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FINANCIAL INTELLIGENCE ANALYSIS UNIT
ANNUAL REPORT 2018

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FINANCIAL INTELLIGENCE ANALYSIS UNIT

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LL.D.



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LL.D.



MEMBER
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BSc (Hons)



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B.Accty (Hons), FIA, CPA (pc), MA (Business Ethics)

LETTER OF TRANSMITTAL TO THE MINISTER FOR FINANCE

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

17 June, 2019

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 2018.

Yours sincerely



Dr Peter Grech
Chairman

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ABBREVIATIONS

ACAMS	Association of Certified Anti-Money Laundering Specialists
ACR	Annual Compliance Report
AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Directive
AML/CFT	Anti-Money Laundering and the Combatting of Financing of Terrorism
CASPAR	Compliance and Supervision Platform for Assessing Risk
CMC	Compliance Monitoring Committee
CDD	Customer Due Diligence
DLT	Distributed Ledger Technologies
DNFBP	Designated Non-Financial Businesses and Professions
EBA	European Banking Authority
EC	European Commission
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
LEA	Law Enforcement Agency
MFSA	Malta Financial Services Authority
MGA	Malta Gaming 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
OSINT	Open Source Intelligence
PMLA	Prevention of Money Laundering Act
PMLFTR	Prevention of Money Laundering and Funding of Terrorism Regulations
PPP	Public-Private Partnership
REQ	Risk Evaluation Questionnaire
SMB	Sanctions Monitoring Board
SP	Subject Person
STR	Suspicious Transaction Report
SNRA	Supranational Risk Assessment
UNODC	United Nations Office on Drugs and Crime
VFA	Virtual Financial Assets

STATEMENT OF THE CHAIRMAN

A NOTE FROM THE CHAIR OF THE BOARD OF GOVERNORS



I have the honour to present the FIAU Annual Report for 2018.

The FIAU is currently going through an unprecedented period of transformation, challenges and increased activity to be able to better fulfil its remit involving various aspects of supervision of the financial and related sectors.

The organisation's engagement on various levels, and particularly with European institutions, has been intense and continuous. An unprecedented level of resources has been dedicated to the FIAU to provide for the implementation of a detailed Action Plan for the implementation of its mission.

General awareness of AML requirements has increased exponentially, and this has also generated

more activity on the ordinary day-to-day level at the FIAU.

STRs received continued to increase and in 2018 they increased by more than 100 per cent over 2017.

Organisationally, there was a strengthened level of co-operation between the FIAU's Financial Analysis and Compliance sections, which is also reflected in an increase in the number of cases referred to the Police under the PMLA.

All areas of international co-operation also grew significantly, including those related to requests received, sent and spontaneous exchanges of information.

A product developed by the UNODC (called GoAML), which is now becoming the preferred software for FIUs to receive and analyse STRs and financial information, was acquired. Training in the use of the software was acquired and the software is now in the process of being customised to become fully operational in 2020.

Following the finding of a breach of Union law by the EBA and on the EC's recommendations, the FIAU engaged fully on the issue and embarked on the drawing up of an action plan to strengthen supervision and address the EBA's and the EC's recommendations. This was by far the largest project of the FIAU in 2018 in terms of financial and human resources.

2018 was also a record year for the FIAU in terms of pecuniary sanctions imposed, although the most significant sanctions are currently under appeal before the Courts.

On the legal side, the FIAU played a highly significant role in the transposition of the 4th AMLD into Maltese law and contributed to the strengthening of other laws and legal instruments in related fields.

“General awareness of AML requirements has increased exponentially, and this has also generated more activity on the ordinary day-to-day level at the FIAU”

STATEMENT OF THE CHAIRMAN CONTINUED



◀ The publication of the latest implementing procedures issued for consultation and the record number of guidance documents issued by the FIAU to SPs were also a major milestone of 2018.

There was significant investment in better security, IT systems, human resources and administration, which was in tune with the general increase in the activity, obligations and role that the organisation assumed in 2018.

The efforts and investment of Government through the Ministry for Finance to strengthen the effectiveness of the country's legal and administrative set-up in the fight against ML/FT were also at unprecedented levels and they continue to maintain a significant momentum. The FIAU plays a crucial role in that process, together with all other branches of Government involved in the field from a law enforcement or regulatory point of view.

This report is a means by which the FIAU renders account to parliament and to the public in general of its work during a given year. It is also an important source of information on the latest developments and on the general scenario of the fight against ML/FT in Malta.

As always, it should make informative and interesting reading to many, both in the financial sector and beyond.

Dr Peter Grech
Chairman

DIRECTOR'S REPORT

2018 was a transformative year for the FIAU, with the Unit and its members securing a remarkable record in terms of change management. The FIAU also embarked on various initiatives and implemented an impressive number of improvements and developments within strict timeframes.

These results could only have been achieved thanks to the FIAU's dedicated, passionate personnel, who co-ordinated their efforts, took ownership of work streams and implemented several much-needed changes throughout their respective areas. Meanwhile, the Unit continued with its day-to-day operations, contributing significantly to the fight against ML/FT in Malta and beyond.

2018 was a game changer for the **Compliance Section**, which managed to plan, organise, lead and control several crucial changes in its supervisory strategy, risk assessment methodology, supervisory methodology and governance framework. Among the main achievements was the drafting and implementation of a detailed 138-point action plan that goes over and above the recommendations made by the EBA and the EC in the EBA recommendations and the Commission's formal opinion, issued in July and November 2018, respectively.

The FIAU is proud that this detailed action plan was implemented in a short timeframe, with both the EBA and the EC being kept fully updated by means of face-to-face meetings and through written communications until the action plan was fully executed at the time of writing of the FIAU's annual report in March 2019.

These interactions and engagements proved crucial for the Unit to build a fruitful and solid relationship with the European institutions. In its exchanges with the EC, the FIAU also shared its views on its hands-on experiences, and provided recommendations to assist the Commission to improve the European AML/CFT framework, particularly in the field of international co-

operation on AML/CFT supervision, and in terms of direction and training for supervisory authorities in a dynamic and increasingly complex financial world.

In 2018, the FIAU and its team members addressed a backlog of pending supervisory cases, dating back as far as 2015. The members of the Compliance Section drafted, reviewed and issued a significant number of compliance examination reports, while pursuing other compliance examinations, some of which consisted of intrusive and resource-intensive on-site examinations.

In addition, the FIAU used several of its powers to address AML/CFT compliance weaknesses. In various cases, the FIAU issued pecuniary penalties; issued directives ordering SPs to terminate particular business relationships; requested SPs to carry out an independent AML/CFT audit; and requested detailed AML/CFT action plans. The FIAU is, however, taking further steps to continue enhancing its enforcement measures and mechanisms, in line with its revised policies and procedures.

Working as a team, the FIAU's officers, in collaboration with the Unit's external technical experts, achieved what was initially thought unattainable. In this regard, I take this opportunity to thank all those involved in the FIAU's transformation process and I look forward to further enhancing the Unit in the coming months, together with our Compliance team and the MFSA's and the MGA's AML/CFT teams.

The FIAU's **Legal & International Relations Section**, headed by Dr Alexander Mangion, continued its sterling work on the transposition of the 4th AMLD and in October 2018 the section issued the revised Implementing Procedures Part I for consultation. As part of the consultation process, the FIAU organised and also participated in a number of seminars to provide training and address queries raised by representative bodies and SPs. In this regard, it is worth mentioning the important role that SPs and representative bodies play in ensuring successful consultation processes, and

"I take this opportunity to thank all those involved in the FIAU's transformation process and I look forward to further enhancing the Unit in the coming months"

DIRECTOR'S REPORT CONTINUED

◀ the FIAU wishes to thank all those who provided valuable feedback to the Unit.

The FIAU's Legal & International Relations Section issued seven guidance documents in 2018, including a Supervisory Guidance Paper on ML and TF Institutional/Business Risk Assessments; a Guidance Note on Funding of Terrorism – Red Flags and Suspicious Activities; Sector Specific Procedures for Remote Gaming Operators (in collaboration with the MGA); and a Consultation Document on the Application of AML/CFT obligations to the VFA Sector (in collaboration with the MFSA).

Officers of the FIAU's Legal & International Relations Section were actively engaged throughout the year in representing Malta or the FIAU in a number of international and European fora events, conferences and expert group meetings, including MONEYVAL (Council of Europe), the Egmont Group of FIUs, the EGMLTF and the EU-FIU Platform.

The Section, in particular Dr Mangion, who served and continues to serve as a single point of contact for the MONEYVAL secretariat and assessors, contributed significantly to Malta's AML/CFT mutual evaluation, a process that kicked off in November 2017 and culminated with the MONEYVAL delegation carrying out a two-week on-site visit in November 2018, during which members of the FIAU engaged in no fewer than 13 meetings with the evaluators. Special thanks go to Dr Mangion, who dedicated a tremendous amount of time and energy in preparing, co-ordinating, replying and assisting the FIAU and other Maltese authorities throughout the entire mutual evaluation process.

The FIAU's **Financial Analysis Section** received an exceptional amount of STRs in 2018, reaching a total of 1,679, setting yet another record and continuing with the trend observed in recent years. Despite this increase, the Unit is still of the opinion that the amount of STRs is not commensurate with Malta's risk profile as a financial services centre, with clear evidence of under-reporting in a number of sectors, especially among DNFBPs.

Ensuring that the level of reporting in Malta is in sync with the country's risk profile remains one of the FIAU's top priorities, and various initiatives are under way or are planned to take place to address this deficiency, including, for example, increasing the FIAU's

engagement in terms of training, provision of guidance, improving feedback on the quality of reports, intensifying its supervisory activities, enhancing its enforcement measures, and collaborating more closely with other Authorities, including the MFSA and MGA, to raise AML/CFT awareness and compliance.

During 2018, the FIAU disseminated 45 analytical reports to the Malta Police for investigation as well as a further 34 spontaneous disseminations following the receipt of intelligence that was deemed to be relevant for the Police. In order to make better use of the financial intelligence held by the FIAU, apart from sharing intelligence with the Malta Police, the FIAU's Analysis Section channelled in excess of 200 intelligence reports with other national competent and supervisory authorities when the sharing of this intelligence was considered relevant and conducive to protecting and safeguarding the integrity of Malta's financial markets.

International co-operation between FIUs is a key component in the effective fight against ML/FT. The number of international requests for information received and requests made by the FIAU during 2018 reached 251 and 506, respectively – figures that dwarf those of previous years and clearly demonstrate the increasing use of international exchange with other FIUs in combating ML/FT. Responding promptly to international requests for information and providing meaningful and good quality replies has always been and continues to be a priority for the FIAU's Financial Analysis Section, and indeed an area of excellence, as demonstrated by detailed statistics and positive feedback from our international counterparts.

These positive results are being achieved thanks to the FIAU's dedicated team within the Financial Analysis Section who has responded to 71% of the requests received by the FIAU within one week and 26% within a month from date of receipt of the request, the latter being the international standard timeframe within which FIUs are expected to respond to requests.

As part of the FIAU's development plan and to address the ever growing number of international requests for information, STRs, and other forms of intelligence reports being received by the Unit, the FIAU continued to strengthen its Financial Analysis Section through the recruitment of an additional five full-time employees.



DIRECTOR'S REPORT CONTINUED

◀ Another important development within the Financial Analysis Section was the kick-off of the GoAML project. In 2018, the FIAU acquired the GoAML application, which is a fully integrated software solution developed specifically for use by FIUs, and is one of UNODC's strategic responses to financial crime, including ML and TF. Work is currently under way to implement GoAML in Malta's STR reporting mechanism.

A further technological investment was undertaken by the Unit to enhance its analytical capabilities in the virtual financial assets sphere through the acquisition of Chainalysis – a cryptocurrency investigation software used by various law enforcement agencies and FIUs in the analysis of cases involving the laundering of proceeds of crime in cryptocurrency-related typologies.

Nonetheless, room for improvement remains and further developments shall occur in the coming year to fine-tune the FIAU's analytical processes, workflows and output to improve the quality of financial intelligence that the FIAU passes on to the Malta Police, other local national competent and supervisory authorities, and to its foreign counterparts.

Various key initiatives were also implemented by the **Corporate Services Section** and the **IT & Information Security Section**. The team completed a major IT infrastructure and software upgrade in 2018 in preparation for the acquisition and implementation of CASPAR and GoAML. Additional investments were undertaken in the areas of information security and physical/premises security. Furthermore, the Corporate Services team launched a new HR software to cater for the ever increasing teams of the FIAU and the growing HR needs.

Another area that the FIAU is seeking to strengthen is its participation in PPP initiatives. In this regard, the FIAU has, over the years, already taken several measures that are considered to form part of PPP initiatives. However, further work in this area is called for. The concept of a PPP has been explored and forms part of Malta's National AML/CFT Strategy and Action Plan, which were issued in the first half of 2018.

PPP experiences in other countries have already shown that carefully planned and executed PPP

initiatives improve and lead to better AML/CFT systems and outcomes, and the FIAU in collaboration with other authorities and the private sector looks forward to taking these initiatives forward.

To conclude, 2018 was an exciting and eventful year for the FIAU and its members, characterised by significant growth and improvements across the board. However, the need to grow and further strengthen our teams and their capabilities remains. Addressing this need is one of the Unit's priorities. Our people, most of whom have years of experience in the private sector prior to joining and becoming part of the FIAU, are key to our success. With every member of the FIAU having a niche area of expertise, each one often serves as a reference point not only within the Unit, but also beyond, providing valuable AML/CFT opinions and guidance to other national and international entities, representative bodies, and SPs.

As a team, we believe that actions speak louder than words, and the recent changes and achievements, coupled with the Unit's plans to make further improvements, will create the right platform to change the AML/CFT culture – a culture in which compliance is often seen as an unnecessary cost, particularly in the non-financial sector.

We look forward to embracing these changes and to working together with other stakeholders, including SPs and representative bodies, to improve Malta's reputation as a financial services centre, and taking AML/CFT compliance and controls to higher levels. We also look forward to engaging further with national bodies, such as the National Co-ordinating Committee and supra-national and international authorities, to step up the fight against ML/FT and improve the national and EU AML/CFT framework.

I also look forward to continuing to work closely with all the officers of the FIAU, whom I thank for their dedication and professionalism. I take this opportunity to thank Mr Alfred Zammit, Deputy Director, and the FIAU's Board of Governors for their constant support and direction. It is also important to mention that the improvements and growth of the FIAU would not have been possible to implement if it were not for the prompt support of the Ministry for Finance.

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 an autonomous agency within the Ministry of Finance and governed by the policy 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 includes six distinct functional areas, each having its own responsibilities. These sections are tasked with IT and Information Security, Corporate Services, Legal and International Relations, Financial Analysis, Policy and Quality Assurance, and Compliance.

FUNCTIONS

The functions of the FIAU are set out under Article 16 of the PMLA. 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 FIAU's principal functions is to receive and analyse reports made by SPs in terms of the PMLFTR on suspicions of ML/FT and the proceeds of crime. The Financial Analysis Section is responsible for analysing the STRs the FIAU receives and obtaining further information to determine whether a reasonable suspicion of ML/FT subsists. Where it is determined that this is the case, the section forwards a detailed analytical report to law enforcement authorities for further investigation.

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

The FIAU is permitted to exchange information with local supervisory and competent authorities, any other foreign body having regulatory or supervisory functions as well as other FIUs. This exchange of information can

be carried out both spontaneously and following a request for information. Although the existence of an MoU is not necessary for the exchange of information to take place, the FIAU maintains several MoUs with FIUs and supervisory authorities, where necessary, to ensure that the process of exchanging information is strengthened. The presence of an MoU at times helps to facilitate the exchange of information or is required by jurisdictions that might have more stringent legislation.

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 SPs 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 the Unit's behalf, carrying out visits to SPs regulated under their authority. Once the FIAU, or a delegated authority, draws up the conclusions of an examination, the findings are communicated to the SP, who is also informed of the time period within which they must take remedial action where necessary. In situations of noncompliance, the FIAU's CMC determines whether the circumstances warrant the imposition of a sanction, administrative penalty or some other administrative measure.

Other areas of responsibility

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

- instruct any SP 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;
- gather information on the financial and commercial activities in the country for analytical purposes with a view to detecting areas of activity that may be vulnerable to ML/FT;
- 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,

1. THE FINANCIAL INTELLIGENCE ANALYSIS UNIT CONTINUED

◀ investigation, prosecution and punishment of ML/FT;

- promote the training of, and provide training for, personnel employed with any SP in any matter, obligation or activity relevant to the prevention of ML/FT;
- advise and assist SPs, on effective measures and programmes to prevent ML/FT;
- 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
- report to the Commissioner of Police any activity that 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.

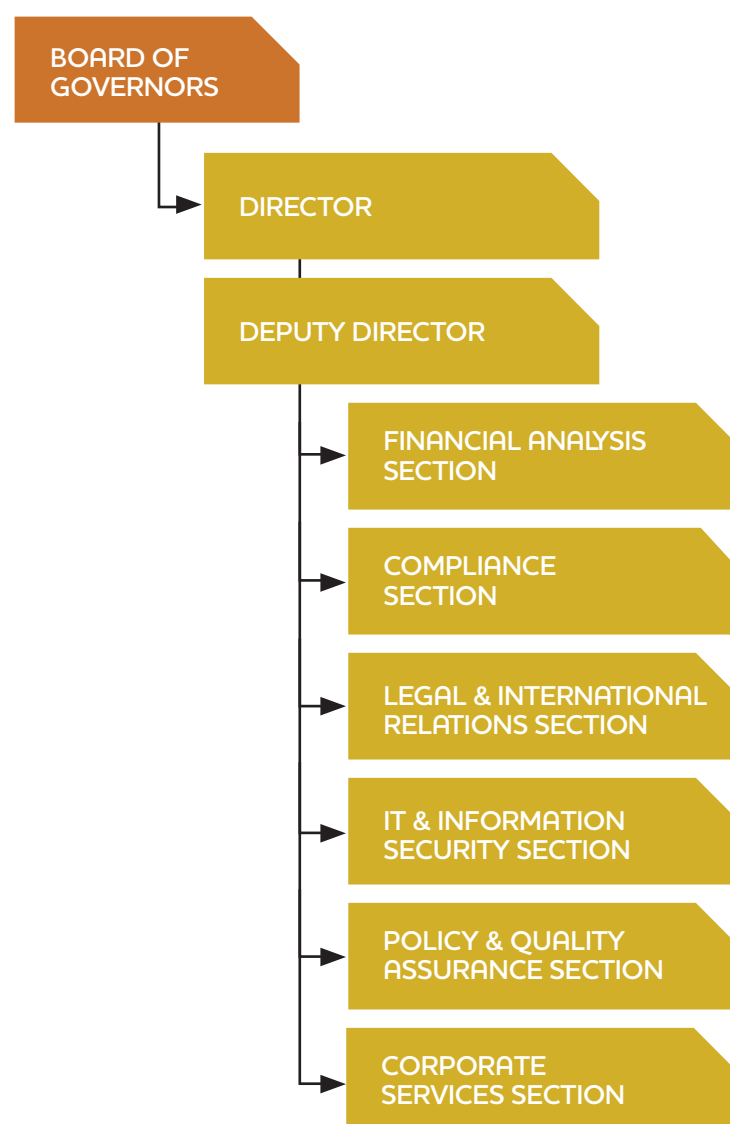
THE BOARD OF GOVERNORS

The FIAU's Board of Governors met on several occasions throughout the year to discuss various high-level matters in relation to the Unit, its functions and its operations. Among the several topics the Board discussed were the EBA's conclusions on the Breach of Union Law investigation and the FIAU's action plan, which was communicated to the EBA and the EU Commission in response to the recommendations and opinion made by the respective supra-national authorities.

In this regard, the Board endorsed a number of policy enhancements, particularly in the area of AML/CFT supervision, which were implemented to address the EU Commission's opinion and the EBA's recommendations.

As part of the ongoing process to strengthen and improve the FIAU's capabilities, the Board also focused on the Unit's development plan, which featured some degree of internal restructuring to improve workflows and the efficacy of its teams.

The FIAU's own action plan and its successful implementation naturally feeds into Malta's national AML/CFT strategy and action plan, which was often another topic on the Board's agenda and in its considerations.



The MONEYVAL evaluation, a process that kicked off in 2017 and which required a tremendous input from the FIAU and its officers, also featured several times on the Board's agenda. Other areas that were delved into included HR matters, co-operation with other national authorities, VFAs and action being taken by the FIAU in this field, finance and accounts, and operational statistics.

ORGANISATIONAL STRUCTURE

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

Towards the end of 2018, the FIAU commenced a process through which enhancements were made to



1. THE FINANCIAL INTELLIGENCE ANALYSIS UNIT CONTINUED

its organisational structure which resulted in the FIAU now consisting of six distinct organisational 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.

The **Compliance Section**, which carries out the FIAU's supervisory and monitoring functions to ensure that SPs are in conformity with the requirements under the provisions of the PMLFTR.

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

The **IT & Information Security Section**, which manages the Unit's IT set-up.

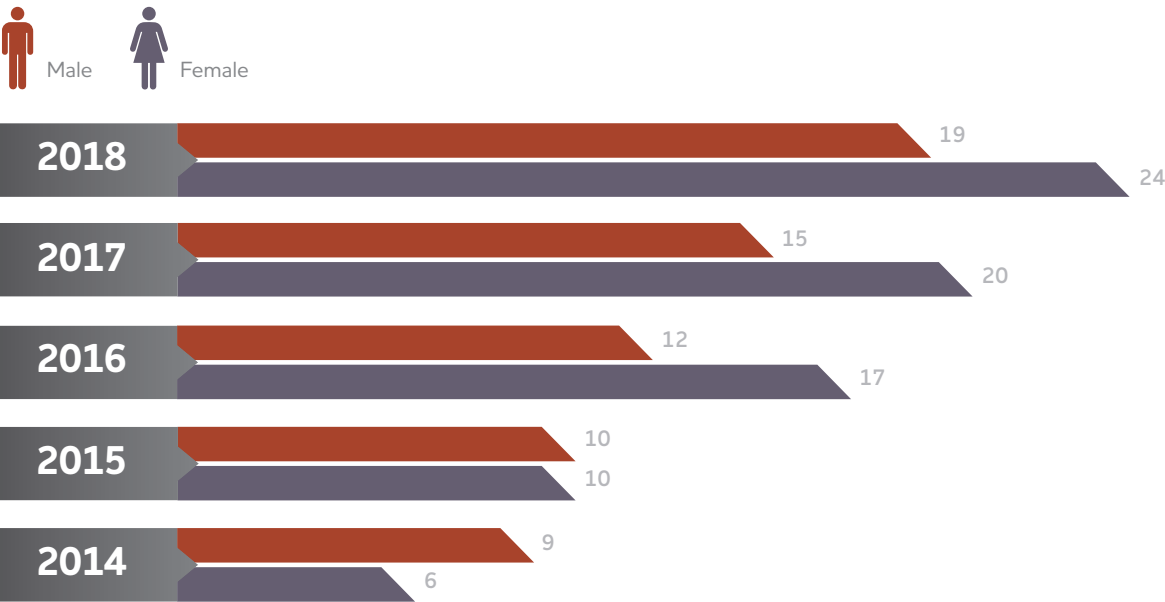
The **Policy & Quality Assurance Section**, which oversees quality assurance and the maintenance of policies.

The **Corporate Services Section**, which manages the Unit's administration, Human Resources and accounting.

The Director or, in his absence, the Deputy Director, chairs two internal committees, the FAC and the CMC, which play central roles in the FIAU's operations and decision-making framework, and ensure that deliberations are appropriately discussed by committee members and that any decisions taken are informed and consistent. The Director also acts as the secretary to the Board of Governors.

FIAU STAFF

The FIAU's staff complement continued to grow during the year, reaching a total of 43 employees by the end of 2018 as part of the FIAU's development plan for the years 2017 to 2020. Given that all positions within the FIAU except administrative or support roles, require a level of education that is at least equivalent to NQF level 6, over 86% of the FIAU's staff have achieved this academic level or higher.



2. OPERATIONS

FINANCIAL ANALYSIS

The FIAU's core function, which in practice is carried out by the Financial Analysis Section, is responsible for collecting, processing and analysing information obtained from numerous sources, and ultimately disseminating information to the Police for the purpose of combating ML/FT.

The submission of STRs, together with any additional information deemed necessary, is, and always has been, the main source of information for the FIAU. The FIAU's online submission system is the primary method reporting entities subject to the PMLFTR use to make submissions. All STRs are acknowledged and the FIAU provides feedback on the quality and outcome of each STR to the reporting entity.

Following the preliminary checks that are carried out once an STR is received, which are intended mainly to identify any urgency in the submission, a first assessment is carried out. This determines whether the Unit already holds any relevant information on the subject/s reported in the STR, whether the elements surrounding the case warrant further analysis and whether any of the information received by the Unit needs to be disseminated to other domestic competent or supervisory authorities as well as the FIAU's foreign counterparts for intelligence purposes.

Once an STR is assigned to an analyst, an assessment is also carried out that helps to prioritise the case and draw up the foreseeable action plan on which to commence the in-depth analysis.

The findings of the in-depth analysis 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 those cases where the Committee determines that a reasonable suspicion of ML/FT subsists, then a detailed analytical report is drawn up and disseminated to the Police for further investigation.

In some instances, the Committee may also determine that sending a spontaneous intelligence report to a competent or supervisory authority apart from, or in conjunction with another country's FIU, is a more appropriate course of action. This action may be also be taken in addition to disseminating a report to the Police for further investigation. More 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 on a case-by-case basis, officials in this section also carry out periodical strategic analyses to identify ML or FT patterns, trends and typologies. More information on this aspect is available in the typologies and trends section of this report.

STATISTICS REPORTING

Over the years, the number of disclosures made to the FIAU has been constantly on the increase. However, the percentage increase noted in 2018 over 2017 is unparalleled with a percentage increase of 116%. This brings the number of disclosures made to the FIAU during the year under review to 1,679.

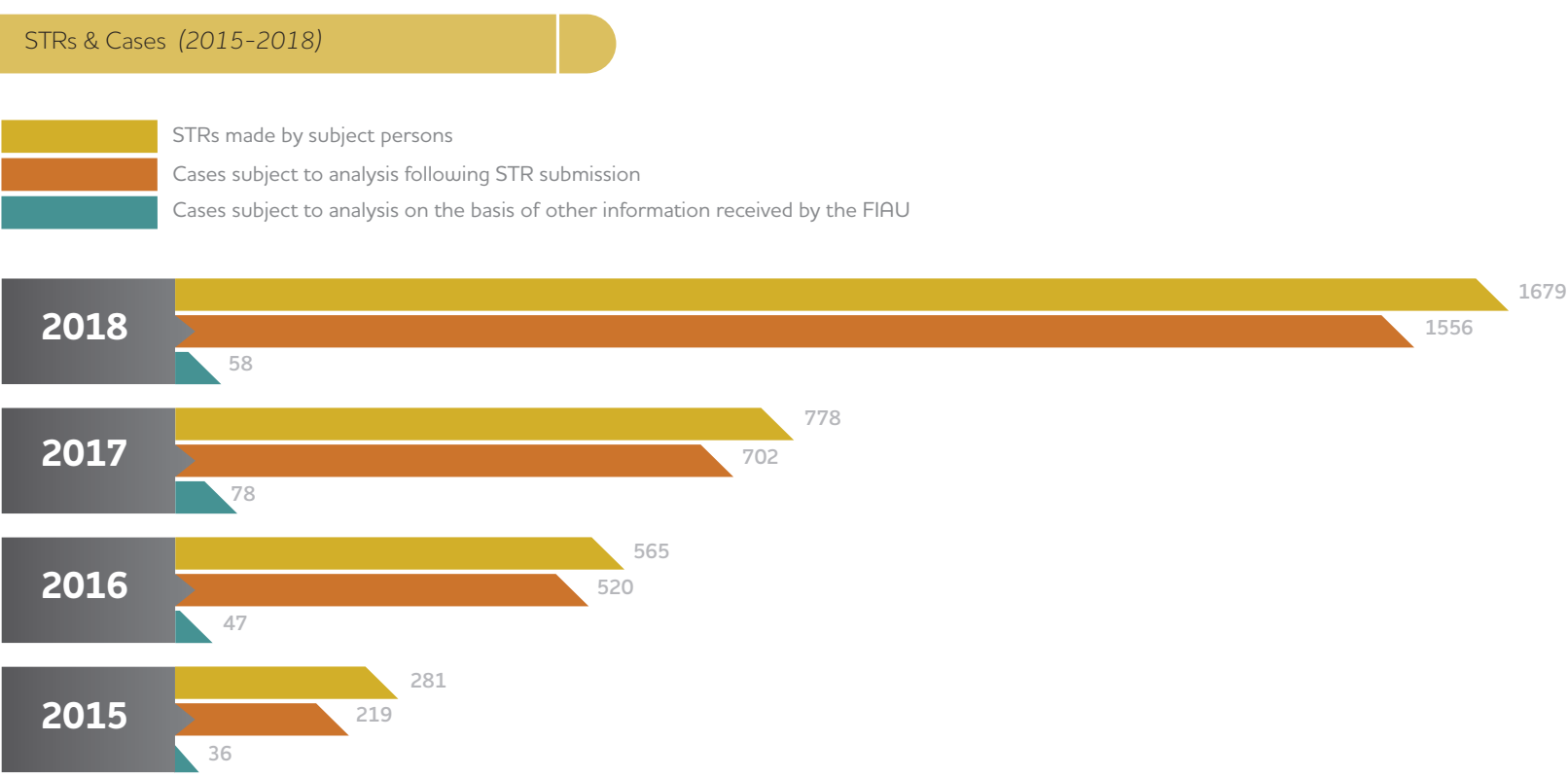
The FIAU attributes the increase in STR filings to the significant outreach, guidance, and training initiatives given to SPs to provide support in managing their AML/CFT-related obligations and risks. More information on this aspect is provided in Section 3 of this report.

As was the case in previous years, the increase in STRs naturally led to a rise in the number of cases that the FIAU had to deal with during 2018. STRs received gave rise to 1,556 cases, which is a 122% increase over 2017 and a 199% increase over 2016.

Together with the 1,556 cases generated through STR submissions, the FIAU also carried out an analysis in relation to a further 58 cases. These cases were generated following the receipt of information from

"All STRs are acknowledged and the FIAU provides feedback on the quality and outcome of each STR to the reporting entity"

2. OPERATIONS CONTINUED



◀ various other sources, including information received from other FIUs. This brings the total number of new cases subject to an analysis by the FIAU during 2018 to 1,614, which equates to a 107% increase over 2017.

STRs BY CATEGORIES OF SUBJECT PERSONS

The STRs submitted to the FIAU during 2018 originated from 25 categories of SPs. An increase in STR submissions was noted across 19 of these categories, with some showing a substantial increase over 2017. As was the case in previous years, credit institutions were the category that submitted the most STRs, with an 82% increase over 2017.

A substantial increase was also noted in the number of STRs submitted by the remote gaming industry, which saw an increase of 221% over 2017. These reports, however, mainly relate to foreign natural persons with limited connections to Malta. Combined, the number of reports received from credit institutions and remote gaming companies during 2018 account for over 84% of all STRs submitted to the FIAU.

Of the 724 STRs filed by credit institutions in 2018, 573 were filed by the six¹ core domestic banks², which is an increase of 67% over 2017 filed by this category of domestic banks. As was the case during previous years, the majority of these STRs were received from one single bank. During 2017, the non-core domestic banks filed 33 STRs, which is a 65% increase over 2017. The majority of these reports originated from one bank within this category of domestic banks.

One hundred and nineteen STRs were received in 2018 from credit institutions classified as international banks, which represents a 240% increase over 2017. This is a category of banks having limited connections to the Maltese economy.

Other increases were also noted in STRs filed by investment services licensees, trustees and fiduciaries, casino licensees and real estate agents.

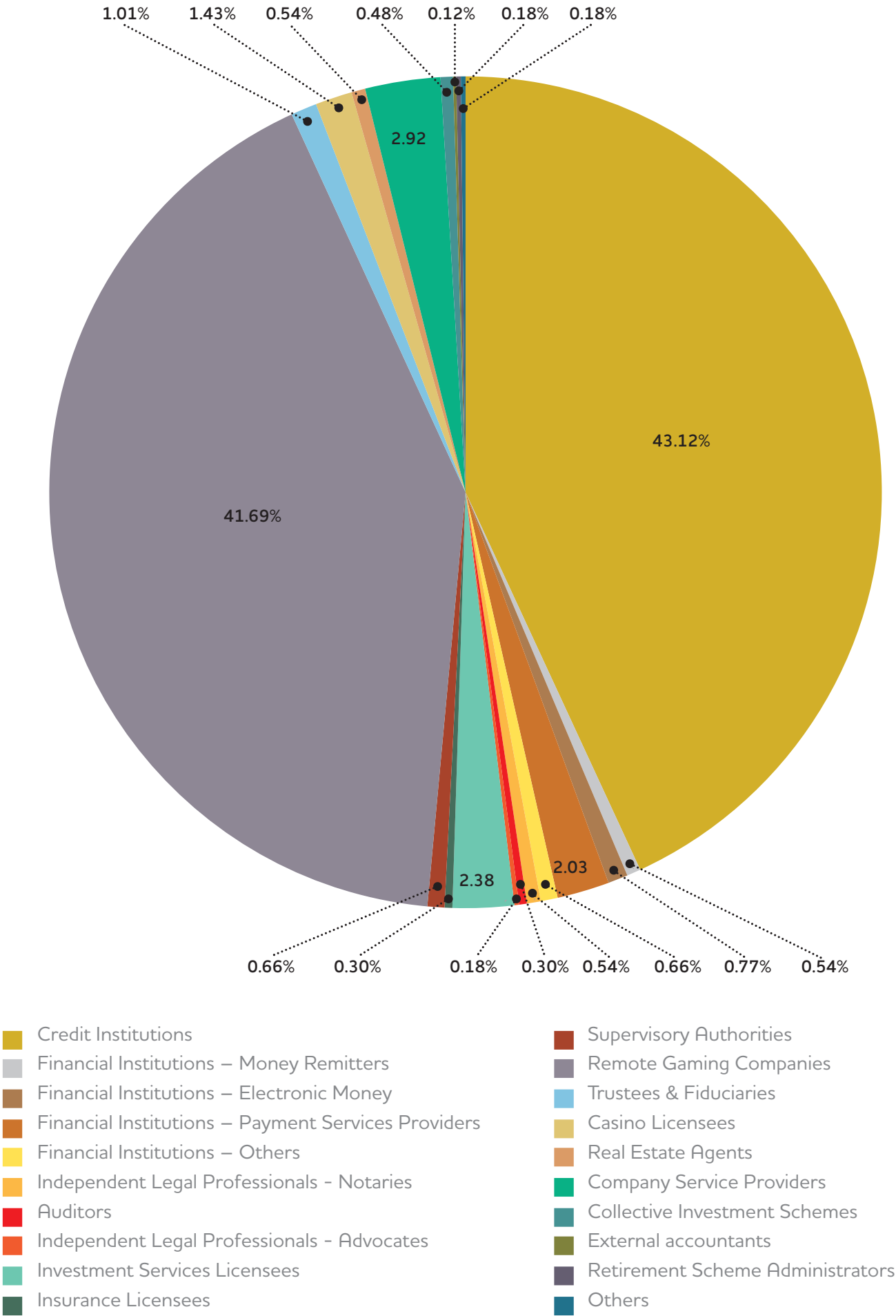
A decline was noted in 2018 in the number of reports submitted by money remitters, with a 36% decrease over 2017, and insurance licensees, which reported 58% fewer STRs than in 2017.

1. On 22 June 2017, Mediterranean Corporate Bank Limited was merged with Mediterranean Bank plc. In November 2017, Mediterranean Bank became MeDirect Bank (Malta) plc.
2. Refer to Central Bank of Malta Financial Stability Review 2017, p 8; <https://www.centralbankmalta.org/financial-stability-report/>

2. OPERATIONS CONTINUED



STRs filed by type of reporting entity as a percentage of the total number of STRs (2018)



2. OPERATIONS CONTINUED

STRs filed by type of reporting entity in absolute numbers (2014-2018)

Type of reporting entity	2014	2015	2016	2017	2018	2018
	N°	N°	N°	N°	N°	N°
Credit Institutions	112	136	344	398	724	43.12%
Financial Institutions – Money Remitters	-	-	-	14	9	0.54%
Financial Institutions – Electronic Money	-	-	-	8	13	0.77%
Financial Institutions – Payment Services Providers	-	-	-	19	34	2.03%
Financial Institutions – Others	-	-	-	6	11	0.66%
Financial Institutions	17	11	30	-	-	-
Independent Legal Professionals – Notaries	-	-	-	6	9	0.54%
Auditors	-	-	-	2	5	0.30%
Independent Legal Professionals – Legal Procurators	-	-	-	1	-	-
Independent Legal Professionals – Advocates	-	-	-	2	3	0.18%
Investment Services Licensees	9	26	12	12	40	2.38%
Insurance Licensees	1	7	9	12	5	0.30%
Supervisory Authorities	3	10	7	7	11	0.66%
Independent Legal Professionals	5	11	5	-	-	-
Remote Gaming Companies	22	32	87	218	700	41.69%
Trustees & Fiduciaries	12	16	19	10	17	1.01%
Casino Licensees	1	3	4	4	24	1.43%
Real Estate Agents	2	6	3	2	9	0.54%
Accounting Professionals	2	4	6	2	-	-
Regulated Markets	1	-	1	-	-	-
Company Service Providers	13	18	34	50	49	2.92%
Collective Investment Schemes	-	-	-	-	8	0.48%
External accountants	-	-	-	-	2	0.12%
Retirement Scheme Administrators	1	1	2	2	3	0.18%
Others	1	-	2	3	3	0.18%
TOTAL	202	281	565	778	1679	

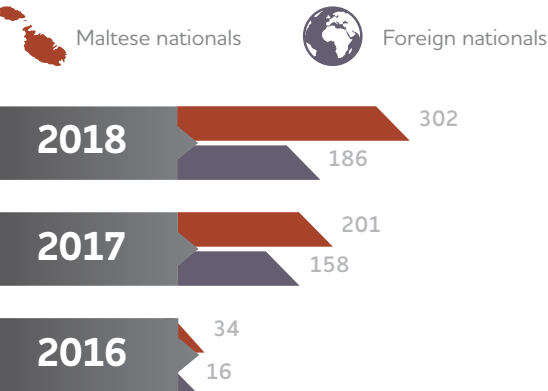
2. OPERATIONS CONTINUED

PERSONS SUBJECT TO STRS

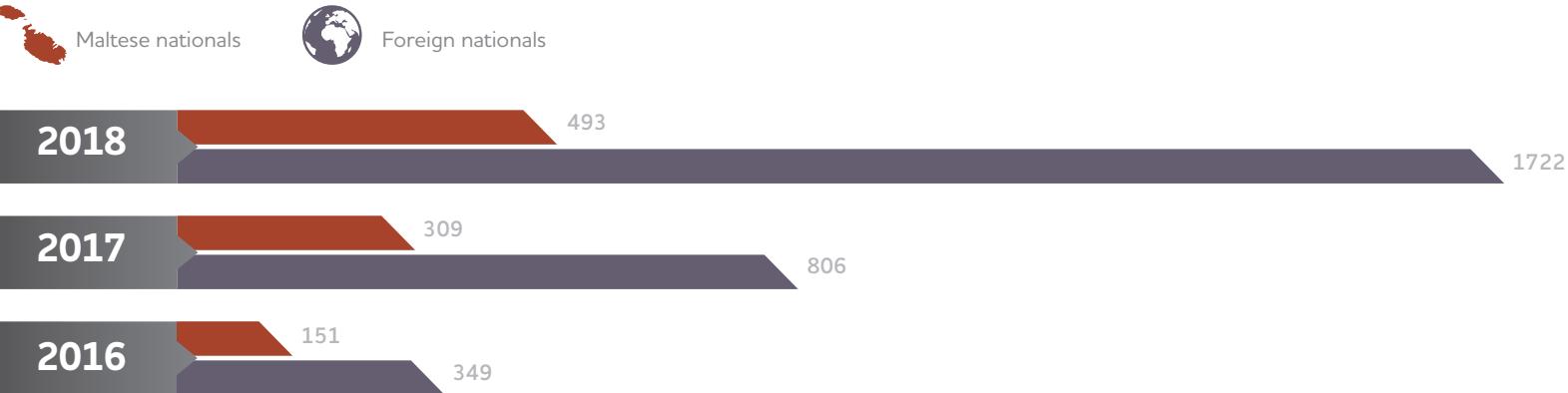
The 1,679 STRs received in 2018 included reports on 2,703 natural and legal persons, which is an 83% increase over the previous year. As expected, this increase is mainly attributed to the larger number of disclosures made to the FIAU.

Of the legal and natural persons reported to the FIAU in 2018, just over 70% were either non-Maltese nationals or foreign companies. This has also been noted in previous years and again underlines an increase in the strong international element to which Maltese reporting entities are exposed.

Number of legal persons subject to STRs (2016-2018)



Number of natural persons subject to STRs (2016-2018)



REQUESTS FOR INFORMATION

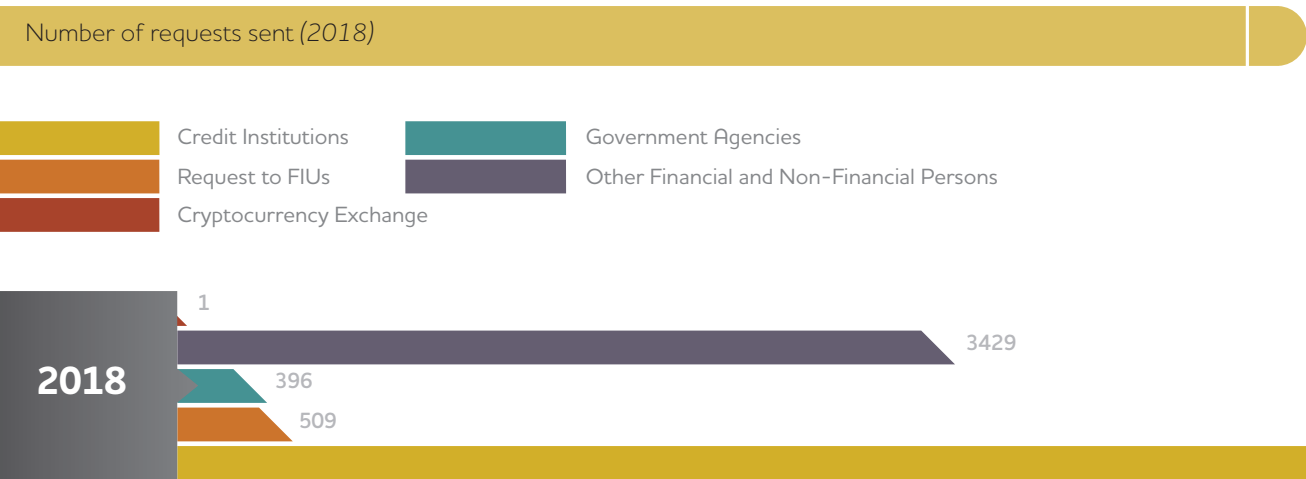
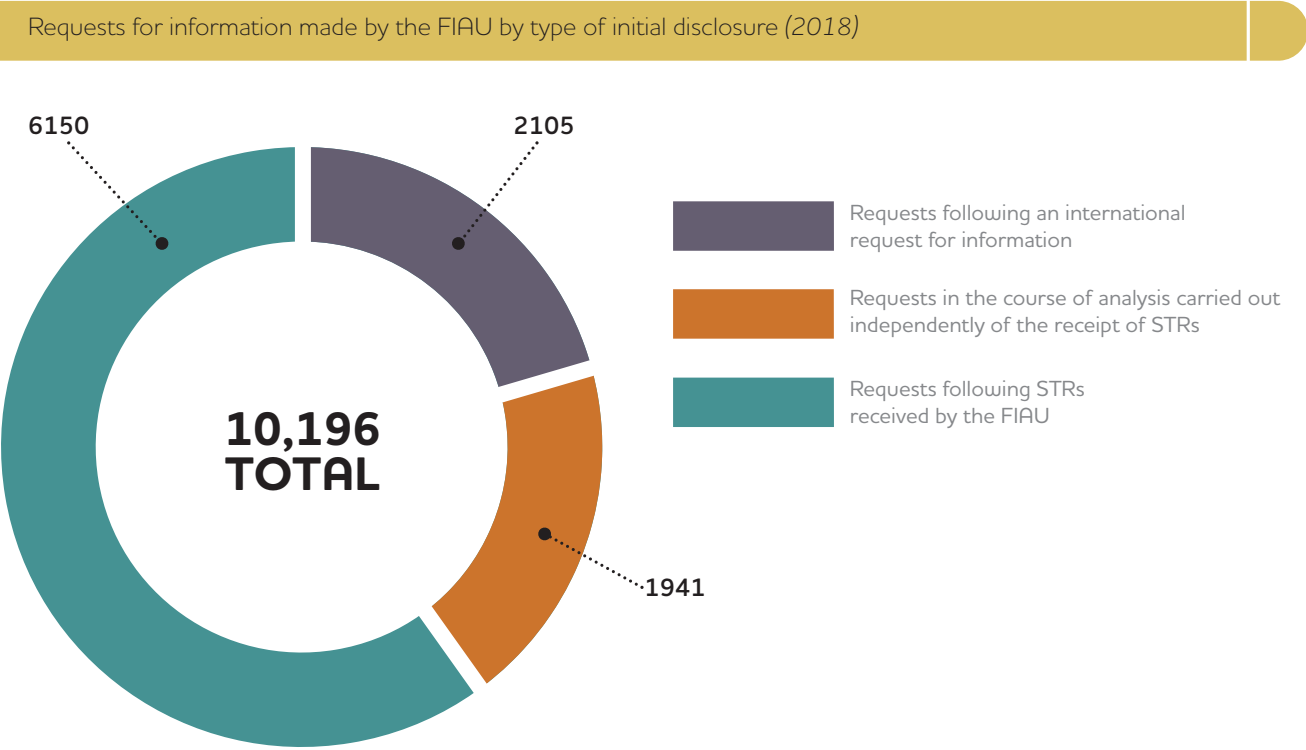
During 2018, there was an increase of almost 70% over 2017 in requests for information made by the FIAU, with the FIAU approaching over 570 entities. The FIAU made 10,196 requests for information to 576 entities in 2018, which include persons subject to the PMLFTR, foreign FIUs, the Police, supervisory authorities, and Government departments and agencies.

Requests made by the FIAU following the receipt of an international request for information contributed to over 20% of all requests made in 2018, which is significantly higher than previous years. In addition, an increase over 2017 of 11% was noted in the number of requests made by the FIAU following the receipt of STRs, as well as a 984% increase in the number of requests made by the FIAU in the course of analyses carried out independently of the receipt of STRs.

2. OPERATIONS CONTINUED

As has been noted over previous years, credit institutions still remain the primary source of information for the FIAU, with more than 57% of all the requests for information sent by the FIAU in 2018 directed towards these entities. However, the year

under review showed a substantial increase in the number of requests channelled by the FIAU to other persons subject to the PMLFTR, given the 315% increase in these requests for information over the previous year.



OUTCOME OF ANALYSIS

The FIAU's Financial Analysis Section handled 2,189 cases in 2018, 26% of which were initiated prior to the year under review. Of these 2,189 cases, the FIAU concluded 41% or 901 cases, and the balance of 1,288 cases remained ongoing as at the end of the year.

The number of cases, 45, that were disseminated to the Police for further investigation, were forwarded following a determination of reasonable suspicion of ML/FT. This equates to 5% of the cases concluded in 2018. These 45 cases also include additional information reports that were connected to cases previously forwarded to the Police for further investigation.

2. OPERATIONS CONTINUED

◀ In addition, the FIAU also shared 34 spontaneous intelligence reports with the Police following the receipt of this information, which the Unit determined would be of relevance to the Police due to other ongoing investigations that may not have resulted from previous disseminations by the FIAU.

Despite the noticeable upturn in the total number of cases subject to an analysis by the FIAU in 2018, the percentage of cases forwarded to the Police declined. This decline is due to a number of factors.

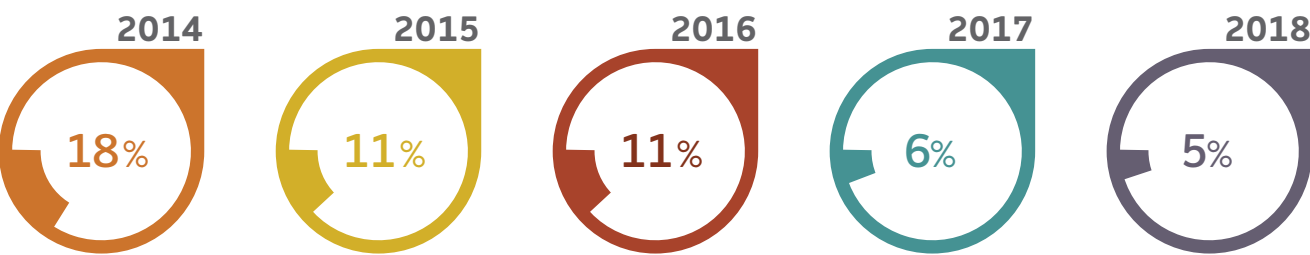
As was noted in previous years, one reason for this decline is that, in a number of cases, the Unit considers it more appropriate to send a spontaneous intelligence report to foreign FIUs rather than to trigger an investigation in Malta due to the strong international element that is evident in these cases. Although these cases are included in the statistics relating to 'No Case Opened', it is to be noted that, although the FIAU does not open its own in-depth analysis in these cases, the majority result in further dissemination to its foreign counterparts.

Further information in relation to the sharing of spontaneous intelligence reports is available in the international co-operation section of this report.

Furthermore, with effect from 1 January 2018, the FIAU was empowered by the PMLA to co-operate and exchange information with competent authorities *inter alia*. As a result, the FIAU disseminated 208 reports to the different national competent and supervisory authorities in 2018. Prior to the year under review, some of these disseminations would have been channelled to the Police, as opposed to the respective authority.

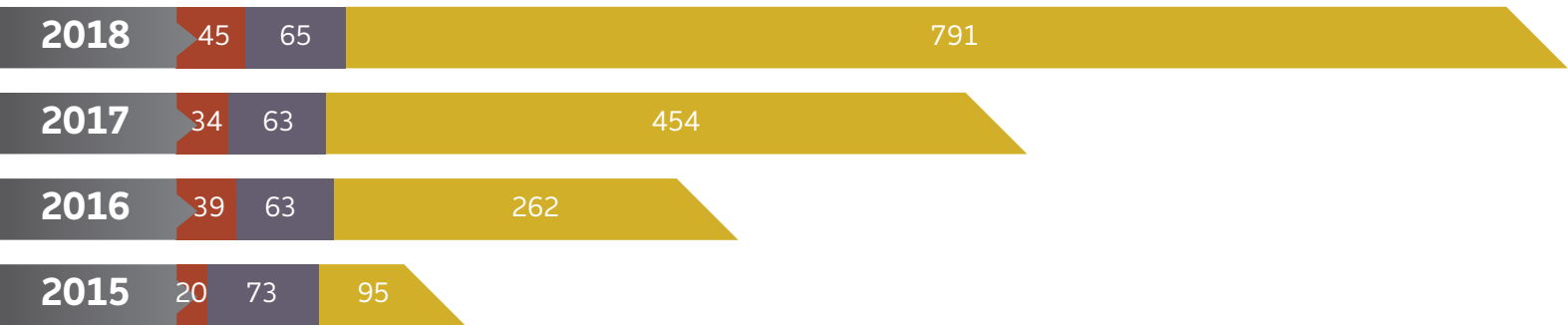
One also has to bear in mind that, while the increase in the number of STRs in which it is considered that there is no case is immediately reflected in the statistics, the STRs where a full analysis is required have a considerable time lag. Furthermore, during the year under review, the FIAU also adopted a more thorough approach to conducting its analyses, which is also evident in the number of requests made for further information. This, coupled with limited resources, is the

Percentage of cases referred to the Police for further investigation (2014-2018)



Outcome of cases (2015-2018)

■ Sent to Police ■ No further action ■ No case opened



2. OPERATIONS CONTINUED

◀ main contributor to the aforementioned time lag which the FIAU is proactively addressing through an increase of its human and IT resources.

Of the cases referred to the Police for further investigation in 2018, 51% originated from STRs that were submitted to the FIAU by credit institutions. This trend was noted in previous years and once again highlights the important role credit institutions have in protecting the financial system from ML/FT. A further 11 cases sent to the Police were initiated by the FIAU as a result of other information obtained by the Unit.

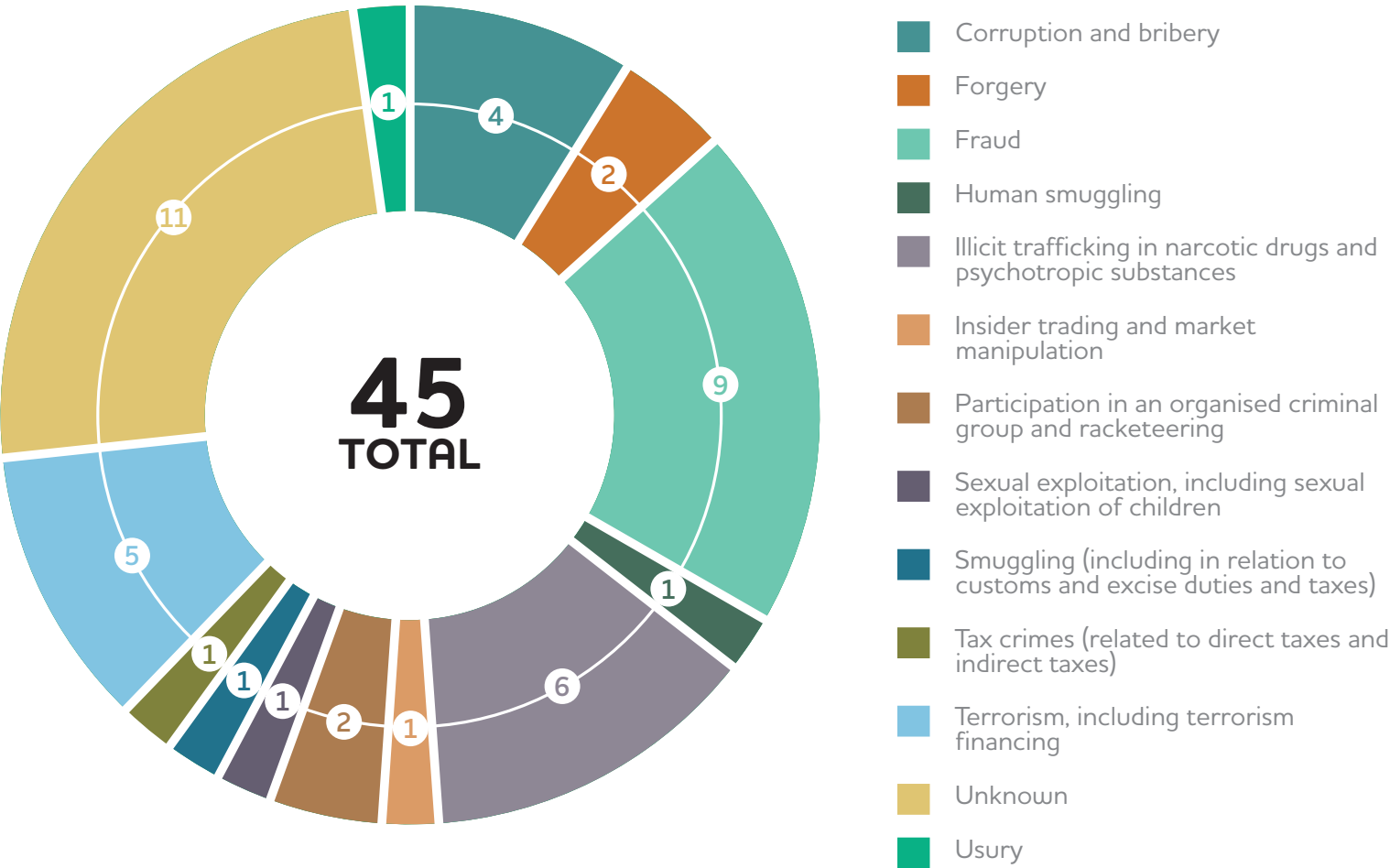
The remaining cases originated from STRs submitted to the FIAU by independent legal professionals, casino licensees, investment services licensees, financial institutions, trustees and fiduciaries, and company service providers.

SUSPECTED PREDICATE OFFENCE

During 2018, fraud was the most prevalent suspected predicate offence, with 471 reported instances. This was followed by tax related offences, which were identified in 357 reports. In this respect, an STR may report more than one suspected predicate offence. Other suspected predicate offences reported in the STRs submitted to the Unit included illegal gambling, corruption and bribery, drug trafficking, theft, organised crime, human trafficking and FT.

The table below gives more detail on the suspected predicate offence identified in those cases that were disseminated to the Police for further investigation. More information on the sector-specific reasons for suspicion is available in the typologies and trends section of this report.

Suspected predicate offences in cases referred to the Police on suspicion of ML/FT (2018)



2. OPERATIONS CONTINUED

◀ TYPOLOGIES AND TRENDS

In previous years, the FIAU reported on the typologies and trends that were identified in those cases which, following an in-depth analysis, were disseminated to the Police for further investigation. Due to a significant operational change in 2018, which has seen a marked increase in the FIAU's co-operation with other national and international authorities and counterparts, the FIAU is reporting on sector specific typologies and trends that were identified as a result of the STRs received in 2018.

Credit Institutions

Tax related crime, most of which was carried out domestically, was the most prevalent predicate offence reported in 2018 by this sector. This was followed by fraud, which accounted for approximately 20% of the reports received from credit institutions. Other suspected predicate offences identified by credit institutions included corruption and bribery, human trafficking, organised crime, drug trafficking, theft, usury and FT.

Submissions made by credit institutions in 2018 indicate that, of all the services offered by the sector, personal bank accounts held with Maltese credit institutions were the more likely service to be used in suspected ML/FT cases. This was followed by accounts held in the name of legal persons. Substantial cash transactions as well as transactions linked to cryptocurrencies were also identified in a number of instances.

While the reasons for suspicion vary significantly even within the same sector, the most common red flag indicator resulting in the submission of STRs was identified as transactional activity that is unexplained or inconsistent with the subject's known profile. This was followed closely by a lack of co-operation from the subject and adverse OSINT on the subject of the report.

Remote Gaming Companies

The remote gaming industry has grown exponentially over the years and accounted for over 40% of the STRs received. Fraud was recognised as the most prevalent predicate offence, featuring in almost 30% of STRs submitted by this sector. Other suspected predicate offences included theft, tax related crimes,

corruption and bribery, drug trafficking, human trafficking and FT.

As expected, the reports received by this sector feature a very high international element. Although the strong international element is also evident in reports from other sectors, it is definitely the most prevalent and widespread in the remote gaming sector.

Undoubtedly the main reason for suspicion within the remote gaming sector and which led to the submission of STRs was transactional activity that is unexplained or inconsistent with the subject's known profile, including large volumes of deposits that cannot be explained. Other reasons for suspicion within this sector was a lack of sufficient documentation, adverse OSINT on the subject of the report and deposits or withdrawals involving third parties

Company Service Providers

Company service providers contributed to almost 3% of the total number of STRs received by the FIAU in 2018. Fraud once again featured as one of the most common suspected predicate offences identified, together with corruption and bribery. Other suspected predicate offences included tax related crimes, smuggling, drug trafficking, arms trafficking, environmental crime and extortion.

The most common red flags identified by this sector included adverse OSINT on the subject of the report, a lack of co-operation from the subject when asked to provide details or documentation on a transaction or operation, transactional activity that is unexplained or inconsistent with the subject's known profile, as well as an unnecessarily complex company or transaction structure.

Investment Services Licensees

An increase was noted in 2018 in the number of STRs submitted by investment services licensees. In the disclosures made to the FIAU by this sector, the most prevalent suspected predicate offence was corruption and bribery, followed by fraud. Suspected insider trading and market manipulation were also reported in a few instances.

In the disclosures made to the FIAU in 2018, the most predominant typologies were the use of bank



2. OPERATIONS CONTINUED

◀ accounts and banking services in Malta and abroad. Other typologies identified included the use of cryptocurrencies and forex trading.

The reasons for suspicion within this sector varied. As was noted in other sectors, adverse OSINT on the subject of the report was one of the reasons resulting in a disclosure to the FIAU. However, other red flags identified included transactional activity that is unexplained or inconsistent with the subject's known profile, a lack of adequate supporting documentation, as well as a lack of co-operation from the subject when asked to provide details or documentation on a transaction or operation.

Casino Licensees

The number of disclosures received from casino licensees in 2018 increased significantly, with 24 disclosures being made. This equates to a 500% increase over 2017. The suspected predicate offences identified in these disclosures consisted of fraud, organised crime, drug trafficking, as well as corruption and bribery.

In the disclosures made to the FIAU, the most predominant reason for suspicion was transactional activity that is unexplained or is inconsistent with the subject's known profile. However, other red flags identified within this sector included adverse OSINT on the subject of the report, and a lack of adequate supporting documentation, coupled with a lack of co-operation from the subject when asked to provide details or documentation on a transaction or operation.

Financial Institutions

The number of disclosures received from financial institutions in 2018 increased in absolute terms to 67, with payment services providers being the main contributors. The suspected predicate offences identified varied, with the most common being fraud.

This was followed by tax related crimes. Other suspected predicate offences included illegal gambling, forgery, organised crime, drug trafficking, insider trading and market manipulation.

In the disclosures made by this sector the predominant typologies involved the use of e-wallets, dealing in cryptocurrencies, Maltese-registered companies and bank accounts held in Malta.

The main reasons for suspicion was transactional activity that is unexplained or inconsistent with the subject's known profile, coupled with a lack of adequate supporting documentation. Other red flags raised included requests for payments to be made to unrelated third parties, adverse OSINT on the subject of the report and requests on the subject from law enforcement agencies.

Trustees and Fiduciaries

Trustees and fiduciaries accounted for 1% of the total number of disclosures received by the FIAU in 2018. The disclosures made identified a number of suspected predicate offences, with the most prevalent being bribery and corruption. This was closely followed by fraud and tax related crimes. Other suspected predicate offences included extortion, arms trafficking, drug trafficking, forgery and FT.

The most common red flags and reasons for suspicion identified by this sector included a lack of co-operation from the subject when asked to provide details or documentation on a transaction or operation and adverse OSINT on the subject of the report. In a few other disclosures suspicion was raised due to changes in the proposed ultimate beneficial owner after identification details are requested, an unnecessarily complex company or transaction structure and a sudden, inexplicable lack of contact from the client. ▶

“The number of disclosures received from casino licensees in 2018 increased significantly, with 24 disclosures being made. This equates to a 500% increase over 2017.”

2. OPERATIONS CONTINUED

◀ Independent Legal Professionals

Less than 1% of all STRs submitted to the FIAU in 2018 originated from independent legal professionals. The main suspected predicate offences were smuggling or bribery and corruption.

The most notable reason for suspicion raised by this sector was the availability of adverse OSINT on the subject of the report. Other red flags included transfers to or from jurisdictions having no apparent nexus to the subject or without apparent economic business sense, as well as unnecessarily complex transaction or company structures.

Real Estate Agents

The number of disclosures received from real estate agents in 2018 were limited. Of the nine reports received, the suspected predicate offences consisted mainly of tax-related crimes, organised crime, and bribery and corruption.

The red flags identified were mainly transactional. In the majority of cases, the deposits or transactions made were not considered to be in line with the subject's known profile. In addition to these red flags, reports were also submitted due to a lack of adequate supporting documentation.

Accounting Professionals and Auditors

The number of disclosures received from accountants and auditors in 2018 was marginal. As expected, the

majority of them were related to tax crimes as the predicate offence, with fraud and smuggling identified in a couple of reports.

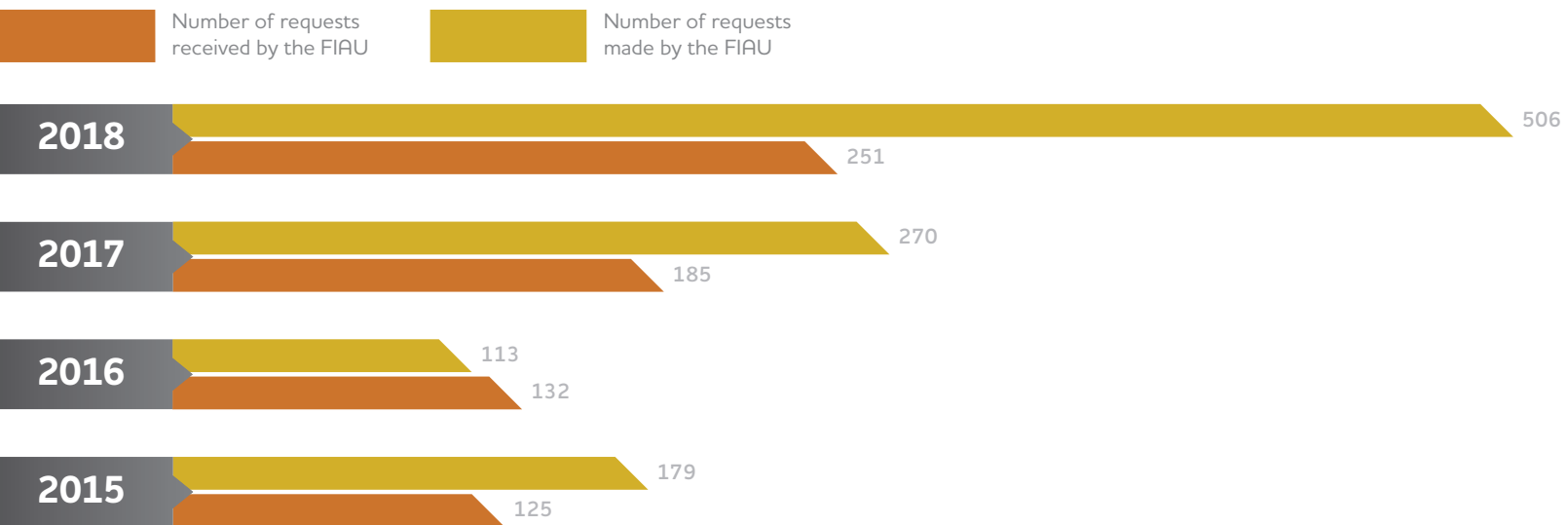
The red flags that led to these disclosures included a lack of adequate supporting documentation, transactional activity that is unexplained or inconsistent with the subject's known profile, and a lack of co-operation from the subject when asked to provide details or documentation on a transaction or operation.

INTERNATIONAL CO-OPERATION

The exchange of information between FIUs is imperative in combating ML/FT. As a result, information is exchanged either on the basis of requests for information that are made or received by the FIAU, or else spontaneously, whenever an FIU believes that information is of particular relevance to a foreign counterpart.

The conditions applicable to any such exchange and the extent of information that may be so exchanged will usually be determined on the basis of the FIUs' domestic laws. Information is ordinarily exchanged through secure channels. The FIAU, as a member of the Egmont Group of FIUs, exchanges information with other Egmont members via the Egmont Secure Web, and also uses the FIU.net system to exchange information with FIUs from EU jurisdictions.

Requests for co-operation and information (2015-2018)



2. OPERATIONS CONTINUED

Under Maltese law, the FIAU is authorised to exchange information with its foreign counterparts without the necessity of having MoUs or formal agreements in place. Nonetheless, since the signature of MoUs might be a prerequisite for the exchange of information in other jurisdictions, the FIAU has over the years signed 16 MoUs with foreign FIUs. These have been signed 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, Israel and Macedonia.

Requests made by the FIAU to other FIUs

An increase of 107% was noted in the number of requests for information made to other FIUs in 2018, which, as was the case in previous years, reflects the ever-increasing international element of cases subject to an analysis by the FIAU.

Over 76% of requests made by the FIAU were addressed to FIUs of European countries. This was followed by the FIUs in the Americas, to which the FIAU sent 10% of its requests and in Asia, to which the FIAU sent 9% of its requests. The FIAU's top counterparts in 2018 were Italy, the United Kingdom, Germany, Switzerland and France.

Requests for assistance made by the FIAU – by region and number of FIUs (2018)

Region	Number of requests made by the FIAU	Number of FIUs to which a request was made by the FIAU
EU/EEA	324	30
Europe (non-EU/EEA)	62	15
Asia	47	13
Americas	53	20
Africa	17	11
Oceania	3	3

The timeliness of foreign FIUs in replying to international requests for information made by the FIAU is considered to be satisfactory, with the FIAU receiving replies to 65% of requests within a month.

Timeliness of responses by foreign FIUs to requests for assistance made by the FIAU (2018)

Time taken for the foreign FIUs to reply

	Number of answered requests	Percentage of answered requests
Within 1 week	110	30%
Within 1 month	128	35%
Longer than 1 month	130	35%
TOTAL	368	100%

Requests received by the FIAU from other FIUs

The number of requests for information received by the FIAU in 2018 was unparalleled, with 251 requests received from 53 countries. This marks an increase of 36% over 2017 and 90% over 2016.

Over 90% of the requests received originated from 40 European countries. As was the case in 2016 and 2017, the main originators of these requests were Italy and the United Kingdom. Requests from FIUs in Asia accounted for almost 4% of the requests received and 3% of the requests received originated from the FIUs of the Americas.

Requests for assistance received by the FIAU – by region and number of FIUs (2018)

Region	Number of requests received by the FIAU	Number of FIUs from which a request was received by the FIAU
EU/EEA	201	27
Europe (non-EU/EEA)	25	13
Asia	10	5
Americas	8	6
Africa	3	1
Oceania	4	1

Despite the significant increase in the number of requests for information received by the FIAU in 2018, an improvement over 2017 was noted in the time taken by the FIAU to reply to these requests. Of

2. OPERATIONS CONTINUED

◀ the 251 requests received by the FIAU, 242 requests were replied to by the end of the year. Of these requests for information, 71% were replied to within a week of receipt and a further 26% were replied to within a month of receipt.

Timeliness of responses by the FIAU to requests for assistance received from foreign FIUs (2018)

Time taken for the FIAU to reply	Number of answered requests	Percentage of answered requests
Within 1 week	172	71%
Within 1 month	62	26%
Longer than 1 month	8	3%
TOTAL	242	100%

Spontaneous Intelligence Reports

The sharing of information between FIUs in the form of spontaneous intelligence reports has always been of utmost importance. The FIAU received 111

spontaneous intelligence reports from 19 countries in 2018.

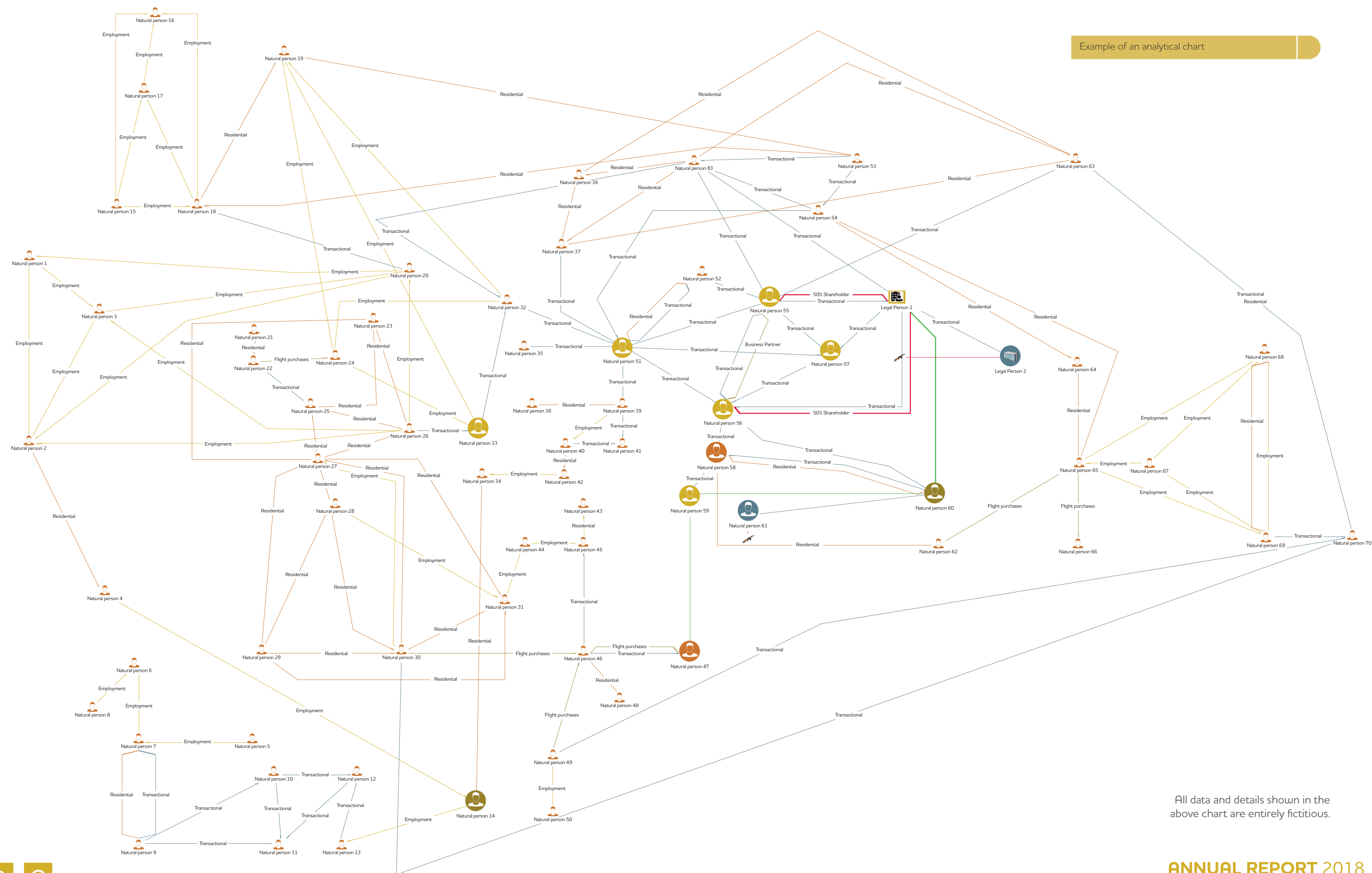
In turn, 749 spontaneous intelligence reports were disseminated by the FIAU to the FIUs of 86 countries. This represents an increase of over 170% compared to 2017 and once again highlights the international elements prevalent in STRs submitted to the FIAU.

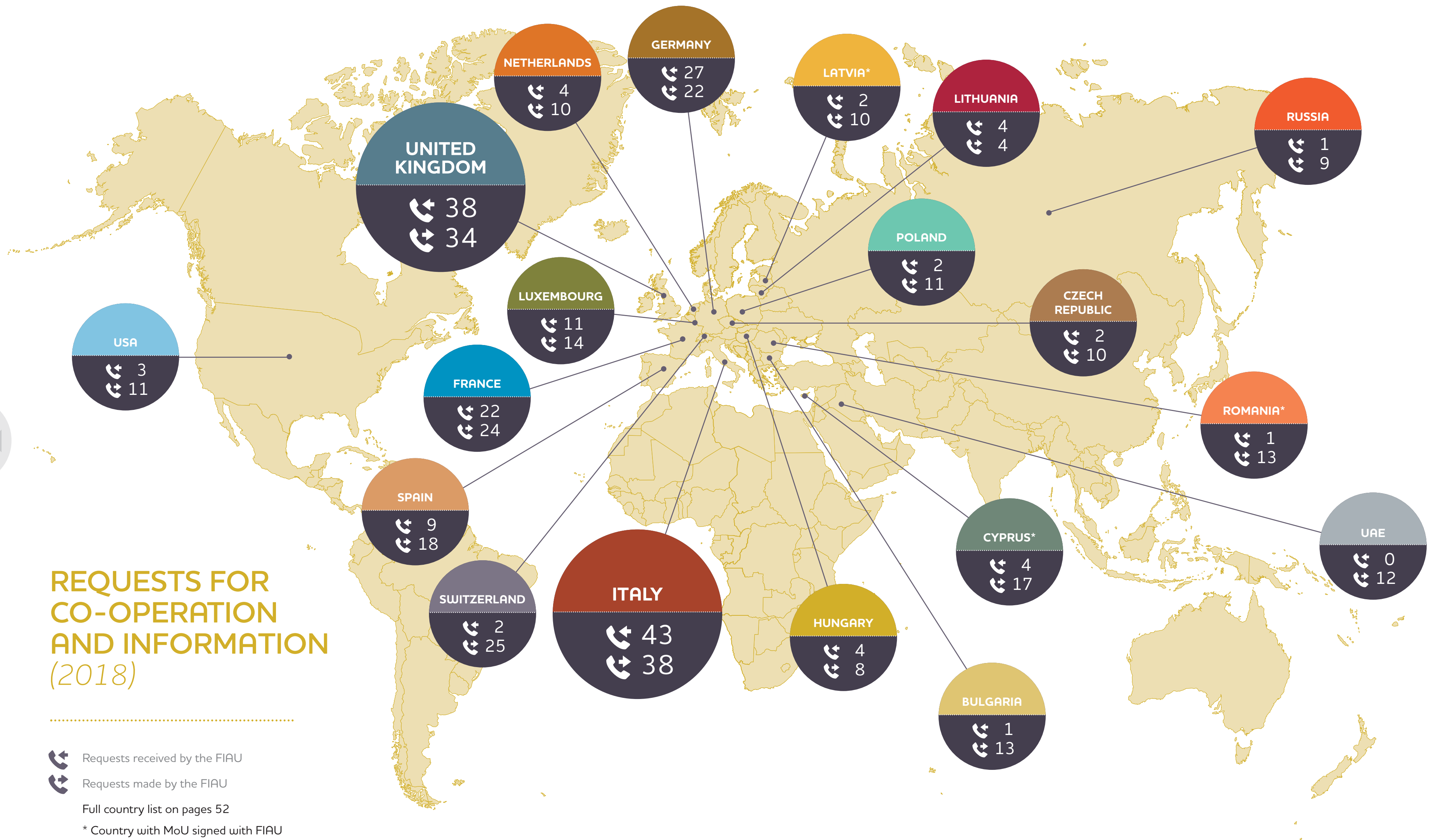
One of the primary factors behind this development was the increase in the number of STRs that were filed in relation to persons who have a very limited connection to Malta. These usually involve persons of foreign nationality and residency who are suspected of having used a domestic gaming platform or service provider to launder funds, with the funds never being transferred to or through Malta.

Given 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. Reference to these cases has also been made in the outcome of analysis section of this report.



2. OPERATIONS CONTINUED





2. OPERATIONS CONTINUED

COMPLIANCE MONITORING

Article 26 of the PMLA tasks the FIAU with monitoring and ensuring SP compliance with the PMLFTR and the Implementing Procedures. The FIAU's Compliance Section maintains this responsibility. Monitoring of SPs falling within the definitions of "relevant financial business" and "relevant activity" in terms of the PMLFTR is carried out through data collection exercises, on-site compliance examinations, off-site compliance examinations and supervisory meetings.

The FIAU may also, in terms of Article 26A(1) of the PMLA engage experts to assist it in performing its functions under the PMLA, including carrying out compliance examinations on its behalf. Articles 27(3) and 27(4) of the PMLA further determine that the FIAU may co-operate with other supervisory authorities, including the engagement of these supervisory authorities to act as its agent.

Compliance Officers

The Compliance Section recruited one further Compliance Officer in 2018. The Compliance Section is currently composed of two Compliance Managers, eight Compliance Officers and one Administrative Support Officer.

Risk Identification

The Compliance Section adopts a risk-based approach to supervision. This approach ensures that the FIAU utilises its resources in the most efficient way possible, while ensuring that the highest risk areas receive the most scrutiny.

To carry out effective, risk-based supervision, the Compliance Section starts by identifying, on an annual basis, those ML/FT risk factors affecting Malta and its economic sectors holistically. To do so, the section considers periodic risk assessments conducted at EU level, both at supranational and international levels, as well as by domestic authorities, and in particular Malta's National Risk Assessment. The FIAU incorporates the information into the Risk-Based Supervision Model through requesting specific information of SPs on identified areas of concern either through the Annual Risk Assessment process and/or through an examination or review.

Risk Assessment and Risk Management

The next component in the FIAU's Risk-Based Supervision Model is the AML/CFT risk assessment of its SPs. When assessing SPs, the Compliance Section considers both the inherent risks to which the SP is exposed and the measures and controls it has implemented to mitigate the ML/FT risks identified. In terms of inherent risk, the Compliance Section takes into account the following:

- the entity type, size, ownership, and management of the SP,
- the products/services offered by the SP,
- the customer base serviced by the SP,
- the geographical areas of exposure, and
- the interface/distribution channel utilised to on-board and service customers.

To be in a position to risk assess SPs, the Compliance Section gathers all the necessary information and documentation through periodic data collection exercises from the SP. During the period 2011 to 2017, SPs completed and submitted an ACR in which they submitted information related to risks and controls.

The ACR, used in previous years to obtain this information evolved into the REQ, an enhanced questionnaire that requires more detailed and exhaustive information that is customised to the sector and to the type of SP (i.e., legal person or sole practitioner). The FIAU requires SPs to complete the REQ annually in the CASPAR, which subsequently generates a risk rating designation for each SP from Low Risk to Very High Risk. The rating assigned to each SP assists the Compliance Section to determine the supervisory function and resources it will employ to supervise it.

In addition, the FIAU gathers relevant information on the SP's risks and controls from other supervisory authorities, the Analysis Section, open source information and whistleblowers.

While the Compliance Section primarily focuses its resources on those sectors and SPs assessed to present a higher level of ML/FT risk, the selection procedure for examinations and reviews also includes an arbitrary factor to maintain adequate supervision of all SPs subject to the PMLFTR.

2. OPERATIONS CONTINUED

◀ The FIAU's risk-based supervisory mechanism steers the application of its resources towards sectors that are perceived to carry the highest risks of facilitating ML/FT, while also considering the size of each sector. **Table 1** below highlights the sectors that were included in the supervisory framework in 2018.

Supervisory Activity across sectors	
Category	Percentage
Financial Sector	26%
Non-Financial Sector (DNFBPs)	32%
Gaming Sector	42%

2018 Risk Evaluation Questionnaire

Since 2014, the FIAU adopted a risk-based approach to supervision and the information from the ACR became an integral part of the FIAU's understanding of risks in Malta. The Compliance Section used the SP's information to assess the overall ML/FT risk of those SPs.

In 2018, the FIAU did not require SPs to complete an ACR because the Unit was in the process of designing a more detailed and sector-specific questionnaire, now being referred to as the REQ, for SPs to complete in the beginning of 2019. The 2018 REQ final deadline is 4 June 2019.

To avoid burdening SPs with submission of data and administrative fees twice within a calendar year (the ACR and the evolved REQ), the FIAU issued a single questionnaire for completion by SPs in the first quarter of 2019. The new questionnaires, hosted on CASPAR (as detailed in the section below), requests quantitative and qualitative data to be collected on ML/FT risk.

Compliance and Supervisory Platform for Assessing Risk (CASPAR)

In 2017, the Compliance Section embarked on a project to upgrade its existing SP database and risk analysis system, known as CASPAR.

CASPAR is a multifunctional system that enables the FIAU to gather information from multiple sources and

automate previously manually intensive data gathering processes. It is the portal through which SPs will submit responses to the REQs and other relevant information. This new system incorporates an integrated, customised risk engine that translates the information gathered from multiple sources into the numerical scoring of risk indicators, and the rating of overall AML/CFT risk of SPs. The automated risk scoring in CASPAR enables the section to rapidly assess a SP's inherent risk and controls, and to re-evaluate that risk in response to a change in circumstances or additional data.

To assess the inherent risk and the effectiveness of the SP's controls, the FIAU evaluates the following:

- the governance and organisation,
- the policies and procedures,
- the AML/CFT training received,
- the SP's business risk assessment,
- the SP's customer acceptance and risk assessment programme,
- transaction and activity monitoring,
- internal audit or independent testing performed,
- AML/CFT programme and suspicious activity reporting, and
- AML/CFT programme reporting.

Risk rating SPs using qualitative and quantitative data from a wider set of sources allows the section to carry out more effective and holistic risk-based supervision.

The risk ratings of SPs determine the SP's level of supervision, namely the coverage and intensity of scrutiny. Higher risk SPs are subject to more intense and more frequent supervision.

Supervisory Methods

The Compliance Section employs the following methods in the supervision of SPs, depending on their exposure to ML/FT risk and its compliance to applicable AML/CFT laws and regulations:

- Full scope examinations;
- Targeted examinations;
- Thematic examinations;
- Ad hoc examinations;
- Close monitoring meetings; and
- Supervisory meetings.

2. OPERATIONS CONTINUED

Any of these examinations can be carried out through either on-site supervision or off-site supervision. On-site supervision is the primary activity through which the Compliance Section monitors SP compliance with the PMLFTR and the Implementing Procedures.

On-site supervisory examinations are the responsibility of the FIAU's Compliance Section. In terms of Articles 27(3)(b) and 27(4) of the PMLA, the FIAU may also request a supervisory authority to carry out compliance examinations on its behalf. As the competent authority under the Act, the FIAU retains responsibility to adequately supervise and assess SPs.

In instances when other supervisory authorities carry out compliance examinations on the FIAU's behalf, the Unit remains involved throughout the entire compliance examination process. As the competent authority for supervising SPs, the FIAU retains complete responsibility to determine any breaches, and to determine and issue sanctions on SPs.

In this regard, the FIAU holds two relationships with other Maltese supervisory authorities, one with the MFSA and another separate and distinct relationship with the MGA. The FIAU engages the MFSA to act as its agent in relation to the supervision of entities being licensed or authorised by the MFSA. Likewise, the MGA acts as the FIAU's agent to supervise remote

gaming operators and land-based gaming licensees, including casinos.

Findings, indicative of potential breaches, from any of the supervisory actions may lead to the imposition of administrative sanctions.

Full Scope Examinations

A full scope examination involves the assessment of all the obligations emanating from the PMLFTR and the Implementing Procedures relevant to the SP.

The supervisory authority leading an on-site examination typically initiates the process with off-site preparatory work that includes the collection and review of various documents requested from the SP, a review of available information and intelligence, and other ancillary work. The supervisors conduct interviews with the SP's designated MLRO and other employees, where appropriate, and review a sample of customer files provided by the SP.

Compliance examinations may also include specific reviews of the AML/CFT policies and procedures, AML/CFT systems, and specific measures implemented by SPs to ensure compliance with their legal obligations.

Table 2 below indicates the percentage of on-site examinations carried out and the average duration in working days, per sector and per category of SPs, in 2018.

On-site Examinations by Category			
Sector	Category	On-site Examinations per Category	Average Duration of Onsite Examination (working days)
Financial Sector	Credit Institutions	9%	36
	Investment Services	6%	5
	Financial Institutions	2%	8
Non-Financial Sector	Company Service Providers	9%	6
	Notaries ³	9%	2
	Trust and Fiducaries	7%	6
	Accountants & Auditors ³	4%	11
	Advocates ³	2%	5
Gaming Sector	Remote Gaming	50%	3
	Land-Based Casinos	2%	3

3. On-site examinations carried out solely by the FIAU

2. OPERATIONS CONTINUED

◀ Depending on the size and complexity of the SP, the duration of a full-scope examination usually spans on average over three weeks. Three of the 2018 on-site examinations, two of which, have been conducted on credit institutions and one carried out on a non-financial firm, were extensive examinations and necessitated more resources, both in terms of manpower and working days, when compared to other, more standard examinations.

Targeted Examinations

The Section performs a targeted examination when it requires focus on a specified area within the SP. This type of inspection can take many forms. The Section usually selects an area of focus following an off-site review of the SP's business model and operations, its AML/CFT policies and procedures, and its compliance structure, as well as a review of the available information and any other available intelligence on the SP.

Targeted examinations are important to gain a better understanding of a particular area of a SP. The findings from these examinations dictate the course of action that the FIAU takes to ensure that any identified issues are adequately addressed by the SP.

Thematic Examinations

Macro or sectorial analyses that reveal new sources of ML/FT concern or threats can warrant a thematic examination. The Section performs a thematic examination on a specified theme or limited aspects of an AML/CFT programme across a number of SPs. The Section would typically select peers from the same sector where the themes of the examination would be relevant and the comparison among them meaningful.

Thematic examinations can occur on-site or off-site. The Section typically begins a thematic examination with a self-assessment questionnaire completed by the SPs, followed by Supervisory Meetings and on-site examinations of some or all of the SPs. An example of a thematic review is the examination of transaction monitoring activities of a particular category of customers, such as Politically Exposed Persons, across multiple SPs in a common sector.

Thematic examinations inform the FIAU and enables it to benchmark the handling of a business, issue or management of risks or new regulation across a sector.

A key benefit is that they assist the FIAU in identifying good practices in the industry and provide appropriate feedback to SPs on the required mitigating actions.

Ad-hoc Examinations

The Section performs ad-hoc examinations in specific circumstances that may require the launch of an examination without waiting for the next annual programme to be set up, such as on the receipt of information about a particular SP. During these examinations, the section reviews the verbal, written and visual evidences on site with a SP, as necessary, and assesses a specific aspect of a SP's AML/CFT systems and controls.

Off-site supervision

Off-site supervision is another important aspect of the Compliance Section's activity. Typically, off-site supervision is a process enabling the section to conduct a thorough review of a SP's business to gain an in-depth understanding of the ML/FT risks associated with that SP's business and the controls the SP has in place to mitigate exposure to ML/FT risks.

The process begins with a request for documentation and information from the SP. This is supplemented by readily available information and intelligence, and also the collection of additional information from other sources. This information is evaluated to determine the ML/FT risks inherent with the SP's business, and to understand what measures the SP has in place to mitigate and manage these risks. On conclusion of the off-site examination, the section provides feedback to the SP on its findings.

Another means of off-site supervision is more focused, case-specific supervision. In these circumstances, the section receives information from the FIAU's Analysis Section that may indicate possible infringements by the SP of its AML/CFT obligations.

The Compliance Section would then initiate an off-site review by requesting more information from the Analysis Section (the information provided is CDD related and not related to an STR), request further information from the SP if necessary, evaluate the information available and determine whether in the particular case under review the SP could have potentially breached its obligations at law.

2. OPERATIONS CONTINUED

Findings from off-site examinations may necessitate the section to perform a further review of the SP's adherence to its obligations. This process usually entails carrying out an on-site compliance examination, which may be a full scope or targeted review.

Close Monitoring

The Compliance Section holds close monitoring meetings, which are recurring meetings with SP's officers (namely, the MLRO, Compliance officers, or other officials) responsible for the implementation of the AML/CFT obligations, in order to review and monitor their practices and/or remediation efforts.

Supervisory Meetings

The Compliance Section also holds a number of supervisory meetings with SPs. These meetings may take different forms, depending on the SP's level of adherence with its AML/CFT obligations. Primarily, supervisory meetings assist the section to understand the SP's business in greater detail and to evaluate the SP's current AML/CFT processes and procedures.

Once these are understood, the section may better understand what action needs to be taken with a particular SP. Findings from supervisory meetings may necessitate the section to perform an off-site or an on-site compliance examination.

Supervisory meetings are also a useful tool for the section to evaluate the progress of a SP's ongoing remediation effort. Pursuant to the FIAU's recordkeeping standards, it tracks the status and achievements on any required remediation measures by the SP.

Table 3 indicates the number of supervisory meetings that were held across the three different sectors.

Supervisory Meetings held across sectors	
Category	No. of Supervisory Meetings
Financial Sector	18
Non-Financial Sector (DNFBPs)	6
Gaming Sector	3

Joint agreement between the FIAU and the MFSA

During the last quarter of 2015 the MFSA set up a central and cross-sectorial AML/CFT supervisory team within the Enforcement Unit to carry out AML/CFT supervision of SPs licensed or otherwise authorised by the MFSA. Supervision is carried out by the MFSA AML/CFT supervisory team as agents of the FIAU. Both supervisory authorities have put in place a joint supervisory regime aimed at ensuring adequate AML/CFT supervision of the financial services industry, across all sectors. This includes, but is not limited to:

- co-ordinated application of supervisory resources;
- risk-based supervisory actions; and
- joint compliance examinations using common procedures.

Both authorities concluded a Memorandum of Understanding on 20 August 2018 to govern the relationship and responsibilities between the FIAU and the MFSA.

Independently of this relationship, the FIAU remains the sole authority responsible for reviewing cases presented before it, taking decisions on breaches and sanctions imposed, and monitoring and assessing any required remedial measures.

Table 4 below indicates those examinations carried out by the MFSA jointly with the FIAU.

On-site AML/CFT examinations conducted jointly by the FIAU and MFSA			
	2016	2017	2018
On-site Examinations	36	45	19

Despite the decrease in on-site examinations carried out, examinations during 2018 necessitated additional manpower and work days when compared to examinations carried out in previous years due to their complex and extensive nature.

Joint agreement between the FIAU and the MGA

During the first quarter of 2017, the MGA set up a central and cross-sectorial AML/CFT supervisory team

2. OPERATIONS CONTINUED

within the Enforcement Unit to carry out AML/CFT supervision of SPs licensed or otherwise authorised by the MGA. The FIAU and the MGA AML/CFT supervisory team jointly addressed the ML/FT supervision of gaming operators in lieu of the transposition of the 4th AMLD into Maltese Law.

Supervision is carried out by the MGA as agents of the FIAU. **Table 5** indicates the total number of on-site examinations carried out on the Gaming Sector and the number of examinations conducted by the MGA as agents of the FIAU and jointly with the FIAU.

On-site AML/CFT examinations conducted jointly by the FIAU and the MGA			
	2016	2017	2018
Total on-site examinations	-	-	28
Joint on-site examinations	-	-	9

In 2018, 27 on-site compliance examinations were carried out on remote gaming operators and one on land-based casinos. The FIAU collaborated with the MGA in eight examinations on remote gaming operators and in the examination on a land-based casino.

From January 2018, both supervisory authorities implemented a joint supervisory regime to ensure adequate AML/CFT supervision of gaming operators carrying out relevant activity in terms of the PMLFTR. This includes, but is not limited to:

- co-ordinated application of supervisory resources;
- risk-based supervisory actions; and
- joint compliance examinations using common procedures.

The FIAU and the MGA are currently working on a Memorandum of Understanding outlining the terms and details of the agency relationship, including each parties' requirements and responsibilities.

Joint agreement between the FIAU and the SMB

In 2018 a Memorandum of Understanding was signed between the SMB, the FIAU, the MFSA and the MGA.

The purpose of this agency relationship focuses specifically on the obligations of SPs under Article 17(6) of the National Interest (Enabling Powers) Act (NIA) insofar as these relate to targeted financial sanctions on terrorism, terrorist financing and the proliferation of weapons of mass destruction.

Through this MoU, the parties committed to co-operate and assist each other in carrying out their functions to monitor that SPs have effective internal controls, procedures and systems to screen prospective clients and existing clients against UN Resolutions and EU Regulations to determine whether any prospective or current customer or beneficial owner(s), or any party to a transaction, is a designated person, and that the systems allow for the detection of customers and beneficial owners who are subject to targeted financial sanctions on terrorism and the proliferation of weapons of mass destruction. The FIAU will share any information it has or becomes aware of with the SMB.

Assistance on SPs' AML/CFT obligations

A role entrusted to the Compliance Section is that of providing support to SPs on AML/CFT issues. The section, in collaboration with the Legal and International Relations Section, provides legal interpretation on situations that may be encountered by or are unique to SPs.

In 2018, the FIAU Compliance and Legal sections replied to 100 e-mails requesting assistance related to interpretation of the law and CDD obligations. Apart from e-mail correspondence, the section also replies to a number of telephone queries each day.

Table 6 below indicates the number of queries across sectors that have been received by e-mail and replied to in 2018.

Number of queries replied by sector	
Category	No. of queries
Financial Sector	26
Non-Financial Sector (DNFBPs)	58
Gaming Sector	6
Others	10

2. OPERATIONS CONTINUED

◀ Sanctions

Article 18(3) of the PMLA assigns the responsibility to consider breaches of the AML/CFT legislative provisions and to take appropriate actions to the Director of the FIAU. The Director exercises his powers, as vested in Article 18(3), through the CMC. This committee was established by the FIAU's Board of Governors as a delegated body to consider cases brought before it by compliance officers on potential breaches of the PMLFTR, the Implementing Procedures and other Guidance Notes or Directives issued by the FIAU.

The members of the CMC are the Director, the Deputy Director, the Compliance Managers, the Legal and International Relations Manager and the three most Senior Compliance Officers.

The main responsibility of the CMC is the consideration of the following:

- contraventions by SPs of any of the provisions of the PMLFTR, the Implementing Procedures or other Directives issued by the FIAU;
- failures by SPs to comply with any lawful requirement, order or directive issued by the FIAU under the PMLFTR or PMLA; and
- determination of pecuniary sanctions.

The CMC considers all failures and breaches to determine whether to impose an administrative sanction (either an administrative penalty or a written reprimand). The CMC also determines the quantum of any administrative penalty. The penalties that the CMC can impose range from €1,000 to €46,500 per breach. With respect to minor breaches, and where the circumstances so warrant, it can impose a penalty below the minimum value but of no less than €250.

In cases where the breach is repeated, serious and/or systematic, the CMC may impose the higher maximum penalty envisaged under Regulation 21(4)(b) of the PMLFTR. These higher maximum values are applicable per breach considered to be repeated, serious, or systematic and imposed as a one-time fixed penalty or on a daily cumulative basis.

Decisions taken by the CMC on administrative sanctions are brought to the attention of the Board of Governors. The Board of Governors reviews administrative sanctions imposed by the CMC to ensure that these are in line with the FIAU's policies and procedures, and consistent across sanctions for similar breaches by other SPs.

The CMC met 27 times in 2018 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 compliance examinations, non-submission of the ACRs 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 SP on whom the sanction is to be imposed, the SP's conduct prior to and/or following the breach, the SP's size and nature of its business, and the SP's compliance history. The CMC also considers mitigating factors, such as corrective action taken and co-operation by the SP.

In 2018, a number of penalties and reprimands were levied against SPs who infringed the provisions set out in the PMLFTR and the Implementing Procedures.

“The Board of Governors reviews administrative sanctions imposed by the CMC to ensure that these are in line with the FIAU's policies and procedures, and consistent across sanctions for similar breaches by other SPs.”

2. OPERATIONS CONTINUED

◀ **Table 7** indicates the number of penalties and reprimands imposed by the FIAU on SPs over the years.

Number of Administrative Sanctions over the past three years			
	2016	2017	2018
Reprimands	6	14	78 ⁴
Penalties	167	7	70 ⁵

In 2018, the FIAU levied €996,180 in total penalties, €546,200 or 55%, imposed against Credit Institutions. The FIAU imposed administrative sanctions against the following sectors:

- Credit Institutions;
- Investment Services Providers;
- Collective Investment Schemes;
- Company Service Providers;
- Trustees and Fiduciaries;
- Real Estate Agents;
- Accountants and Auditors;
- Advocates;
- Notaries;
- Tax Advisors; and
- Administrators of Private Foundations.

In 2018, SPs who failed in their duty to submit the 2017 ACR were levied an administrative sanction of €250, and those who did not submit the 2017 ACR within the stipulated timeframes were reprimanded.

Table 8 breaks down the number of administrative sanctions imposed in 2018 across sectors.

Number of Administrative Sanctions given in 2018 according to sector – the Financial Sector & Non-Financial Sector

		Reprimands	Penalties
Financial Sector	Examinations	0	6
	Non-Submission of ACRs	6	8
Non-Financial Sector (DNFBPs)	Examinations	3	4
	Non-Submission of ACRs	69	52

4. 75 of which related to non-submission of ACRs
5. 60 of which related to non-submission of ACRs
6. <https://eba.europa.eu/-/eba-issues-recommendation-to-the-maltese-financial-intelligence-analysis-unit-in-relation-to-its-supervision-of-pilatus-bank>

FIAU ACTION PLAN

In 2017 the FIAU initiated an action plan to enhance the Compliance Section’s effectiveness and expertise. This action plan involved several important areas, including the development of a tailor-made system that assists the FIAU to assess SPs’ AML/CFT risk and the introduction of a sanctioning policy to assist the FIAU’s CMC to decide on the sanctions to impose when it determines breaches of the PMLFTR and the Implementing Procedures.

On 11 July 2018, the EBA established that the FIAU breached Union Law and issued eight recommendations to the Unit on action necessary to comply with Directive 2015/849/EU of 20 May 2015 on the prevention of the use of the financial system for the purposes of ML/FT (4th AMLD). As a result, the FIAU expanded its action plan to ensure it addressed all points of the EBA’s recommendations⁶, as summarised below:

- Recommendation 1: Issuance of Guidance and Implementing Procedures to Subject Persons;
- Recommendation 2: Risk Assessment;
- Recommendation 3: Supervisory Strategy;
- Recommendation 4: Application of the ESAs risk factor guidelines;
- Recommendation 5: Resources;
- Recommendation 6: Supervisory Procedures Manual; and
- Recommendations 7 and 8: CMC methodology, Decision Making and Sanctioning.

As part of a follow-up action on the EBA’s determination that the FIAU breached Union Law and

2. OPERATIONS CONTINUED



The FIAU delegation on a visit to the EBA in November, 2018, headed by Director Kenneth Farrugia (fifth from left)

◀ the subsequent recommendations issued by the EBA, on 8 November 2018 the EC adopted a formal opinion on the FIAU. The EC addressed the FIAU with seven recommendations, which included all the EBA's recommendations apart from Recommendation 1. Although the EC removed Recommendation 1, the FIAU nevertheless considered this recommendation important and moved forward to satisfy this recommendation.

The FIAU engaged international subject matter experts to assist in the enhancement of the action plan. It filed a granular, step-by-step action plan with the EC and the EBA that included clear deliverables, owners and target dates to address each of the recommendations. It implemented a formal project governance structure, provided regular status reports and attended regular face-to-face meetings with the Commission and the EBA to receive and proactively incorporate feedback during the project. The FIAU met

with the Commission initially on 18 October 2018 and the EBA on 20 November 2018, and held numerous, subsequent face-to-face meetings with both between November 2018 and April 2019.

The international experts also assisted the FIAU in updating its policies and procedures, restructuring its compliance section, developing a new supervisory strategy, and developing new processes.

The FIAU submitted the final report confirming the completion of the action plan on 15 April 2019. All actions were completed on time as agreed on with the EBA. The FIAU is committed to periodically reviewing all developments to ensure it keeps its policies, procedures and processes up to date and in line with its legal requirements at all times.

The focus of the EBA recommendations were on three areas of the FIAU's Supervision Programme: Risk Management, Supervision and Governance. ▶

2. OPERATIONS CONTINUED



◀ MONEY LAUNDERING CASES

This section provides a summary of judgments delivered by the Courts of Malta in relation to money laundering charges. In 2018 the Courts convicted three persons of money laundering while acquitting one person from the charge of money laundering.

IL-PULIZIJA

VS

ANDREW GRIMA

**COURT OF MAGISTRATES (MALTA) AS A COURT
OF CRIMINAL JUDICATURE
17 MAY 2018**

Nature of laundering offence: Self-laundering

Type of predicate offence: Carrying out financial activities without the applicable licence/s.

Penalty: 2 years' imprisonment, suspended for 4 years, a €4,000 fine (*multa*) and the confiscation of €36,500

The accused was charged with money laundering and, carrying out financial activities requiring a licence under the Banking Act and/or the Financial Institutions Act. The accused was also charging

interest in excess of that permitted by law. The accused, who owned a grocery shop, encashed cheques received from third parties from his grocery shop, charging a fee to do so.

The accused pleaded guilty to the offences brought against him. As a result, the Court found him guilty and condemned him to two years' imprisonment, suspended for four years, a €4,000 fine (*multa*) and the confiscation of €36,500.

IL-PULIZIJA

VS

**OMISSIS, STELLA SIVE MARY CAMILLERI, PIERRE
CAMILLERI**

**COURT OF MAGISTRATES (MALTA) AS A COURT
OF CRIMINAL JUDICATURE
17 MAY 2018**

Nature of laundering offence: Third-party laundering

Type of predicate offence: Unknown

Penalty: 2 years' imprisonment, suspended for 4 years, and the confiscation of €141,770.37, four vehicles and immovable property

2. OPERATIONS CONTINUED

◀ The accused were charged with offences of money laundering. Stella sive Mary Camilleri and Pierre Camilleri were also charged with offences relating to forgery of documents, including the falsification of private documents belonging to a Maltese registered company. One of the accused passed away during Court proceedings, with all charges against the deceased being extinguished.

Stella sive Mary Camilleri and Pierre Camilleri admitted to all the charges brought against them. As a result, the Court found them guilty and condemned them to two years' imprisonment, suspended for four years, and confiscation of €141,770.37, four vehicles and immovable property.

Acquittals

IL-PULIZIJA
VS
OMISSIS, ELEANOR TRACY AGIUS
COURT OF MAGISTRATES (MALTA) AS A COURT
OF CRIMINAL JUDICATURE
26 JUNE 2018

Type of predicate offence: Drug-related offences

The Police were tipped off that the husband of the accused was to receive a substantial amount of drugs. During close surveillance, the Police noted the accused receiving an envelope from her husband. Upon a Police search of the Agius' household, two plastic bags containing some 1,153 grams of drugs were found, along with some Lm31,000 (circa €73,000) in cash, jewellery, a fake Lm10 note, and bullets, among other items. The accused's husband was separately arraigned on drug trafficking charges, found guilty and was handed an effective 11-year prison term.

The accused claimed that she was not aware of the contents of the package and that she never opened the said envelope, but simply placed the sealed envelope in her husband's chest of drawers. In relation to the substantial amount of cash found at their house, the accused had always thought that these were the proceeds of her husband's dealings in cars and horses. The accused's husband in his testimony confirmed how he had not spoken to anyone about the contents of the envelope.

The Police charged the accused with conspiracy offences to traffic in illegal drugs, possession of illegal drugs and money laundering on the basis of circumstantial evidence.

The Court acquitted the accused from all charges brought against her, including charges relating to money laundering on the basis that the Court was not convinced beyond reasonable doubt that Ms Agius was in actual fact aware of the contents of the envelope, as well as of the origin of the monies found at her house. In acquitting the accused from money laundering charges, the Court added that, at the time when the alleged money laundering activity took place, the law required that the accused ought to know that the funds in question were the proceeds of a criminal activity for money laundering to subsist.

The definition of money laundering under the PMLA was later, in 2007, amended to encompass suspicion; that is, it is enough for the accused to suspect that proceeds are the result of a criminal activity. The Court ruled that the prosecution failed to bring forward sufficient evidence to prove beyond reasonable doubt that the accused actually knew and hence was aware that the proceeds were the result of criminal activity.

In deciding to acquit the accused, the Court also considered that the accused was not known to the police, held a clean criminal record and held full-time employment.

3. TRAINING

Training received by FIAU staff

In 2018, FIAU staff members attended a number of seminars, training workshops, conferences and courses, both in Malta and abroad.

Officers from the Legal and International Relations Section attended a number of conferences, seminars and courses, covering various topics directly or indirectly related to AML/CFT. Most notably, legal officials attended training courses on the FATF Recommendations, as well as other courses focusing on innovative financial services and products, such as FinTech and VFAs.

The FIAU has invested heavily in training on these new areas, including FinTech, VFAs and the use of cryptocurrencies and DLTs, to ensure that its officials are kept abreast with new developments and their implications on ML/FT.

Other areas in which the Legal and International Relations officials received training included the new concepts introduced by the 4th AMLD – the Business Risk Assessment of Subject Persons and what this entails, the interplay between payment services, compliance and data protection, as well as financial supervision in general.

Compliance Section officials attended a number of seminars and training courses, both locally and abroad. Compliance officials, who carry out compliance

examinations on SPs, attended a number of hands-on training programmes, including on interviewing and report writing skills.

It is of the utmost importance to the FIAU that, when conducting compliance examinations, officers are well versed on the type of business as well as the products and services SPs offered. To this end, several compliance officials attended workshops and training events on the operations of money remitters, trusts and other DNFBPs.

Training received outside Malta included programmes organised by the EBA and at the ACAMS 14th European AML & Anti-Financial Crime Conference in London.

Likewise, FIAU staff members from the Analysis Section attended a number of seminars, training workshops, conferences and courses focused on the operations of financial institutions, remote gaming and new financial products and technologies.

Of equal importance, officials attended programmes on combating the financing of terrorism and the implementation of financial sanctions.

Training provided by the FIAU

Following the transposition of the 4th AMLD into Maltese law in 2018, the FIAU also worked on ensuring that SPs are adequately informed on revisions to their AML/CFT obligations.



Training on the revised version of the FIAU Implementing Procedures Part 1, held in December 2018

3. TRAINING CONTINUED

◀ One of the main training events held by the FIAU was in December 2018, when a two-day training session on the revised version of the FIAU Implementing Procedures Part I was organised. These training sessions were attended by over 650 representatives of SPs. The sessions focused on the main changes as well as novelties introduced in the revised version of the Implementing Procedures Part I, a document that mirrored the changes brought about by the transposition of the 4th AMLD into Maltese law.

During these sessions, the FIAU gave SPs the opportunity to put forward any queries, as well as to provide their comments and feedback on the revised version of the Implementing Procedures Part I, issued for consultation by the FIAU's Legal and International Relations Section.

FIAU officials also participated as guest speakers in a number of conferences, seminars and courses organised by sector representative bodies and other regulatory authorities. One of the seminars in which FIAU officials delivered a presentation was for Notaries Public, which dealt with their obligations to report suspicious transactions (STRs) to the FIAU

and provided guidance on ML/FT trends and typologies.

The FIAU and the MFSA jointly organised four full-day sector-specific training sessions on ML/FT typologies (red flags) and the carrying out of an institutional (business) risk assessment.

The FIAU also carried out various forms of outreach initiatives, including:

- Holding sessions to explain the changes proposed to the Implementing Procedures and what would be expected of SPs should these be implemented as proposed;
- Participating as guest speakers in a number of conferences, seminars and courses organised by sector representative bodies and other regulatory authorities;
- Addressing a seminar organised by the SMB dealing with economic sanctions compliance;
- Presenting to voluntary organisations dealing with their potential risks of ML/FT when carrying out voluntary work; and
- Circulating documents issued by international bodies (such as FATF, Egmont and MONEYVAL) through the FIAU's newsletter.

“The FIAU and the MFSA jointly organised four full-day sector-specific training sessions on ML/FT typologies (red flags) and the carrying out of an institutional (business) risk assessment”

4. OTHER DEVELOPMENTS & INITIATIVES

AMENDMENTS TO THE PMLA AND TO THE PMLFTR

On 1 January 2018 a new version of the PMLFTR came into force and completed the transposition into Maltese law of Directive (EU) 2015/849. In the course of 2018, additional amendments became necessary with regard to both the PMLA and the PMLFTR. While the amendments to the PMLA introduced through Act XLII of 2018 were quite minor, Legal Notice 430 of 2018 introduced more substantial amendments to the PMLFTR. Among others, the amendments aligned the PMLFTR with the recently enacted Virtual Financial Assets Act and provided for the application of the obligations arising from the PMLFTR to this new sector.

SECTOR SPECIFIC IMPLEMENTING PROCEDURES AND GUIDANCE NOTES

Training is often supported and goes hand in hand with guidance published by the FIAU. In the course of 2018, the FIAU issued sector specific Implementing Procedures addressed to the remote gaming sector. These sector specific implementing procedures provide an interpretation of how operators within this particular area are to meet the obligations arising from the PMLFTR within the specific circumstances presented by their activities. In addition to this document, the FIAU also issued a number of guidance documents that consider particular aspects relating to the AML/CFT realm.

During 2018, the FIAU issued the following guidance:

- “Supervisory Guidance Paper on ML and TF Institutional/Business Risk Assessment”;
- “Guidance Note on Funding of Terrorism – Red Flags and Suspicious Activities”;
- “Sector Specific Procedures for Remote Gaming Operations”;
- “Guidance Note to assist banks and payment institutions in complying with AML/CFT obligations when providing payment accounts with basic features under the Credit Institutions and Financial Institutions Regulations”; and
- “Guidance Note on Transfers of Funds having Missing or Incomplete Information”.

CONSULTATION DOCUMENTS

In addition to these documents, the FIAU also issued a number of consultation documents to obtain feedback from interested parties on a number of proposed implementing procedures. Apart from a revised consultation document on the sector specific implementing procedures applicable to the remote gaming sector, the FIAU also issued a consultation document on how it is proposing to revise the current Implementing Procedures – Part I to better align them with the risk-based approach as well as a consultation document on how it considers that AML/CFT obligations should be applied within the VFA sector.

NATIONAL RISK ASSESSMENT

Towards the end of 2018, the results of the revised National Risk Assessment were published and made available to the public on the Ministry for Finance website. Their publication was preceded by a series of presentations in the course of which the interested parties were provided with an explanation of how the authorities in charge of this project had reached their conclusions.

“In 2018, members of the Unit’s administration department attended a course on green public procurement. This aided in the decision taken with regard to the cars chosen to support the FIAU’s needs.”

4. OTHER DEVELOPMENTS & INITIATIVES CONTINUED

◀ EUROPEAN UNION DIRECTIVES

Within the ambit of the EU, there were a number of developments in the AML/CFT sphere. Directive (EU) 2018/843 introduced a series of amendments to the earlier Directive (EU) 2015/849, with Member States having to transpose the greater part of these new requirements into national law by 10 January 2020.

Within the criminal law sphere, Directive (EU) 2018/1673 sets out a European-wide definition of the offence of money laundering and minimum rules of the sanctions that should accompany these contraventions. In addition, it also seeks to facilitate judicial and police co-operation to combat this offence. This Directive is to be transposed into national law by 3 December 2020.

OTHER EU MEASURES

Apart from the two directives referred to above, in the course of 2018 the EC also issued delegated regulations implementing regulatory technical standards proposed by the European Supervisory Authorities. Commission Delegated Regulation (EU) 2018/1108 set out regulatory technical standards on the criteria for the appointment of central contact points for electronic money issuers and payment service providers and with rules on their functions.

In addition, the ESAs issued two joint guideline documents to better assist in the fulfilment of the obligations arising from Directive (EU) 2015/849 and Regulation (EU) 2015/847. These were the Joint Guidelines on Risk Factors and the Joint Guidelines to Prevent Terrorist Financing and Money Laundering in Electronic Fund Transfers.

A number of Commission Delegated Regulations were also published in 2018, adding to the list of third countries identified by the Commission as having strategic deficiencies in their AML/CFT regimes and which pose a significant threat to the EU's financial system.

FATF STATEMENTS

The FATF is an international policy-making body that sets standards and measures for combating ML/FT, 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 SPs by publishing them on the FIAU website and circulating them with all SPs.

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 Unit's Sustainable Development Focal Point. In fulfilling this role, the Director assists the Permanent Secretary within the Ministry of Finance, who acts as a Sustainable Development Co-ordinator, in developing the Ministry of Finance's position in relation to any request by the Ministry for Sustainable Development, the Environment and Climate Change.

Over the years the FIAU adopted a number of measures aimed at reducing the Unit's carbon footprint and minimising energy usage. The measures taken and implemented in the past have all been reconfirmed in 2018. These measures include waste segregation, energy-efficient lighting systems and devices, double glazed windows and doors, and roller blinds to reduce solar glare, among others. This also includes the continued application of a policy requiring double-sided printing and the sole purchase of elemental chlorine free paper.

In 2018, members of the Unit's administration department attended a course on green public procurement. This aided in the decision taken with regard to the cars chosen to support the FIAU's needs.

In addition, the FIAU reconfirmed its decision to further reduce the number of USB drives acquired and increase the use of e-mails when distributing the annual report. The FIAU takes these measures to reduce the Unit's carbon footprint.

5. PARTICIPATION IN INTERNATIONAL FORA

MONEYVAL

MONEYVAL is a Council of Europe committee tasked with evaluating compliance by member jurisdictions with the main international standards relative to countering AML/CFT. The FIAU is represented on the Maltese MONEYVAL delegation, which is also composed of officers from the Office of the Attorney General, the Malta Police and the MFSA.

MONEYVAL held two plenary meetings in July and December 2018, adopting the mutual evaluation reports of five jurisdictions: Albania, the Czech Republic, Israel, Latvia and Lithuania, as well as a number of follow-up reports from previous evaluations.

Malta is currently undergoing an evaluation process by MONEYVAL, which started in November 2017. In 2018, the Maltese authorities were engaging with the MONEYVAL secretariat and the evaluation team, providing information and statistical data relative to Malta's AML/CFT regime.

The evaluation process culminated in a two-week on-site mission, held between 5 and 16 November, during which the MONEYVAL evaluation team held numerous meetings with the competent Maltese authorities, as well as various private sector entities and practitioners, to assess the effectiveness of

Malta's AML/CFT legislation and its implementation in practice.

The evaluation process is still under way and will be concluded with the publication of the Mutual Evaluation Report later on in 2019, following its adoption during the 58th MONEYVAL Plenary meeting in July 2019.

The MONEYVAL plenary in 2018 also discussed a number of topics relevant to the AML/CFT field, including changes to the FATF Recommendations; virtual currencies and the ML/FT risks associated with them; terrorist financing disruption strategies and terrorist financing risks in financial centres; and the 5th EU AML/CFT Directive and the role of FIUs in analysing corruption.

EXPERT GROUP ON MONEY LAUNDERING AND TERRORIST FINANCING

The Expert Group on Money Laundering and Terrorist Financing, chaired by the EC, brings together the national AML/CFT experts from the 28 EU member states. It advises and provides expertise to the EC and serves as a co-ordinating body and a platform for the exchange of views on AML/CFT matters.



MONEYVAL delegation during the on-site visit to Malta in November 2018

5. PARTICIPATION IN INTERNATIONAL FORA CONTINUED

◀ The EGMLTF met five times in 2018 – on 8 February, 15 June, 11 September, 4-5 October and 9-10 December. National experts had the opportunity to discuss the state of play and finalisation of the amendments to the 4th AMLD with the EC, and other possible legislative initiatives, such as on cash payment restrictions and other legislative proposals of AML/CFT relevance.

The expert group also served as a platform to share experiences and best practices on FATF/MONEYVAL country evaluations and the carrying out of national risk assessments. The ad hoc meeting of 11 September focused on the methodology used and the delegated acts on High Risk Third Countries.

The last ad hoc meeting of 9-10 December focused on the areas the EC is to consider in its revised SNRA, due to be published in mid-2019.

EU-FIU PLATFORM

The EU-FIU Platform is an informal gathering of Member States' FIUs, established in 2006 by the EC to facilitate co-operation between EU FIUs and to provide advice and expertise to the EC on FIU operations and functions.

In 2018, the EU FIU Platform was convened four times, on 6-7 March, 8 June, 19-20 September, and 10-11 December. During these sessions, the EC updated the FIUs on the state of play of its various initiatives relating to AML/CFT or otherwise affecting in some way the work of EU FIUs.

Many of the legislative initiatives are intended to enhance co-operation between the EU authorities that play a role in the prevention, detection, investigation and prosecution of criminal offences, including ML/FT. During these meetings the EU FIUs continued their discussions on the future of FIU.net, the network that supports the exchange of information between EU FIUs.

These discussions further served as a platform for the FIUs to discuss legal and practical operational issues hindering the efficient exchange of information. In fact, a year into the coming into force of the new regimes regulating the protection of personal data, the FIAU presented a paper highlighting issues on when the

provisions of Regulation (EU) 2016/589 (the General Data Protection Regulation) should be applied vis-à-vis those of Directive (EU) 2016/680, a Directive regulating the processing of personal data by competent authorities for the purposes of prevention, investigation, detection or prosecution of criminal offences (informally referred to as the Police Directive).

The paper sparked fruitful discussions between the EU Commission and the FIUs, spanning multiple meetings, and ultimately leading to more clarity on the matter. Co-operation remains a central theme of these meetings, and the EC initiated an information gathering exercise among the EU FIUs as part of its obligation to assess, among other matters, obstacles and opportunities to enhance co-operation between FIUs and the EU, including the possibility of establishing a co-ordination and support mechanism.

Finally, via the EU-FIU Platform, a number of EU FIUs, including the FIAU, participated in a number of projects related to the functions of FIUs, such as the carrying out of joint analyses.

THE EGMONT GROUP

The Egmont Group of FIUs brings together FIUs from different jurisdictions and provides a platform for the secure exchange of expertise and financial intelligence to combat ML/FT. During any given year it holds two general meetings of its FIU members in the course of which the various working groups give updates on the projects being worked on and discuss the way forward. Each meeting is usually dedicated to a specific topic.

In 2018, the Egmont Group held a general meeting of FIUs in Buenos Aires, Argentina, early in March and used the same meeting to discuss how AML/CFT regulation can be better used to address the money laundering of corruption proceeds. In September, the Egmont Group held its 25th Plenary Meeting in Sydney, Australia, where member FIUs focused their discussions on the use of PPPs.

In the course of the Buenos Aires meeting, member FIUs reached a preliminary agreement on a set of corruption indicators that could assist in better identifying cases of proceeds of corruption. These

5. PARTICIPATION IN INTERNATIONAL FORA CONTINUED



Participants in the 25th Egmont Group plenary held in Sydney, Australia

◀ indicators were uploaded by the FIAU on its website early in 2019. In Sydney, the FIAU took the initiative to participate in a project being carried out through the Policy and Procedures Working Group and contributed to the drafting of a glossary of common terms used by FIUs.

ANTI-MONEY LAUNDERING SUB-COMMITTEE

AMLC, one of the sub-committees of the Joint Committee, is a forum for co-operation in AML/CFT. Through the Joint Committee, the three ESAs, the EBA, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority, co-operate regularly and closely, ensuring consistency in their practices.

On a quarterly basis the FIAU, together with other relevant supervisory authorities from the 28 EU Member States, are invited to attend meetings held by the ESAs.

In 2018, the AMLC met on 8-9 February, 14-15 June, 27 September and 12-13 December at the EBA's offices in London. The AMLC also held a

workshop on the Risk Based Approach on 20-21 March.

The AMLC focused on analysing the adequacy of cross-border supervision of financial services having links and/or connections in different EU Member States, including how co-operation and exchange of information and assistance can be better strengthened between the competent national authorities of the Member States. FinTech products and services developments vis-à-vis AML/CFT were also tackled during the meetings.

Other topics on the AMLC's agenda included the negotiation of a Memorandum of Understanding between the European Central Bank and competent national authorities of the Member States, as well as the revision of the ESAs' Joint Risk Factors Guidelines and ESAs' Joint Risk Based Supervision Guidelines.

HUMAN FACTORS AROUND TAX CRIMES

PROTAX is an EU-funded project under the Horizon 2020 Programme focusing on the human factors surrounding tax crimes. The FIAU is a proud partner ▶▶

5. PARTICIPATION IN INTERNATIONAL FORA CONTINUED



Participants at the Protax kick-off meeting in Vienna.

on this project, together with other researchers, law enforcement agencies and national tax authorities from the United Kingdom, Austria, Estonia, Portugal and Ireland.

PROTAX aims to understand ground-level problems that hamper the application of law, investigation, collaboration and, ultimately, the conviction of tax crimes and analyse the similarities and differences of tax crime treatment in various EU jurisdictions, and will highlight in particular best enforcement practices across the EU.

The project also aims to generate policy guidelines and toolkits to harmonise the treatment of tax crimes and enhance information sharing across different EU jurisdictions. Furthermore, PROTAX aims to formulate recommendations to the EC to enhance capabilities in the fight against tax crimes across the EU.



One of the sessions of the Protax kick-off meeting

A delegation composed of representatives of the FIAU and the Commissioner for Revenue participated in the kick-off meeting in Vienna, Austria, on 16 May. The deliverables of the project are expected to be completed over the coming three years.

APPENDIX

Requests for information (2018) by country

Requests received by the FIAU		Jurisdiction	Requests made by the FIAU	
N°	Replies		N°	Replies
2	1	Albania	2	2
-	-	Andorra	1	1
-	-	Angola	1	-
-	-	Anguilla	1	1
-	-	Argentina	2	-
-	-	Armenia	1	1
-	-	Australia	1	1
1	1	Austria	10	8
-	-	Bahamas	2	2
7	7	Belgium	6	5
-	-	Belize	2	-
1	-	Bermuda	-	-
-	-	Brazil	2	2
-	-	British Virgin Islands	9	6
1	1	Bulgaria	13	7
-	-	Burkina Faso	2	-
-	-	Cambodia	1	-
-	-	Cameroon	1	-
1	1	Canada	6	4
-	-	Cape Verde	1	-
-	-	Cayman Islands	3	2
-	-	Chile	1	1
-	-	Colombia	1	1
1	1	Costa Rica	1	-
1	1	Croatia	2	1
1	1	Cuba	-	-
4	4	Cyprus	17	15
2	2	Czech Republic	10	10
1	1	Denmark	7	7
-	-	Dominica	1	-
-	-	Ecuador	1	-
1	1	Estonia	8	6
5	5	Finland	8	6
22	21	France	24	18
-	-	Georgia	1	1
27	27	Germany	22	16
-	-	Ghana	1	-
3	3	Gibraltar	5	5
1	1	Greece	4	2
-	-	Guatemala	1	-
-	-	Guernsey	1	1
1	1	Holy See	-	-
-	-	Hong Kong	7	6
4	4	Hungary	8	6
-	-	Iceland	1	1
1	1	India	1	1
4	4	Ireland	4	2
1	1	Isle of Man	4	2
2	2	Israel	7	6
43	42	Italy	38	35
-	-	Ivory Coast	1	-



APPENDIX CONTINUED

Requests for information (2018) by country

Requests received by the FIAU		Jurisdiction	Requests made by the FIAU	
N°	Replies		N°	Replies
-	-	Japan	2	2
1	1	Jersey	-	-
1	1	Kosovo	-	-
-	-	Kuwait	1	1
1	1	Kyrgyzstan	-	-
2	1	Latvia	10	7
-	-	Lebanon	4	3
1	1	Liechtenstein	7	7
4	4	Lithuania	4	3
11	11	Luxembourg	14	14
-	-	Macedonia	1	1
-	-	Mauritius	1	-
-	-	Mexico	1	1
3	2	Moldova	2	-
-	-	Monaco	2	2
2	2	Montenegro	3	1
-	-	Morocco	1	-
4	4	Netherlands	10	9
4	4	New Zealand	1	-
-	-	Norway	3	3
-	-	Panama	3	3
1	1	Paraguay	-	-
-	-	Peru	2	2
-	-	Philippines	1	1
2	2	Poland	11	9
-	-	Portugal	5	1
1	1	Romania	13	10
1	1	Russia	9	7
-	-	SKorea	2	1
1	1	San Marino (Banca Centrale di San Marino)	-	-
-	-	Saudi Arabia	1	1
4	4	Serbia	1	1
3	3	Seychelles	3	2
2	2	Slovakia	4	4
1	1	Slovenia	3	1
-	-	South Africa	4	4
9	9	Spain	18	11
-	-	St Vincent & Grenadines	1	-
2	2	Sweden	6	6
2	2	Switzerland	25	16
-	-	Syria	1	-
-	-	Tunisia	1	1
5	5	Turkey	7	5
-	-	U.A.E	12	6
3	3	Ukraine	4	4
38	35	United Kingdom	34	21
-	-	Uruguay	2	1
3	3	USA	11	4
1	1	Uzbekistan	-	-
-	-	Vanuatu	1	1
251	242	TOTAL	506	368

APPENDIX CONTINUED

Spontaneous intelligence reports (2018) by country

Spontaneous Intelligence reports received by the FIAU	Jurisdiction	Spontaneous Intelligence reports sent by the FIAU
37	Luxembourg	4
25	Germany	57
10	United Kingdom	61
10	Netherlands	58
5	Isle of Man	4
5	Jersey	-
4	Czech	3
2	France	23
2	Liechtenstein	5
2	Guernsey	3
1	Bulgaria	11
1	USA	10
1	Denmark	6
1	Hungary	6
1	Latvia	6
1	New Zealand	5
1	Seychelles	2
1	Armenia	1
1	Syria	-
-	Sweden	73
-	Norway	41
-	Italy	29
-	Switzerland	26
-	Canada	21
-	Russia	21
-	Finland	17
-	Spain	17
-	Austria	15
-	India	15
-	Romania	15
-	Poland	11
-	Cyprus	10
-	Hong Kong	10
-	Ukraine	9
-	British Virgin Islands	8
-	Greece	8
-	Slovakia	8
-	Israel	7
-	U.A.E	7
-	Belgium	6
-	Brazil	6
-	Croatia	6
-	Ireland	6
-	Portugal	6
-	Estonia	5

APPENDIX CONTINUED

Spontaneous intelligence reports (2017) by country

Spontaneous Intelligence reports received by the FIAU	Jurisdiction	Spontaneous Intelligence reports sent by the FIAU
-	Slovenia	5
-	Turkey	5
-	Cayman Islands	4
-	Kuwait	4
-	Mexico	4
-	Panama	4
-	Argentina	3
-	Bangladesh	3
-	Belize	3
-	Montenegro	3
-	South Africa	3
-	Australia	2
-	Belarus	2
-	Cameroon	2
-	Gibraltar	2
-	Japan	2
-	Lithuania	2
-	Mauritius	2
-	Uruguay	2
-	Andorra	1
-	Angola	1
-	Anguilla	1
-	Burkina Faso	1
-	Cape Verde	1
-	Colombia	1
-	Costa Rica	1
-	Curacao	1
-	Ecuador	1
-	Guatemala	1
-	Iceland	1
-	Ivory Coast	1
-	Macao	1
-	Macedonia	1
-	Mali	1
-	Monaco	1
-	Morocco	1
-	Peru	1
-	Philippines	1
-	Qatar	1
-	Serbia	1
-	Singapore	1
-	Sri Lanka	1
-	St Vincent & Grenadines	1
111	TOTAL	749



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ANNUAL REPORT 2018

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