

**Financial Intelligence Analysis Unit
Malta**

ANNUAL REPORT

2006

Enquiries relating to this report should be addressed to:

The Director
Financial Intelligence Analysis Unit
P.O. Box 213
Valletta CMR 01
Malta

Telephone	+ (356) 21 231 333
Fax	+ (356) 21 231 090
Internet	www.fiumalta.org
e-mail	info@fiumalta.org

FINANCIAL INTELLIGENCE ANALYSIS UNIT

BOARD OF GOVERNORS

Dr Silvio Camilleri
Mr Herbert Zammit LaFerla
Dr Anton Bartolo
Mr Pierre Calleja

Chairman
Deputy Chairman
Member
Member

DIRECTOR

Mr Frank Caruana

(also Secretary to the Board)

Our Mission

At the Financial Intelligence Analysis Unit we strive to be a leader in the prevention of money laundering and terrorist financing, thus contributing towards a safe and stable financial and economic environment. We work towards this mission through information collection, analysis and co-operation in the dissemination of information of suspected money laundering or terrorist financing related activities, thus supporting the domestic and international law enforcement investigative efforts.

**LETTER OF TRANSMITTAL
TO THE MINISTER OF FINANCE**

FINANCIAL INTELLIGENCE ANALYSIS UNIT

VALLETTA

May, 2007

Dear Prime Minister and Minister of Finance

In accordance with Article 42(1) of the Prevention of Money Laundering Act, *Cap 373*, 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 31st December 2006.

Yours sincerely

Dr Silvio Camilleri
Chairman

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STATEMENT OF THE CHAIRMAN

Combating money laundering and the financing of terrorism continues to be a top priority on the agenda of the international community which continues to allocate considerable resources to study the phenomenon, to training those engaged in combating it and to evaluating on an ongoing basis the effectiveness of the measures employed to prevent, repress and prosecute this insidious criminal activity. During this year the Financial Intelligence Analysis Unit has continued to make the most efficient use of the resources at its disposal and to give the best possible financial data analytical service to the law enforcement authorities to investigate persons suspected of being involved in money laundering activities. The Unit has also continued to assist credit and financial institutions and, in particular other non-financial entities and professions that are caught under the anti-money laundering legislation in Malta and which have been identified by the international community as being the most exposed and vulnerable vehicles for money launderers.

During 2006 the flow of suspicious transaction reports continued at a steady pace. The quality of the reports has continued to improve as also did the analytical activity of the Unit which continued to refer a substantial number of reports to the law enforcement authorities for further investigation. It is anticipated that through these financial investigations and analysis the police will be in a better position to resolve a number of these reports into effective and successful prosecutions. In this regard it is my view and that of my Board that the Police Liaison Officer needs to play a larger and more pro-active role as envisaged in the legislation in order to ensure that the Unit has all possible information and intelligence at its disposal when making its evaluation of the suspicious reports which originate from subject persons.

Measures were also taken in hand by the FIAU to strengthen its resources. Having now moved into its new premises which offer better office space, the FIAU has embarked on a three year plan to restructure the Unit. In order to strengthen its compliance and legal functions the Unit is in the process of recruiting a legal and a compliance officer. This will enable the Unit to develop a legal and a compliance unit with the aim of enhancing its compliance capabilities. The Unit has managed to establish excellent relations with the Malta Financial Services Authority and with the Lotteries and Gaming Authority through bilateral memoranda of understanding which provide for agency arrangements that enable the FIAU to exercise oversight over the important sectors falling under the remit of these two authorities as regulators in their own fields. A broader swathe of subject persons not falling within the remit of either the MFSA or of the LGA is now captured by the anti-money laundering legislation. The setting up of a compliance unit within the FIAU and the recruitment of a legal and a compliance officer will go in the right direction in this regard and will therefore focus on developing mechanisms and methodologies to verify compliance by these additional subject persons.

Developments in the anti-money laundering and anti-terrorist finance areas, whether by way of legally binding instruments, new or more refined international standards or increased knowledge of the phenomena in question and of the *modus operandi* of the criminals who operate in these murky waters, render imperative a continuing training programme of both subject persons and of the persons employed by the regulatory agencies. During this year the FIAU has been very active in both respects. In collaboration with the other regulators it has organised training for subject persons and members of its staff have participated in a number of training activities both in Malta and abroad. Training can never be said to be enough but the Unit is always in search of further training possibilities that may arise subject, of course, to the financial resources at its disposal.

The FIAU has also taken an active part and contributed its particular expertise to the Euro Changeover process to ensure that the process is not tainted by attempted money laundering activity. In this regard the FIAU was able to put its considerable international contacts to good use and as a result was in a position to give valuable advice to the National Euro Changeover Committee and to adopt measures based on the same risk-sensitive approach taken by the third money laundering directive of the European Union. These measures ensure compliance with current obligations but at the same time cause the least possible degree of disruption.

The Financial Intelligence Analysis Unit is a small unit but the contents of this report should provide convincing evidence that it is providing a service to the country and to subject persons which spills over the limits of its size.

Dr Silvio Camilleri

1.0 THE FINANCIAL INTELLIGENCE ANALYSIS UNIT

1.1 Establishment

The Financial Intelligence Analysis Unit (FIAU) was established and became operational in 2002 following amendments to the Prevention of Money Laundering Act (PMLA) (Chapter 373 of the Laws of Malta). The FIAU, being a government agency with a distinct legal personality, is an administrative type of financial intelligence unit. It is the national central agency responsible for the collection, collation, processing, analysis and dissemination of financial information with a view to combating money laundering and the funding of terrorism. The FIAU was accepted as a full member of the Egmont Group in July 2003.

1.2 Composition

The FIAU is composed of a Board of Governors and a Director. The Board, currently composed of four Governors one of whom is the appointed Chairman, is responsible for the policies of the Unit. Responsibilities for executing established policies lies with the Director who reports to the Board accordingly. The Director is also responsible for carrying out all the other functions of the Unit not attributed by the PMLA to the Board of Governors. He is assisted by permanent staff recruited by the Board. The PMLA requires the Commissioner of Police to appoint a Liaison Police Officer responsible for ensuring continuity between the work of the FIAU and that of the Police Force.

1.3 Principal Duties

The FIAU has three main responsibilities. First it receives and analyses information on transactions suspected to be involved with money laundering or related to the financing of terrorism and to report thereon. It receives this information from institutions and persons who are subject to the obligations of the Prevention of Money Laundering and Funding of Terrorism Regulations, 2003. Second it exchanges information and co-operates with local and international supervisory authorities and with other financial intelligence units, either spontaneously or through memoranda of understanding. Third the Unit is responsible for overseeing compliance by persons and institutions subject to the AML/CFT Regulations¹.

1.4 Other Functions

The PMLA lists other ancillary functions, under the responsibility of the FIAU, in support of its core activities. Foremost amongst these supportive functions are: the gathering of information on financial and commercial activities in the country for analytical purposes and to identify trends and areas which may be or have become vulnerable to money laundering or the financing of terrorism; promoting and providing training on AML/CFT matters and advising and assisting subject persons to develop and put in place effective AML/CFT measures and programmes.

¹ AML/CFT means anti-money laundering/combating financing of terrorism

2.0 OPERATIONS

2.1 Core Operations

In terms of the provisions of the PMLA, the main function of the FIAU is the receipt, analysis and reporting of Suspicious Transaction Reports (STRs) – transactions suspected to be related to money laundering or terrorist financing – and the co-operation and exchange of information with its foreign counterparts with the aim of fulfilling its core function both at a national and international level. The FIAU processes STRs through a systematic analysis of the information contained in the reports, supplemented by any other relevant information that the FIAU may have in its possession or that it obtains by requesting other persons who could be in possession of further relevant information. If the suspicion of money laundering or terrorist financing persists the FIAU is legally obliged to forward its analytical report, together with all relevant information, to the Malta Police for further investigation. The subject person who files an STR, and whose confidentiality is protected by the FIAU, can request feedback from the FIAU on STRs filed by it. The FIAU is obliged to provide such feedback only if, in its opinion, this would not be detrimental to any ongoing investigation.

An equally important function of the FIAU is the confidential mutual exchange of information and cooperation with foreign FIUs. When the FIAU is requested to assist another FIU from a foreign jurisdiction a thorough analysis is conducted of the information provided by the foreign FIU to determine the type of information being requested, whether the information is already available at the FIAU or whether it could be obtained through the means available to the FIAU according to law.. This enables the FIAU to determine how best to assist the requesting FIU. The exchange of information is provided only in cases of money laundering and financing of terrorism investigations and the information supplied is for intelligence purposes only unless the FIAU otherwise specifically decides.

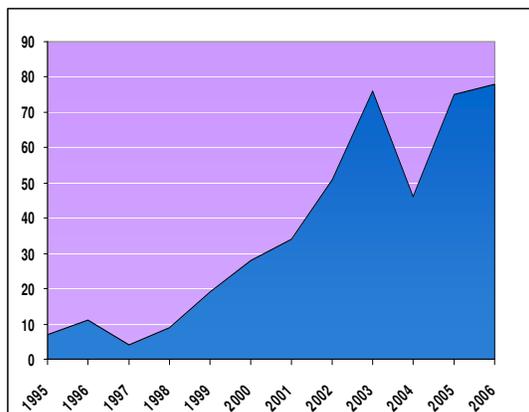
Likewise if, in the course of the analysis of the information supplied on an STR, the FIAU identifies that foreigners could be involved or there are indicative links to other countries, the FIAU seeks the assistance of its foreign counterparts for information that could be vital to expedite the analysis and conclusion of the reports.

Consequent to its analysis of the request by foreign FIUs, the FIAU may treat the requests from other FIUs as STRs whereby the FIAU would open a case on its own initiative. Therefore, in the process of collection and compilation of the information, the Unit would consider whether the information disclosed by the foreign FIU and that obtained for the reply lead the FIAU to sustain a money laundering suspicion. Should this be the case, the FIAU compiles its own analytical report to be forwarded to law enforcement for further investigation.

2.2 Statistics

During 2006 there were 78 STRs filed with the FIAU - a slight increase of three reports (4%) over the previous year. Although this slight increase cannot be interpreted as a continued positive upward trend, yet it shows stability in reporting by subject persons (Chart 1)

Chart 1 Suspicious Transactions Reports by year: 1995 – 2006



More on the positive side, however is the fact that the 78 STRs filed in 2006 constituted 72 cases, which is an increase of 10 cases over those for 2005, restoring the 2004 percentage position. This makes the number of cases handled by the FIAU during the year under review equivalent to an increase of 16% on the previous year. Table 1 shows the Cases-to-STRs relationship. The FIAU positively notes that, even as the number of STRs continues to increase, the quality of the reports continues to improve.

Table 1 STRs and Cases – Oct 02-Dec 06

	2003	2004	2005	2006
STRs	76	46	75	78
Cases	58	43	62	72
% of STRs	76%	93%	83%	92%

The number of STRs processed during 2006 was 80, which generated 75 cases. The reports processed related to one report from 2004, 24 STRs (23 cases) related to 2005 and 55 STRs (49 cases) which related to the year under review. At the end of 2006 there were 23 STRs, all filed during 2006, on which the analysis was still ongoing.

During 2006 the FIAU referred 24 new reports, which constituted 21 cases from a total of 32 STRs, to the Malta Police. Table 2 below shows the annual breakdown of the STRs received up to end of 2006. The analysis of 48 STRs completed during 2006 resulted in inconclusive evidence and no further action was taken in their regard. One STR filed with the FIAU during the year under review was deemed not to be connected to money laundering or to funding of terrorism.

Table 2 Breakdown of STRs -Oct 02 to Dec 06

STRs	Oct 02-Dec 03	2004	2005	2006
Referred to Police	17	23 ^a	28 ^b	24 ^c
Inconclusive Information	30	33	41	48
Not related to Money Laundering	4	–	–	1
Ongoing Analysis	35	25	39	23

Refer to (a) 20 cases, (b) 22 cases, (c) 21 cases

On the basis of the total number of cases for the three years 2003 to 2005 (total 163 cases) and the number of cases referred to the Malta Police for further investigation for the same period, the latter amounts to 36%. The year 2006 is not taken into consideration for this purpose due to the fact that a number of STRs are still being analysed. However, as at the end of 2006, the rate of forwarding, for 2006 alone currently stood at 42%

The principal source of the STRs filed with the FIAU during 2006 remained by far credit institutions. Out of the 78 STRs filed during 2006, 43 were filed by seven credit institutions. This amount to 55% (2005: 51%) of all the STRs received. In absolute terms the number of reports filed by credit institutions increased from 39 in 2005 to 43. The second largest category of STRs were filed by non-bank financial institutions which, however, reflected a decrease from 2005. Regulatory authorities were the source of 12 STRs, marking a significant increase from 5 STRs in 2005. The significance of this increase in the number of STRs by regulatory authorities will be examined by the Unit to see what conclusions, if any, can be drawn from it. The rest of the STRs came from insurance companies, professionals, nominees and trustees and real estate agents. During the year under review however the amount of STRs filed by insurance companies decreased from 10 in 2005 to 2 in 2006 while the first report by a real estate agent was registered. Chart 2 depicts graphically the number of STRs filed by subject persons for the years 2003 to 2006.

The 24 cases referred to the Police during the year were analysed in order to determine the underlying criminal activity on the basis of the information contained in the STR, other information requested by the FIAU and the conclusions of the analysis of this information. Table 3 shows the type of underlying crime indicated in the case files transmitted to the Police for further investigation.

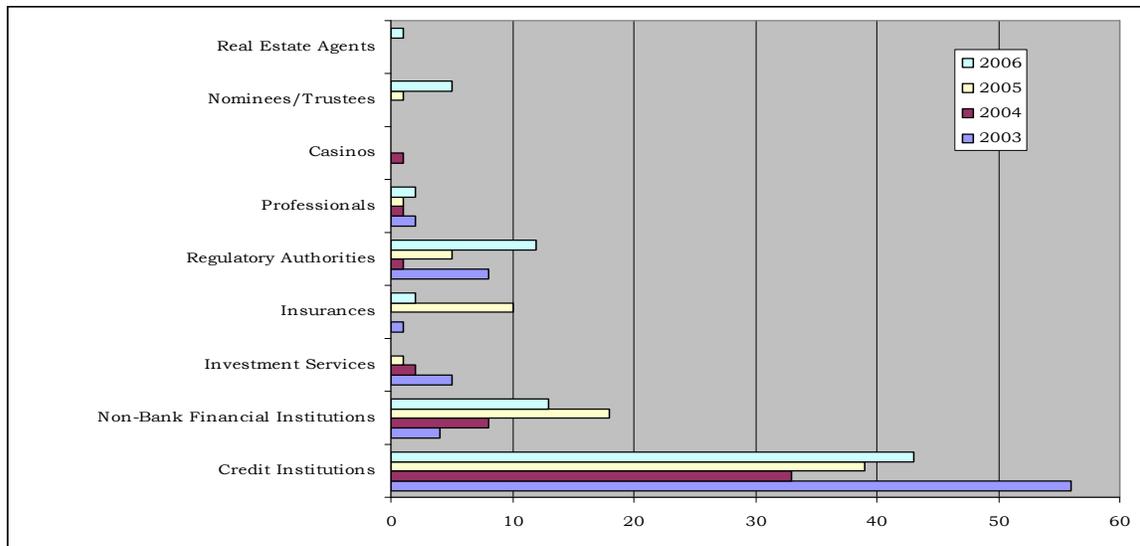
Predicate Criminality	Cases	%
Fraud/Forgery	8	33%
Usury	5	21%
Drugs	4	17%
Identity Theft	2	8%
Illegal Gambling	2	8%
Prostitution	1	4%
Other	2	8%
Total	24	100%

Out of the 24 new cases referred to the Police for further investigation, 8 cases showed fraud and/or forgery as the underlying predicate criminal offence. Another 5 cases indicated usury with one of these cases also indicating that the proceeds could also have originated from foreign exchange deals, drug trafficking and other crimes.

Drug related money laundering was indicated in 4 cases with one case also involving possible links to human trafficking. Two cases each were referred with a possible relation to illegal gambling and identity theft with another case related to prostitution. Another two cases were referred without a specific indication of a criminal offence.

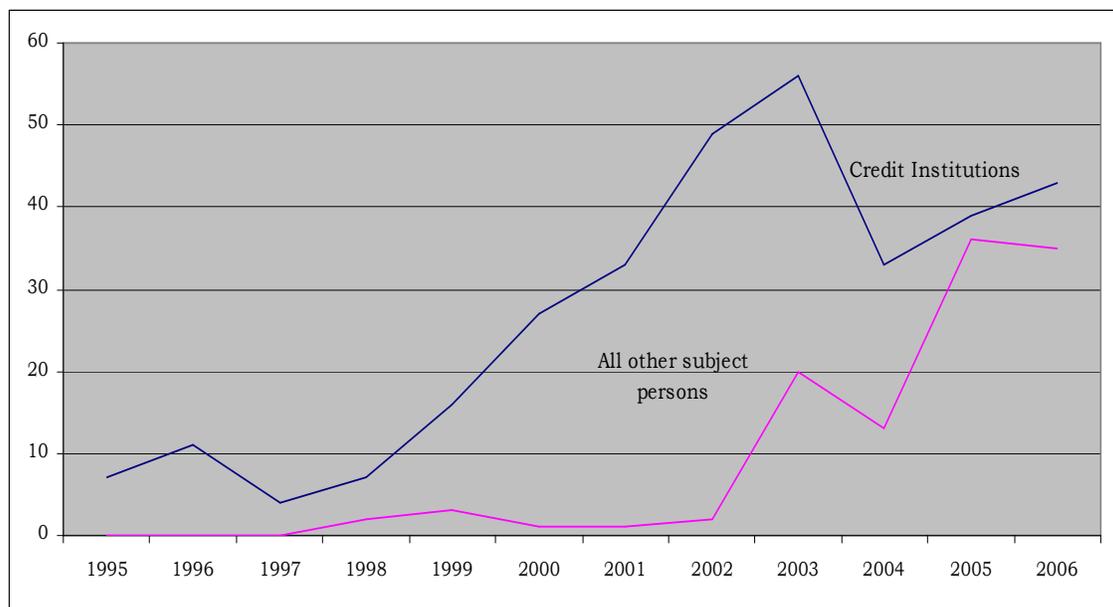
19 (79%) of the 24 new cases referred to the Police were mainly related to local criminality while 5 (21%) were internationally based.

Chart 2 STRs filed by subject persons for the years 2003 – 2006



The dominant position the credit institutions in the fight against money laundering and financing of terrorism is clearly shown in Chart 3 below.

Chart 3 STRs filed by credit institutions compared to other sectors: 1995 - 2006



2.3 Requests for Co-operation and Assistance

Since money laundering and terrorist financing is in most cases a trans-national activity, the fight against these crimes cannot succeed without co-operation between the FIUs of different countries. It is precisely this co-operation that has been the success of financial intelligence units and that has established FIUs as an important and essential element in any country's AML/CFT structure. Co-operation and assistance is an important function of the FIAU and constitute a good portion of its operations.

During 2006 the FIAU received 23 requests for assistance from 15 different jurisdictions, 14 enquiries less than in 2005. As in previous years the requests varied from requests for general information to those which required an in-depth analysis of the information requested.

During the collection and compilation of the replies the FIAU is continuously on the alert to determine whether the information acquired gives cause for suspicion of money laundering or financing of terrorism in which case it generates a suspicious transaction report of its own, and draws up an analytical report to forward for further investigation. During 2006 there was one such instance where a request from a foreign FIU resulted in the generation of an analytical report which was forwarded to the Police. As at the end of 2006 the FIAU had replied to 22 out of the 23 requests.

On the other hand, the FIAU sought assistance from 24 foreign FIUs in relation to 43 requests concerning 20 cases. This amounts to an increase of two requests over 2005. Table 4 lists all the requests for assistance received and sought by the FIAU. As in previous years most interaction was carried out with European countries and in the case of seven jurisdictions there were reciprocal enquiries.

Table 4 Requests for Co-operation and Assistance

Jurisdiction	Enquiries received		Requests to FIUs	
	Number	Replies	Number	Replies
Austria	-	-	1	1
The Bahamas	-	-	1	1
Belgium	1	1	-	-
Bosnia & Herzegovina	1	1	-	-
Bulgaria	1	-	-	-
Croatia	4	4	-	-
Czech Republic	-	-	1	1
Denmark	1	1	1	1
Finland	1	1	-	-
France	1	1	-	-
Germany	-	-	1	1
Bailiwick of Guernsey	1	1	1	1
Ireland	-	-	1	-
Isle of Man	1	1	1	1
Italy	3	3	6	5
Bailiwick of Jersey	1	1	2	1
Latvia	-	-	1	1
Liechtenstein	-	-	1	1
Lithuania	-	-	1	-
Luxembourg	-	-	1	1
Netherlands	-	-	2	2
Panama	-	-	1	-
Romania	-	-	2	2
Russia	-	-	2	2
Spain	1	1	2	2
Switzerland	-	-	3	3
Turkey	-	-	1	1
UK	3	3	7	7
Ukraine	1	1	-	-
USA	2	2	2	2
Venezuela	-	-	1	1
Totals	23	22	43	38

3.0 ACTIVITIES

3.1 Compliance

The PMLA appoints the FIAU as the authority that is responsible to ensure that designated subject persons are complying with the provisions of the PMLA and Regulations issued thereunder. The law also allows the FIAU to either request relevant supervisory authorities to undertake on-site examinations on its behalf or to conduct on-site examinations in collaboration with these supervisory authorities.

Our compliance activities for the year continued to build of the memorandum of understanding signed between the FIAU and the MFSA, the single financial regulator. A total of 63 on-site examinations with an AML/CFT content were conducted on institutions within the financial industry during the year. Table 5 below shows a breakdown of the institutions covered by these examinations.

Table 5 Compliance Visits 2006

Institution	No of Visits
Credit Institutions	4
Financial Institutions	3
Insurance Brokers	4
Trustees	26
Licensed Nominees	21
Investment Firms	4
Regulated Markets	1
Total	63

3.2 Training

The FIAU attaches much importance to training. Indeed in view of the increasing complexity of anti-money laundering issues, the FIAU further attaches great importance to the development and implementation of effective policies and procedures and the

maintenance of an appropriate on-going training programme to combat this threat. Consolidating on the previous years, the FIAU provided training to subject persons whilst its staff participated in a number of events with a view of improving their knowledge and experience in AML/CFT analysis and reporting whilst exposing them to participation in international fora. The following is a brief overview of the main events:

AML/CFT Training in collaboration with MFSA and LGA

In May 2006 the FIAU, in conjunction with the Malta Financial Services Authority (MFSA) and the Lotteries and Gaming Authority (LGA) successfully organised a one-week Anti-Money Laundering Training Course. The programme was conducted in association with the National Association of Securities Dealers, UK Branch (NASD). NASD is a United States based leading private-sector provider of financial regulatory services, dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. Whilst NASD provided a seasoned group of panellists, including professional trainers and speakers with wide ranging experience in the field, the FIAU, the MFSA and LGA provided experts in their respective fields. Thus the programme provided participants with a holistic approach to the AML/CFT issue. The FIAU representatives gave an overview of the origins, scope and purpose of the AML/CFT international instruments and national legislation and an in-depth presentation on the roles and responsibilities of government agencies and other bodies in preventing money laundering and terrorist financing with special focus on financial intelligence units,

This intensive training course was intended to provide a useful tool in this respect for all professionals working in the investment services industry in particular, and all subject persons in general. The content of the course was based on applicable rules and regulations,

including EU Directives and the relevant AML/CFT laws, rules and regulations of Malta. The programme qualified for consideration by the MFSA and the LGA when establishing competence levels of staff employed by license holders.

Banking and Finance in Small Island States

This annual workshop is supported by the Commonwealth and is organised locally by the Islands and Small States Institute in collaboration with the Banking and Finance Department of the University of Malta with the participation of representatives of small Commonwealth States. The FIAU delivered a paper on anti-money laundering and the funding of terrorism principles and measures in place both at a national and international level. After a brief introduction of what is money laundering and related international standards the advantages and disadvantages of FIUs situated in small states were discussed. In conclusion the possible grave consequences of an inefficient FIU and ineffective measures against money laundering and the financing of terrorism were analysed.

FATF/MONEYVAL Evaluation Training for Experts

One of the FIAU financial analysts was selected to form part of the MONEYVAL² team to attend the FATF³ Training Workshop for Mutual Evaluation Assessors, based on the 2004 AML/CFT Methodology, which was held in Washington DC, USA in October, 2006. The objective of the workshop was to develop expertise for participation as examiners in the mutual evaluation process of the MONEYVAL Committee in the third round mutual evaluation of its Member States. The intensive training consisted of presentations and workshops and was concluded with a simulation evaluation exercise. The simulation exercise included the completion and submission of a mutual evaluation report on the findings and recommendations of the evaluation teams. These reports were discussed and analysed in plenary.

² The Council of Europe Select Committee of Experts on the Evaluation of Anti Money Laundering Measures.

³ Financial Action Task Force.

Designated Non-Financial Businesses and Professions

During 2006 a member of the staff of the FIAU attended a one-week workshop on *Anti-Money Laundering/Combating Financing of Terrorism Measures for Non-Financial Businesses and Professions* at the Joint Vienna Institute, Vienna, Austria. The workshop, which was sponsored by the International Monetary Fund (IMF), emphasized the relationship between internal controls and the prevention of financial abuse. In this regard, the workshop had a dual focus: internal controls, accounting and auditing practices; and AML/CFT specific areas for customer identification and processes for transaction monitoring - including risk-based measures for reporting of suspicious activities. The Joint Vienna Institute is an international organization in Vienna, Austria, and is supported by six international organizations, including the IMF, the World Bank Organization, and the Austrian Authorities.

Europol Seminar

In June 2006 a seminar organised by Europol was attended by one of the FIAU officials. The Europol Awareness Seminar was intended to improve the participation of Europol in Malta. Whilst giving an overview of its legal framework and its performance up to the present, the seminar concentrated mainly on explaining the functions of Europol such as: the role of liaison networks; the different departments of the organization and their activities; the concept of “analytical work files”, and data ownership, handling codes and confidentiality. The FIU benefited from understanding better European police co-ordination when investigating organised crime and financial crime in relation to money laundering.

3.3 The Prevention of Money Laundering Joint Committee

The Prevention of Money Laundering Joint Committee is an *ad hoc* representative committee established with the intention to create a dialogue between the industry and the authorities. The Committee brings together representatives from those agencies, authorities, and the industry which are subject

to the Prevention of Money Laundering Act and Regulations, under the chairmanship of the Director of the FIAU. The scope of the Committee is to discuss and exchange views, convey concerns and industry trends on developments in anti-money laundering and the funding of terrorism standards, regulations and obligations with a view of assessing their effectiveness and to make recommendations on best implementing measures.

The Committee met regularly during 2006. Anti-money laundering practical issues of mutual interest raised by the industry is an ongoing discussion during the meetings. Most of the discussions during the year focused on the transposition of the Third Anti-Money Laundering Directive of the European Union and the effect it will have on the local industry once implemented. In this regard the Committee discussed the EU proposals on implementing measures related to special due diligence, politically exposed persons (PEPs) and the risk based approach. Another important item discussed during the meetings of 2006 was the effects of the EURO Changeover and the AML/CFT threats and vulnerabilities of the industry during the transition period.

3.4 The Euro Currency Changeover

When Malta became a member of the European Union in 2004, it became at the same time a member of the Economic and Monetary Union (EMU) with the status of a "Member State with a derogation." This implied that Malta is obliged to adopt the euro as its national currency at a future date. Malta's target date for the adoption of the single currency is set for 1st January 2008.

This major changeover in the financial system through the replacement of the national currency poses threats of money laundering and financing of terrorism as it could create an opportunity for money launderers to launder the proceeds of criminal activities. As part of the national preparatory work for the changeover, the FIAU carried out an assessment of the current AML/CFT preventive legislation in order to determine the adequacy of the measures in place for such

sensitive circumstances. In the process, the FIAU also enquired and consulted on the matter with its EU counterparts, both in euro area Member States and prospective Member States of the euro area.. The Unit has also reviewed reports and other literature available on the measures taken in the first euro changeover.

The FIAU, moreover, also reviewed studies conducted by recognised international organisations on the first euro changeover taking into consideration the fact that in the first euro changeover, euro notes and coins were not available for circulation before 1st January 2002. These studies indicated that during and immediately after the completion of the changeover, surveillance on the movement of cash across the euro-area internal and external borders was increased. They have also confirmed that no euro area country relaxed its AML/CFT regulations during the changeover period. On the contrary it was reported that almost all the euro area Member States (and, to an extent, EU Member States outside the euro area) reported having established policies meant to increase awareness of the potential risks of money laundering or funding of terrorism leading up to the physical cash changeover. It was acknowledged that the extra workload during the cash exchange period meant that credit institutions had to be more vigilant to ensure that potential money laundering or funding of terrorism be detected during this transition phase which could be particularly vulnerable.

The FIAU therefore has taken the necessary measures to ensure full compliance with the obligations under the current Regulations by all subject persons, though applying a risk-sensitivity based approach not to disrupt the process unnecessarily.

During the year the FIAU communicated its position to the Financial Sector Euro Changeover Sub-committee (FSECC) of which the FIAU is a member. In turn, the FSECC, presented the FIAU's position to the National Euro Changeover Committee (NECC) which has included the FIAU's decision in the National Master Plan for the Euro Changeover.

Box 1. – The National Euro Changeover Committee

The arrangements for the adoption of the euro in Malta are being coordinated by the National Euro Changeover Committee (NECC) and are laid down in the Committee's master plan for the euro changeover in Malta.

During a press conference on the 13th June 2005 by the Ministry of Finance and Central Bank of Malta (CBM), the new structure designed to coordinate the changeover implementation was announced, highlighting the role of the newly established **National Euro Changeover Committee (NECC)**, which in turn reports directly to the Steering Committee for the Euro Adoption, headed by the Parliamentary Secretary within the Ministry of Finance.

The NECC aims to develop effective strategic plans, through collective participation and committed leadership, whilst coordinating, communicating, implementing and monitoring the whole changeover process to ensure a smooth transition and the attainment of the highest possible positive aspirations and perceptions of the Maltese society in its further integration into Europe, with respect to the euro changeover.

The main strategic objectives of the NECC are to:

- formulate, oversee the implementation and monitor, together with all the stakeholders, a specific euro changeover strategic plan to handle all logistical and communication aspects pertaining to the final adoption of the euro;
- educate and provide public and consumer information on the euro changeover through an effective communications strategy;
- coordinate, facilitate and actively support all the stakeholders to ensure a high level of participation throughout the whole process in order to co-own any strategy being adopted; and
- ensure technical readiness within both the private and public sector, including information and accounting systems, cash handling and vending machines, pricing systems, currency replacement and other relevant technical aspects.

The NECC is continually led and guided by the Chairman, ensuring a high level of corporate governance whilst keeping a good focus upon the corporate vision and mission.

In order to effectively achieve its strategic objectives, the NECC has established:

- Sectoral committees representing the public sector, private sector, public finance, education, consumer, financial services and legal aspects, ensuring continual feedback and a high level of participation from all stakeholders;
- Task Forces focusing upon the areas of pricing, information and communications technology (ICT) and training to ensure a coordinated approach and facilitating an effective implementation process in these important aspects;
- A Unit led by an Executive Director that coordinates, plans, oversees and reviews all the programme management aspects needed for the efficient and effective implementation of euro changeover in line with NECC policy and mandate;
- An on-going relationship with the Central Bank of Malta (CBM), so as to utilize its expertise in the subject matter and to ensure continual liaison on a day-to-day basis with the Bank;
- A strong liaison with the European Commission, the European Central Bank (ECB) through the CBM, and other Member States, ensuring a high level of continual cooperation and collaboration at a European level.

The FIAU is a member of one of the sectoral sub-committees, namely that for the financial sector, where it represents the country's interest to protect the financial industry from being used for money laundering purposes that could be arise as a consequence of the euro changeover.

Source:

National Euro Changeover Committee website <http://mfin.gov.mt/page.aspx?site=NECC&page=default>

4.0 PARTICIPATION IN INTERNATIONAL FORA

4.1 The EU Committee on the Prevention of Money Laundering and Terrorist Financing

During 2006, the FIAU continued to participate in the meetings of the Committee on the Prevention of Money Laundering and Terrorist Financing of the European Union. During the year the Committee finalised the drafting of a proposal for a Commission Directive on implementing measures. A vote in this regard was taken by the Committee during its 5th meeting held on the 10th May, 2006. A Commission Directive 2006/70/EC laying down implementing measures for Directive 2005/60/EC (the 3rd AML/CFT Directive) as regards the definition of 'politically exposed person', the technical criteria for simplified due diligence procedures and for exemption on grounds of a financial activity conducted on an occasional or very limited basis was published in the Official Journal of the European Union on the 4th August, 2006. Member States are required to transpose this Directive by the 15th December, 2007.

The Committee dedicated ample discussion time in preparation for the FATF Plenary meetings. The EU Commission, being a member of the FATF, sought the views of the Committee especially in the light that ten new EU Member States were not members of the FATF. The Commission always maintained that it would support all applications for FATF membership from those Member States which were not yet FATF members. In fact one of the main items discussed by the Committee was the FATF membership for the ten new EU members. The EU Commission has all along insisted that the FATF should adopt a resolution such that the ten new EU Member States could have an opportunity to participate in the decision-making process of the FATF. This will put the new Member States on a position level with that of the other EU Member States which are already FATF members. In this regard the FIAU

recommended to the authorities that Malta formally apply to become an FATF member⁴. Towards the end of the year, the Committee also initiated discussions on two new issues namely the emerging threat of trade based money laundering and the relationship between corruption, money laundering and terrorist financing and how the AML/CFT experience could best be used to combat these threats. These items which are also being addressed by the FATF are being discussed in order to consider whether new recommendations would be required to further reinforce the AML/CFT structure.

4.2 FIUNet Task Force

The European Council, as early as June 1997, had approved an Action Plan to combat organised crime. The Action Plan recommended, in particular, that there should be an improvement in co-operation between financial intelligence units (FIUs). Several further initiatives were taken by the European Commission, the European Parliament and various European Councils of Ministers in this respect. In the meantime, the EU Council adopted a series of provisions essentially calling upon the EU Member States to set up computerised systems for the exchange of information between FIUs. Following the publication of Council Decision 2000/642/JHA of 17th October 2000 concerning arrangements for cooperation between FIUs of Member States in respect of exchanging information, the EU Commission, through the DG Internal Market, launched the FIUNet initiative, a fully decentralised EU-wide system whereby FIUs join a computer network to exchange information in a secure environment. The project is managed by the FIUNet Bureau which is sited within the Dutch FIU.

⁴ See Section 4.5 of the Report.

The FIAU started participating at Task Force meetings within the FIUNet during 2006. This participation coincided with the winding up of the project's first phase which ended on the 31st December, 2005, the transition of the project's responsibility from the DG Internal Market to the DG Justice Liberties and Security and the planning of the re-structuring of the FIUNet including the drafting of a business plan to secure future financial support for the project. The FIAU will continue to participate in the work of the Task Force and to follow developments in this project in order to make its final recommendations to the national authorities accordingly in due course.

4.3 FIU Platform

The FIAU is also participating in the meetings of the FIU Platform which was set up by the EU Commission to enable EU FIUs to exchange views and experiences on technical issues related to relevant provisions of the Third AML/CFT Directive. In this context the Platform is intended as a forum for discussion on specific aspects related to the application and implementation of the new provisions introduced by the Third Directive, focusing on the identification of issues of a practical nature, on problems and possible solutions.

In recognising the different types of FIUs and the consequent differences in the legal framework that could disrupt the smooth exchange of information, the Platform is therefore intended to serve as a forum to discuss issues related to differences in the operational structures of FIUs in order to explore possibilities of a harmonisation process, particularly in the field of gathering and interpretation of information for statistical purposes.

During the meetings held in 2006 the Platform agreed on a work plan comprising eight projects addressing issues on information availability and co-operation between FIUs; feedback; data protection and confidentiality; FIU analysis; statistics; cooperation with domestic authorities; dialogue with the private sector and AML/CFT supervision. Member States have been grouped into eight teams with each team being assigned a project. Malta is participating together with the UK, as

project leader, Austria, Estonia and Slovenia on the feedback project.

4.4 The Council of Europe – MONEYVAL Committee

During 2006 staff of the FIAU, together with members of the Board, formed part of the Malta Delegation to the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). During the year the Committee held its 18th, 19th, 20th and 21st Plenary Meetings in Strasbourg with the main items on the agenda being the discussions of the third round mutual evaluation reports.

During the 18th Plenary meeting the Committee resolved to set up an *ad hoc* group of not more than seven experts (including the current three permanent scientific experts in the legal, law enforcement and financial sectors) to assist evaluators, the Plenary, the Committee Chairman and the Secretariat on issues identified in the draft evaluation reports that may impact on the quality and consistency of assessments and the interpretation of the relevant reference documents and standards. The group only has an advisory role and is not to be part of the evaluation process structure. The Malta Delegation volunteered to participate in this work. The Deputy Chairman of the FIAU, was nominated and elected member of the *ad hoc* group. During the same Plenary meeting, the Deputy Chairman was also elected member of the Bureau for a two year period. The Bureau is responsible for preparing the work of the MONEYVAL Committee. He also formed part of the team that carried out the 3rd round mutual evaluation of Lithuania in January 2006. The evaluation report on Lithuania was adopted by the 21st Plenary meeting held in December, 2006.

4.5 FATF Membership

The Council of Europe became an associate member of the FATF as from June, 2006. It will be represented through a MONEYVAL delegation composed of up to seven persons which will include the President and, one official of the Secretariat. The other delegates will be the members of the Bureau and representatives of Member States. Since Malta is currently represented on the Bureau,

it will form part of the delegation to the FATF Plenary meetings. Consequently, Dr Anton Bartolo member of the Board of Governors of the FIAU, formed part of the MONEYVAL delegation representing the Council of Europe that participated in the FATF Plenary held in October in Vancouver, Canada

Further to the discussions held at the EU Committee on the Prevention of Money Laundering and Terrorist Financing⁵, the FIAU carried out an assessment on the benefits of Malta in applying for FATF membership. The FIAU Board of Governors, having examined the assessment, resolved to recommend to the Ministry of Finance that a formal application for full FATF membership should be submitted to the President of the FATF. In this regard Malta's application was formally submitted in July, 2006 through the Ministry of Finance.

The Egmont Group

As a member of the worldwide EGMONT Group since 2003, the FIAU participated in the 14th Plenary which was held in Cyprus. The total number of members of the EGMONT group now stands at 101 national FIUs. Dr. Silvio Camilleri, the Chairman of the Board of Governors of the FIAU represented the Unit both in the meetings of the Heads of FIU and in the Plenary. The Egmont Group Central Committee, this year, asked the Plenary to discuss and decide on the proposals of the Transition Subcommittee which was purposely setup by the 2005 Plenary to develop proposals for the creation of a small permanent Secretariat, a system to calculate member contributions and to draft a document to clarify Egmont's mandate, structure and approach as an international organisation.

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See Section 4.1 of the Report.

