeniably put pressure on the Unit's Financial Analysis Section.

The number of suspicious reports to be received by the FIAU in the coming years is expected to increase further as the Unit undertakes more training and awareness-raising initiatives and, also, in particular, as

online gaming operators become subject persons once the 4th AMLD is transposed into national legislation. Focusing on the Financial Analysis Section's resources and technological systems to be able to cope with the growing number of suspicious reports is going to be one of the FIAU's key priorities during the coming year.

Undoubtedly, one of the key drivers behind the growing number of suspicious reports is the stronger presence of the FIAU as a supervisory authority in the financial and non-financial sectors. The Compliance Section of the FIAU, which is responsible for ensuring that subject persons conform to their requirements under the PMLFTR, dealt with 96 on-site examinations in 2016. Following each on-site examination, subject persons are informed of the findings and requested to take remedial action where necessary. Where the FIAU determines that subject persons have infringed the provisions of the PMLFTR or the Implementing Procedures, the FIAU may also levy administrative penalties, reprimands or warnings. The momentum gathered in this area is having a major impact on the financial and non-financial sectors' ability to prevent their misuse for ML/FT purposes and to detect suspicious transactions or activity.

Further developments in this area are also being anticipated since the FIAU plans to enhance and further strengthen its level of co-operation with other supervisory authorities and to carry out more on-site examinations during 2017.

The monitoring of subject persons will also continue to develop as the FIAU adapts its risk-based supervision model as envisaged under the 4th AMLD.

In 2016 the transposition of the 4th AMLD took centre stage within the FIAU's Legal and International Relations Section. The Directive will be transposed into Maltese law through amendments to the PMLA and the PMLFTR. The FIAU is responsible for the transposition of large parts of the 4th AMLD. To this end the FIAU has drafted amendments to the PMLA which are being reviewed and has also drafted a revised version of the PMLFTR that will repeal the current regulations. The latter are being reviewed by an internal committee set up for this purpose.

The Legal and International Relations Section has also continued to work on a revised set of Implementing Procedures Part 1 to reflect the most recent changes to the PMLFTR and to provide further clarity on various matters. To this end, the proposed amendments to the Implementing Procedures Part 1 were issued for public consultation in October and the

Unit anticipates it will publish the revised set of Implementing Procedures in January 2017. In addition, the FIAU is also working on sector-specific implementing procedures covering areas including notaries, real estate agents, company service providers, trustees and insurance companies, as well as fiduciaries.

TRAINING



Members of the Financial Analysis Section at the AML/CFT Mock Trial Exercise, held at the MFSA. Members of the Police Force, the Attorney General's Office and the judiciary also attended.

Training received by FIAU staff

The FIAU considers the development of its human resources through ongoing training as key to the proper discharge of its functions. Throughout the year FIAU officers attend a number of seminars and conferences both locally and abroad. FIAU officers, especially those from the Compliance Section, attended a number of local seminars and conferences related to AML/CFT and the impact of the 4th AMLD. Moreover, officers from this section also attended a seminar on Money Laundering & Tax Evasion.

Officers from the Compliance Section attended two major AML/CFT conferences in London: the 10th Annual European AML and Financial Crime Conference, organised by ACAMS and the AML and Financial Crime Conference, organised by the AMLP Forum. Officers from the Legal and International Relations Section were also present at the ACAMS London seminar on KYC/CDD for the 21st Century.

Of particular interest was the attendance of the Egmont Corporate Vehicles and Financial Products course by an officer from the Financial Analysis Section. Held in Armenia in June over a three-day period, the course sought to increase analysts' knowledge on the international financial sector and corporate area, as well as providing them with a

greater understanding on how to conduct advanced tactical analysis of situations involving these vehicles and products.

Given the multi-disciplinary nature of the work carried out by the various sections within the FIAU, officers also received training in areas that are not intrinsically related to ML/FT. Thus, officers from the Compliance Section, and in some instances officers from the Financial Analysis Section, also attended courses related to various aspects of the financial services industry and its regulatory framework.

Training provided by the FIAU

In 2016 the FIAU has continued to disseminate information about ML/FT and AML/CFT obligations. FIAU officers have participated as speakers in a

number of seminars and conferences organised by private bodies and educational entities. In most instances the contribution by FIAU officers related to the impact of Directive 2015/849 and the proposed amendments to it. Of particular importance was the participation in a half-day conference organised by the Malta Bankers' Association on financial crime and its impact on the Maltese economy.

Late in November, the FIAU also organised a seminar on detecting and combating financial flows linked to migration-related crimes, terrorism financing and trade-based money laundering. Officials from the Dutch FIU and the UK National Crime Agency shared their experiences on each of these aspects with the over 400 delegates present. The level of attendance was very encouraging and highlights the need for more topic-specific training.



Participants at the three-day Egmont Corporate Vehicles and Financial Products course in Armenia

4. OTHER DEVELOPMENTS & INITIATIVES

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

The JCPMLFT, which is a committee chaired by the FIAU bringing together representatives of the various entities and persons subject to AML/CFT obligations and the competent authorities involved in combatting ML/FT, met three times during the year. Various matters of AML/CFT relevance were discussed, namely the EU legislative initiatives to step up the fight against ML and FT, the provision of sector-specific AML/CFT training, for which an ad-hoc sub-committee was set up to assist the FIAU, and the revision of the Implementing Procedures Part 1 with the JCPMLFT serving as a consultative and sounding platform. The Committee also discussed other issues and concerns that practitioners experienced in applying AML/CFT obligations.

THE EU'S ACTION PLAN FOR STRENGTHENING THE FIGHT AGAINST TERRORIST FINANCING

Following the terrorist attacks perpetrated throughout Europe, the EU sought to take further urgent action to step up the fight against terrorism and terrorist financing, and to ensure EU-wide co-ordinated action. The action plan approved in February 2016 seeks to achieve two main objectives: to identify terrorist funding and prevent movement of funds for terrorist purposes; and to disrupt the sources of revenue for terrorist organisations.

To achieve these key objectives, the action plan builds on existing EU rules and aims to complement them with additional rules. A time plan for the implementation of this action plan was set out, which has seen the EU Commission issue legislative proposals throughout the second half of 2016. Additional proposals are expected to be issued in 2017. Legislative proposals include amendments to the 4th AMLD, as well as legislative initiatives to harmonise the criminalisation and sanctioning of money laundering, curb illicit cash movements across borders, enhance the fight against the illicit trade in cultural goods and improve the regime for freezing terrorist assets.

EU COMMISSION'S PROPOSAL FOR A DIRECTIVE AMENDING THE 4TH ANTI-MONEY LAUNDERING DIRECTIVE AND DIRECTIVE 2009/101/EC

In July the EU Commission published a Directive proposal to amend the 4th AMLD and Directive 2009/101/EC. This was one of a number of legislative proposals identified in the EU's action plan for strengthening the fight against terrorist financing. The proposed Directive also seeks to bolster the transparency of legal entities and legal arrangements set up in the EU.

The proposal aims to ensure that virtual currency exchange platforms and e-wallet providers are covered by the 4th AMLD, limit further the CDD exemptions applicable to e-money instruments, improve co-operation between competent authorities, such as FIUs and their ability to access and source information, including by giving these authorities access to bank and payment account registers that should be set up, and harmonise the measures applicable for dealings with higher-risk jurisdictions. For the sake of improving the transparency of legal entities and arrangements the



Commission proposal seeks to widen the access to information on the beneficiaries of such entities and arrangements, and to require further legal arrangements to make available information about their beneficiaries.

Following the issuance of the Commission proposal, a number of working party meetings, chaired by the Slovak Presidency, were held and these led to the adoption by all Member States of a common position on the Commission's proposal. Discussions between the Commission, Council and European Parliament will follow in 2017 with the aim of reaching an agreement on the publication of a final draft. These discussions are expected to take place under the Maltese Presidency of the Council of the EU and officers from the FIAU will be taking an active part.

FATF STATEMENTS

The FATF is an international policy-making body that sets standards and measures for combating money laundering and financing of terrorism, and promotes and evaluates their effective implementation. One of the FATF's initiatives is to identify jurisdictions with strategic AML/CFT shortcomings and assist them in improving their systems. These jurisdictions are listed in public documents issued three times a year. The FIAU brings these documents to the attention of subject persons by publishing them on the FIAU website and circulating them with all subject persons.

AMENDMENTS TO THE IMPLEMENTING PROCEDURES

The FIAU issued a set of proposed amendments to the Implementing Procedures Part 1 for consultation with members of the JCPMLFT. Following this phase, which lasted until the end of January 2016, and after taking into consideration the comments and feedback received from representatives, the FIAU issued a revised version of its proposals and consulted once again with the JCPMLFT.

The amended version of the Implementing Procedures Part 1 will enable subject persons to carry out customer due diligence by making use of new technologies, provide further clarity and guidance on the implementation of certain AML/CFT obligations and ensure that recent AML/CFT legislative

amendments are reflected in the procedures. This amended version is expected to be published at the beginning of 2017.

EU ML/FT SUPRA-NATIONAL RISK ASSESSMENT

The 4th AMLD, published on 20 May, 2015, tasked the EU Commission with carrying out a supra-national assessment of the risks of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. In carrying out this assessment the EU Commission invited Member States' experts to share information and experience on ML/FT threats and vulnerabilities. A number of meetings have been held during the year on this theme, in which the Deputy Director of the FIAU and representatives of other Maltese competent authorities participated.

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 for Finance, who acts as a Sustainable Development Co-ordinator, in developing the Ministry for Finance's position in relation to any request by the Ministry for Sustainable Development, the Environment and Climate Change.

Over the years, the FIAU has adopted a number of measures aimed at minimising energy usage and the reduction of the Unit's carbon footprint, including the continued application of a policy requiring double-sided printing and segregating waste. In addition, the Unit ensured that any computer monitors that were not changed during 2015 were upgraded accordingly to energy efficient devices during 2016.

In 2013 a decision was taken to release the FIAU's annual report in electronic format and distributed by means of a USB drive. This decision was re-confirmed in 2015. In 2016, the FIAU decided to reduce the number of USB drives and resort to distributing the annual report to subject persons by means of e-mail. This measure is mainly intended to reduce the Unit's carbon footprint.

5. PARTICIPATION IN INTERNATIONAL FORA

THE EXPERT GROUP ON MONEY LAUNDERING AND TERRORIST FINANCING

The EGMLTF brings together experts from each of the 27 EU Member States and provides the Commission with advice on ML/FT issues. Its meetings in Brussels also allow an exchange of views on ML/FT between the various Member States as well as the Member States and the European Commission. The Maltese delegation that attends EGMLTF meetings is composed of FIAU officers.

In 2016 the EGMLTF was convened three times – on 5 February, 3 June and 11 October. All three meetings focused heavily on the transposition of the 4th AMLD and the proposed amendments, which requires action to be undertaken not only by individual Member States but also by the Commission itself. In the course of these meetings, delegates were provided with important updates on the additional measures included within the Commission's Action Plan to Strengthen the Fight against Terrorist Financing, and also had the opportunity to discuss outcomes of individual Member States' Mutual Evaluation Reports.

EU-FIU PLATFORM

The EU-FIU Platform is an informal gathering of Member States' FIUs. Set up in 2006 by the European Commission, it seeks to further strengthen collaboration and co-operation between the different FIUs.

The transposition of the 4th AMLD and the actions taken by the Commission in this regard were one of the main topics discussed

Five meetings took place in 2016 – on 26 January, 12 May, 10 June, 13 September and 15 December. The transposition of the 4th AMLD and the actions taken by the Commission in this regard were one of the main topics discussed. Other issues considered by the delegates were the relationship between the FIUs and EUROPOL, a series of projects intended to map and consider the powers of the Member States' FIUs relative to cross-border and international co-operation, as well as sharing experiences in relation to given typologies and cross-border disseminations.

WORKSHOPS ON THE TRANSPOSITION OF THE 4TH AMLD

The workshops organised by the European Commission to address possible issues encountered in the transposition of the 4th AMLD continued in 2016. During the three workshops held – on 29 January, 3 March and 28 April – representatives of Member States covered a number of aspects, ranging from the application of customer due diligence measures to the carrying out of risk assessments by DNFBPs to the application of Regulation (EU) 2015/847.

WORKING PARTY ON A DIRECTIVE TO AMEND THE 4TH AMLD

On 5 July, 2016, the European Commission issued a proposal to amend the 4th AMLD as part of the Action Plan to Strengthen the Fight against Terrorist Financing. This proposal was the subject of a number of meetings of the Working Party on Financial Services, held during the Slovak Presidency of the Council of the EU.

FIAU officers formed part of the Maltese delegation which participated at these meetings as technical experts. One of the main aspects that was subject to intense discussion was access to the beneficial ownership registers to be established for legal entities and arrangements. Agreement on this proposal was reached at Council level on 20 December, 2016.



THE EGMONT GROUP

The Egmont Group of FIUs is an informal network of 151 FIUs that encourages deeper co-operation between its members as an effective means to counter money laundering and the funding of terrorism.

On 1 February, 2016, the Egmont Group held an extraordinary meeting in Monaco to discuss how it can respond positively to terrorist financing, especially when this involves ISIL and foreign terrorist fighters. Attended by the Heads of its member FIUs, or their designated representatives, the meeting adopted a series of recommendations and initiatives aimed at reinforcing the Egmont Group's efforts in combatting the funding of terrorism. The FIAU was represented by its Director and Deputy Director.

MONEYVAL

Moneyval is a body of the Council of Europe that assesses compliance with the main international standards relative to countering money laundering and the funding of terrorism. More into specifics, it conducts mutual evaluations to determine to what extent those of its members that are not members of

"Moneyval... conducts mutual evaluations to determine to what extent those of its members that are not members of the FATF implement FATF Recommendations in an effective manner"

the FATF implement FATF Recommendations in an effective manner.

Officers from the FIAU's Legal and International Section formed part of the Maltese delegation that attended the three Moneyval Plenary Meetings in 2016, held in Strasbourg. In the course of these meetings, the Maltese delegation provided an update on all significant local developments related to AML/CFT and the financing of the proliferation of weapons of mass destruction.

APPENDIX

Requests for co-operation and assistance (2016)

Requests received by the FIAU		Jurisdiction	Requests made by the FIAU	
N°	Replies		N°	Replies
1	1	Armenia	0	0
0	0	Australia	2	2
0	0	Austria	2	2
0	0	Bahamas	1	1
3	3	Bangladesh	0	0
1	1	Belarus	0	0
2	1	Belgium	0	0
0	0	Brazil	1	0
0	0	British Virgin Islands	2	2
0	0	Bulgaria	1	0
2	1	Canada	3	3
2	2	Chile	0	0
2	2	Costa Rica	2	2
3	1	Croatia	0	0
0	0	Curacao	2	2
1	1	Cyprus	4	4
2	2	Czech Republic	5	4
0	0	Estonia	1	1
2	2	Finland	2	2
2	2	France	3	3
3	2	Germany	4	3
0	0	Gibraltar	1	1
1	1	Greece	1	1
1	1	Guatemala	0	0
0	0	Guernsey	3	2
1	1	Holy See	0	0
0	0	Hong Kong	1	1
3	3	Hungary	1	1
1	1	India	0	0
0	0	Indonesia	1	0
1	1	Isle of Man	0	0
1	1	Israel	3	2
20	14	Italy	10	7
1	1	Japan	0	0
1	1	Kazakhstan	0	0

Requests received by the FIAU		Jurisdiction	Requests made by the FIAU	
N°	Replies		N°	Replies
1	1	Latvia	5	5
0	0	Lebanon	1	0
0	0	Liechtenstein	2	2
5	5	Lithuania	0	0
4	4	Luxembourg	1	1
1	1	Mauritius	0	0
3	3	Monaco	1	1
2	1	Montenegro	0	0
1	1	Nepal	0	0
4	4	Netherlands	2	2
1	0	New Zealand	1	1
0	0	Nigeria	1	0
0	0	Norway	1	0
1	1	Panama	2	2
1	1	Philippines	1	0
3	3	Poland	3	3
1	1	Portugal	1	0
5	5	Romania	3	3
3	3	Russia	2	2
1	1	Samoa	0	0
0	0	Serbia	1	1
6	4	Seychelles	1	1
0	0	Singapore	1	0
1	1	Slovakia	1	1
0	0	Slovenia	1	0
0	0	South Africa	1	1
1	0	Spain	1	0
0	0	Sweden	1	1
4	3	Switzerland	4	4
0	0	UAE	2	2
2	2	Ukraine	1	1
21	20	United Kingdom	10	8
3	3	USA	5	4
132		TOTAL	113	

Spontaneous intelligence reports (2016)

Spontaneous Intelligence reports received by the FIAU	Jurisdiction	Spontaneous Intelligence reports sent by the FIAU
1	Anguilla	0
1	Argentina	0
0	Australia	1
0	Austria	2
0	Bangladesh	1
0	Belgium	4
0	Bosnia & Herzegovina	1
0	Brazil	3
0	Bulgaria	1
0	Cameroon	3
1	Canada	6
0	Cayman Islands	1
1	Costa Rica	0
0	Curacao	1
1	Cyprus	0
1	Czech Republic	2
0	Denmark	1
0	Estonia	2
1	Finland	1
0	France	3
0	Germany	3
3	Gibraltar	1
0	Greece	4
5	Guernsey	1
0	Holy See	1
0	Hong Kong	1
0	Hungary	2
0	India	2
0	Indonesia	1
0	Ireland	3
3	Isle of Man	0
0	Israel	1
0	Italy	8
0	Jamaica	1
11	Jersey	0

Spontaneous Intelligence reports received by the FIAU	Jurisdiction	Spontaneous Intelligence reports sent by the FIAU
0	Latvia	1
0	Lebanon	1
42	Luxembourg	3
1	Malaysia	0
0	Monaco	1
0	Netherlands	11
0	Nigeria	3
0	Norway	8
0	Panama	1
0	Philippines	1
0	Poland	5
1	Portugal	1
0	Russia	2
0	South Korea	1
0	Serbia	1
0	Seychelles	1
0	Singapore	3
0	Slovakia	1
0	Slovenia	1
0	Spain	3
0	Sweden	9
0	Switzerland	2
0	United Arab Emirates	2
0	Ukraine	1
8	United Kingdom	4
4	USA	6
85	TOTAL	135



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