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FINANCIAL INTELLIGENCE ANALYSIS UNIT
ANNUAL REPORT 2017

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FINANCIAL INTELLIGENCE ANALYSIS UNIT

COMPOSITION OF THE BOARD OF GOVERNORS



CHAIRMAN
Dr Peter Grech
LL.D.



DEPUTY CHAIRMAN
Dr Anton Bartolo
LL.D.



MEMBER
Mr Jesmond Gatt
BSc (Hons)



MEMBER
Deputy Commissioner
Silvio Valletta



**DIRECTOR
& SECRETARY**
Mr Kenneth Farrugia
B.Accty (Hons), FIA, CPA (pc), MA (Business Ethics)

LETTER OF TRANSMITTAL TO THE MINISTER FOR FINANCE

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

30 March, 2018

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 2017.

Yours sincerely



Dr Peter Grech
Chairman

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ABBREVIATIONS

ACR	Annual Compliance Report
AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Directive
AML/CFT	Anti-Money Laundering and the Combating of Financing of Terrorism
CMS	Compliance Monitoring System
CMC	Compliance Monitoring Committee
CDD	Customer Due Diligence
DNFBP	Designated Non-Financial Businesses and Professions
EGMLTF	Expert Group on Money Laundering and Terrorist Financing
EU	European Union
FATF	Financial Action Task Force
FAC	Financial Analysis Committee
FIAU	Financial Intelligence Analysis Unit
FIU	Financial Intelligence Unit
JCPMLFT	Joint Committee for the Prevention of Money Laundering and Funding of Terrorism
LEA	Law Enforcement Agency
MFSA	Malta Financial Services Authority
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
PMLA	Prevention of Money Laundering Act
PMLFTR	Prevention of Money Laundering and Funding of Terrorism Regulations
STR	Suspicious Transaction Report
SNRA	Supranational Risk Assessment
UNODC	United Nations Office on Drugs and Crime

STATEMENT OF THE CHAIRMAN



During 2017, the FIAU continued to pursue its work as Malta's financial intelligence agency in the fight against abuse of the financial system for purposes of money laundering and the financing of terrorism.

The FIAU strengthened its resources in view of the large increase in reports stemming from Malta's relatively large financial sector and from an increased awareness of the importance of anti-money laundering obligations, particularly in certain categories of 'subject persons'.

It is evident that the increase in STRs in 2017 is mostly attributable to credit institutions and the remote gaming sectors, with company service providers also registering an increase in such reports.

Across the board one can see that there is an increased awareness, but the very limited number of reports filed in relation to some sectors shows that more work needs to be done.

The FIAU was often in the news in 2017, particularly due to the leaking of a small number of politically sensitive FIAU reports to politicians and the media. This development has impacted the public understanding of the FIAU's functions as an intelligence agency, which conducts its work under cover of strict confidentiality mandated by law.

It is essential that the importance and characteristics of an intelligence-gathering function be properly understood, but this is admittedly no easy task.

Nevertheless, the figures show that the organisation was not distracted by public controversy and that 2017 ended as a record year in terms of logistics, productivity and effectiveness.

The number of cases analysed rose from 567 in 2016 to 780 in 2017, and the number of cases closed also increased to 551 in 2017 as compared to 364 in 2016.

There were 185 requests for information received by the FIAU's Analysis Section in 2017, compared to 132 in 2016. The FIAU replied to 74% of requests for information within one month and this percentage has also increased over the previous year, when it stood at 64%.

The field of financial intelligence is largely dependent on international co-operation. The fight against money laundering and the financing of terrorism cannot be conducted with any effectiveness without it. The FIAU's activity also registered an increase in this field. The FIAU sent 277 spontaneous intelligence reports to foreign financial intelligence agencies in 2017, compared to 135 in 2016.

The FIAU's Compliance Section carried out 22 on-site compliance examinations on DNFBPs in 2017 and 45 on-site compliance examinations were carried out jointly with the MFSA in relation to the financial sector. The number of on-site visits was a slight decrease from 2016. This is mainly attributable to the increased co-ordination involved in carrying out joint visits with the MFSA and increased efforts to have better quality on-site visits.

As from 2018, remote gaming operators are also subject to supervision by the FIAU and by the MGA acting as agent for the FIAU. During the first quarter of 2018, the FIAU and the MGA embarked on a collaboration exercise aimed at addressing the joint ML/FT supervision of gaming operators.

By mutual agreement, the MGA will also act on behalf of the FIAU in the supervision of both land based and remote gaming operators that fall within the scope of the relative regulations.

In the legal field, the FIAU was pivotal in ensuring Malta's transposition of the 4th AMLD through a number of amendments to the PMLA and through the drafting of a new version of the PMLFTR.

STATEMENT OF THE CHAIRMAN CONTINUED

◀ The amendments to the Act and the updated regulations aim at implementing the 4th AMLD, as well as at addressing other issues, which should improve the implementation process of measures in the ML/FT field.

2017 was also a landmark year in Malta's active role as a Member State of the EU through the assumption of the EU Presidency during the first six months of the year. The Presidency involved extensive preparation and a strong commitment, which were by no means limited to its six-month duration. The FIAU provided technical assistance to two working parties in the ML/FT field, one of which dealt with the amendments to the 4th AMLD and the other with a proposal for a directive on the criminalisation of money laundering.

Mindful of the need for better and more relevant guidance on the AML/CFT obligations of subject persons, early in 2017 the FIAU had issued a revised version of Part 1 of its Implementing Procedures, which opened the way for the increased use of technology in the context of CDD. The FIAU has continued its work in this field and is currently working on a revision of the Implementing Procedures, particularly in light of the changes introduced by the 4th AMLD.

Apart from the work on the EU Presidency during 2017, the FIAU continued to represent Malta in a number of European and international fora, such as the Council of Europe Moneyval Committee, the Conference of the Parties to the Council of Europe Anti-Money Laundering Convention, the Egmont Group of FIUs, the Expert Group on Money Laundering and Terrorist Financing and the EU FIU Platform.

In the field of data collection and logistics, 2017 saw the FIAU commence a process to update the ACR forms.

The new ACR will be tailor-made to cater for the different categories of subject persons, thereby enabling the Compliance Section to request sector-specific information. During 2017, credit institutions, trustees and fiduciaries, corporate service providers and gaming companies were asked to complete and submit a comprehensive data collection questionnaire for the purpose.

The FIAU is also starting work on the introduction of better IT tools (GoAML developed by the UNODC) to

improve the efficiency of the analysis and reporting processes. GoAML is an integrated system that provides database and intelligence analysis capacity as well as workflow management, task assignment and tracking, statistical reporting, resource management, document management and intelligence file creation and management.

In 2017, the FIAU also completed the recruitment process in relation to its new Director. Mr Kenneth Farrugia has quickly settled in to his duties as Director, acting with Deputy Director Mr Alfred Zammit and with the rest of the management team and staff.

The FIAU continued to pursue its ongoing exercise to change its operational structure and to improve working conditions. This enables the organisation to widen its potential employment base and provide a better working environment for its staff. As part of this exercise, the FIAU has introduced a new flexi-hour policy.

During the current year, the FIAU will be heavily involved in the 5th Evaluation Round of Malta by the Council of Europe Moneyval Committee and in another evaluation by the Conference of the Parties of the Council of Europe's Anti-Money Laundering Convention. These evaluations are very important for the financial sector and for the country as a whole.

It is very encouraging that the Ministry for Finance, acting on behalf of Government, is fully committed to the evaluation processes and to the implementation of all necessary measures to strengthen Malta's AML/CFT setup. The necessary structures have either been established or are in the process of formation, and the FIAU looks forward to working with all stakeholders to ensure a proper co-ordination of the evaluations.

As results from all this, 2017 has been a highly active and unprecedentedly eventful year. We hope to have emerged wiser and stronger from last year's experiences in the multiple fields of the FIAU's activity.



Dr Peter Grech
Chairman

DIRECTOR'S REPORT

2017 proved to be one of the most challenging years for the FIAU, both at an operational and a governance level. Nonetheless, positive results were registered in all operational spheres and the FIAU continued to prove itself as one of the key agencies in Malta to combat money laundering and financing of terrorism.

The FIAU's **Legal & International Relations Section** pursued with the provision of its legal services to FIAU Management and Sections during 2017. Additionally, during the first quarter of 2017, the Section issued a revised version of the FIAU Implementing Procedures (Part I), which paved the way for the use of technological means in the ambit of CDD. Following their publication, the FIAU organised and participated in a number of seminars to provide training on the revised Implementing Procedures and to address queries from subject persons.

The Legal & International Relations Section was pivotal in ensuring that Malta transposed the 4th EU AMLD, by drafting a bill to amend the PMLA and a new version of the PMLFTR. During the second quarter of 2017, the Section kick-started a consultation process with the remote gaming sector on the applicability of the AML/CFT obligations arising from the 4th AMLD.

The Section also contributed significantly to the Maltese Presidency of the Council of the European Union by providing technical assistance to two working parties related to AML. During 2017, the Section continued to represent Malta and the FIAU in a number of international and European fora, including Moneyval (Council of Europe), the EGMONT Group, the Expert Group on Money Laundering and Terrorist Financing, and the EU-FIU Platform (the EGMLTF).

The **Compliance Section** faced several challenges during 2017. The Section continued with on-site supervision by conducting full scope examinations, targeted examinations, and thematic examinations on subject persons. It conducted 67 examinations, 45 of which were carried out jointly with the MFSA's Enforcement Unit. Moreover, the Section planned and co-ordinated efforts to clear a considerable backlog of on-site compliance examination reports dating back several years.

In 2017, the Section further strengthened the joint operational agreement with the MFSA's Enforcement

Unit. It has also worked intensely with the MGA with a view to setting up a similar arrangement given that, as from 2018, remote gaming operators became subject persons in terms of the PMLFTR and also fall under the FIAU's supervision with regard to AML/CFT obligations.

During the first quarter of 2017, the Compliance Section initiated a radical transformation of the ACR form for credit institutions, trustees and fiduciaries, and corporate service providers. The changes aim to provide more information to the FIAU to enable the Unit to conduct its examinations on a risk sensitive basis. Furthermore, the Section dealt with the continued increase in the submission of ACRs by subject persons, meetings of the CMC, sanctioning, and providing general support and responding to several queries from subject persons.

The **Financial Analysis Section** exceeded its expectations once again during 2017. Actions speak louder than words and, in summary, the Section managed to deal and successfully derive results as follows:

- 38% increase in STRs received by the FIAU (778 in 2017 versus 565 in 2016);
- 105% increase in Spontaneous Intelligence Reports submitted by the FIAU to foreign FIUs (277 in 2017 versus 135 in 2016);
- 40% increase in requests for information received by the FIAU from foreign FIUs (185 in 2017 versus 132 in 2016);
- 139% increase in number of requests sent by the FIAU to foreign FIU's (270 in 2017 versus 113 in 2016);
- 66% increase in cases the FIAU generated independently of the receipt of STRs (78 in 2017 versus 47 in 2016);
- disseminated 34 analytical reports to the Malta Police; and
- increased average efficiency in timeliness of replies to foreign requests for information.

The **IT & Corporate Services Section** provided the necessary support to the Unit in general, while embarking on several challenging projects of significant

◀ importance. The Section invested heavily in IT to provide a better service both within the Unit and externally. Some of the IT projects included the implementation of a newsletter subscription application, several projects to enhance the IT tools used for analytical purposes, and the setting up of an online training course management system.

The Section was heavily involved in the planning and co-ordination of other major FIAU projects, such as the development of a Compliance Information System for the Compliance Section and the acquisition of the GoAML Information System for the Financial Analysis Section. It was involved in procurement procedures, budgeting, general administration and applications for EU Funding opportunities. The GoAML application 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 FT.

The Section is also responsible for various aspects of the Unit's HR functions. In this regard, the Section contributed significantly to the successful implementation of a new HR Development Plan as well as various other HR policies. It also co-ordinates other HR functions, including training and recruitment.

The FIAU invested in team building activities, quarterly general staff meetings, one-to-one meetings, training sessions, staff professional development, and various other activities to build stronger and more motivated teams.

Reputational Risk was the biggest challenge for the FIAU during 2017, following the unauthorised disclosure of FIAU information, which was combined with a series of unsubstantiated allegations on the Unit's operations and its members. The disclosures and allegations also exposed FIAU officials to unnecessary safety and security risks.

The FIAU has always performed its functions and duties scrupulously, independently and without any political interference. The Unit reaffirms that it never abdicated its responsibility and always carried out its functions objectively and with integrity. In addition, it should be stressed that the FIAU's structures, policies and procedures dictate full internal transparency and operational decisions on analytical or compliance matters are taken collectively in internal committees. The FIAU provides the necessary assurances that it will continue to provide its services in line with international standards and directives.

In the coming months the FIAU will strive to pursue further its development as a professional, effective and operational Unit. The FIAU aims to achieve better co-ordination and communication to ensure co-operation at an institutional level with key stakeholders, subject persons and the public at large.

In conclusion, special thanks go to the FIAU's Board of Governors and all members of staff for their dedication and professionalism as well as subject persons for their understanding, co-operation and trust in the FIAU.

“Positive results were registered in all operational spheres and the FIAU continued to prove itself as one of the key agencies in Malta to combat money laundering and financing of terrorism”

1. THE FINANCIAL INTELLIGENCE ANALYSIS UNIT

ESTABLISHMENT AND COMPOSITION

The FIAU, an autonomous agency within the Finance Ministry's structure, was set up on 1 October 2002. The Unit's remit is laid out in Legal Notice 297 of 2002 that was brought into force after Act XXXI of 2001 (Chapter 373 of the Laws of Malta) introduced comprehensive amendments to the PMLA.

The Unit's policy is set by the FIAU Board of Governors, appointed in terms of the PMLA. The Director of the Unit is responsible for the FIAU's day-to-day operations and for executing the policy established by the Board of Governors.

Four distinct sections, each with their own responsibilities, report to the Director. The sections conduct operational and strategic analysis, monitoring of compliance by subject persons, legal and international affairs and the Unit's administration and IT.

FUNCTIONS

According to Article 16 of the PMLA, the Unit's functions focus on three areas primarily.

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

Reports drawn up by subject persons in terms of the PMLFTR on suspicions of ML/FT and the proceeds of crime are received and analysed by the Unit. The Financial Analysis Section receives these STRs and analyses them, at times seeking to obtain further information to determine whether a reasonable suspicion of ML/FT subsists. Where it is determined that this is the case, a detailed analytical report is disseminated by the Section to law enforcement authorities to request further investigation and possible criminal action.

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

A key function of the Unit is the exchange of STRs and other spontaneous reports with local and foreign supervisory authorities, FIUs and LEAs with which it

co-operates. This is a key contributor in the global fight against ML/FT particularly because of Malta's position as a financial services centre. The FIAU routinely exchanges information with its foreign counterparts both on a spontaneous basis and when it submits or receives an international request for information. Since it was set up, the FIAU has also entered into a number of MoUs with FIUs and supervisory authorities to ensure, where necessary, that the process of exchanging information is strengthened. Under Maltese legislation, the conclusion of an MoU is not mandatory to enable the FIAU to exchange information. Still, having an MoU in place at times facilitates 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, which the Unit conducts both off-site and on-site on legal and natural persons carrying out relevant business or any activity as defined in the PMLFTR. Supervisory authorities, acting on behalf of the Unit, also carry out visits to persons regulated under their authority. Once the conclusions of an on-site examination are drawn up, the FIAU disseminates the findings to the subject persons, who are also informed of the time period within which they must take remedial action, where necessary. Where non-compliance is ascertained, the FIAU's CMC is tasked with the responsibility to determine whether the circumstances warrant the imposition of an administrative penalty or some other sanction.

Other areas of responsibility

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

- instruct any subject person to take such steps as the Unit may deem appropriate to facilitate any ML/FT analysis in general or the analysis of any particular report received by the Unit;
- 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;

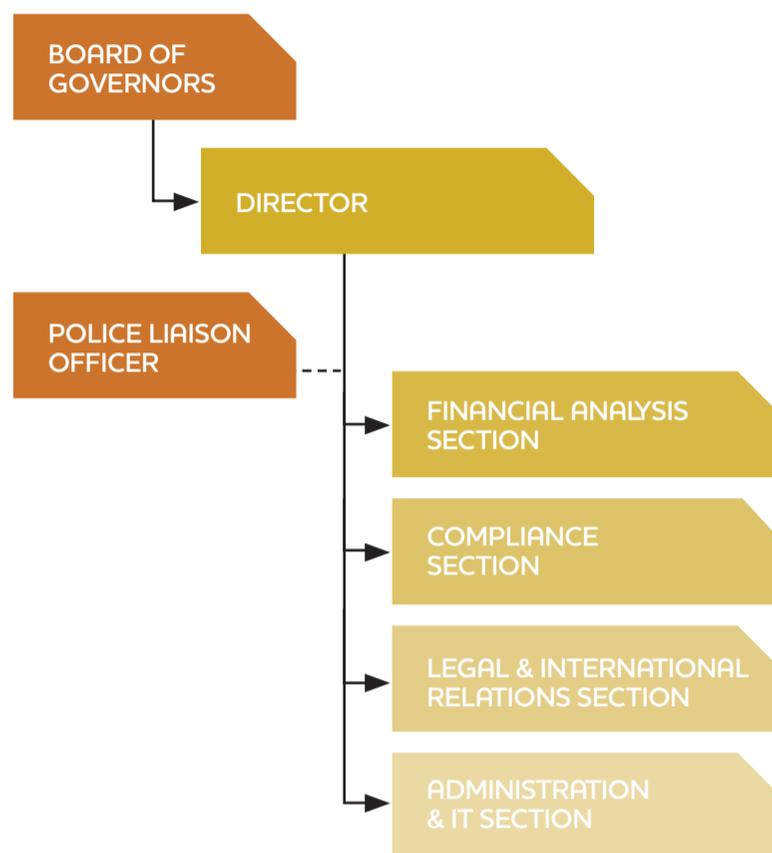
1. THE FINANCIAL INTELLIGENCE ANALYSIS UNIT CONTINUED

- compile statistics and records, disseminate information, make recommendations, issue guidelines and advise the Minister responsible for Finance on all matters and issues relevant to the prevention, detection, analysis, investigation, prosecution and punishment of ML/FT;
- promote the training of, and to provide training for, personnel employed with any subject person in respect of any matter, obligation or activity relevant to the prevention of ML/FT;
- advise and assist persons, whether physical or legal, to put in place and develop 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 Board's term came to an end on 20 January 2017. All members of the Board, with the exception of Mr Anthony Cortis, were re-appointed in terms of Article 20 of the PMLA for another three-year term. Mr Cortis, who had been nominated by the Central Bank of Malta to sit on the Board in terms of Article 19(2) of the PMLA, was replaced by Mr Jesmond Gatt. The Board, in its meeting of 13 February 2017, welcomed Mr Gatt as a new member. The Board thanked Mr Cortis for his work and his significant contribution to the FIAU during his tenure.

The Board discussed various matters during the meetings it held throughout the year, including: HR and the FIAU's development plan; the National Risk Assessment; statistics of the Unit; legislative changes such as the transposition of the 4th AMLD; the Unit's financial statements and management accounts; and security issues. In 2017, the Board also agreed to introduce or make changes to some of the Unit's



policies. In particular, changes were made to the Unit's vacation leave policy and a flexi-hour policy was introduced to improve its employees' working conditions and to ensure a better work-life balance.

It goes without saying that the several queries from national and international media houses and allegations or accusations that appeared in the press *vis-à-vis* the FIAU are of grave concern to the Board of Governors of the Unit and these were discussed at length in several Board meetings. The Board of Governors released no fewer than 11 press statements, often in response to press articles that unjustly shed a negative light on the FIAU.

The Board reaffirms that the FIAU has always performed its functions and duties scrupulously without any political interference. It also has never refrained from carrying out any of its functions, including the dissemination of intelligence to the competent authorities. Moreover, the FIAU boasts internal structures, policies and procedures that emanate full internal transparency and dictate that operational decisions are taken collectively and not only by key/individual personnel. Ironically, it is this very transparency that has wrongfully led the FIAU and confidential FIAU information into the public domain, thereby also unnecessarily exposing FIAU officials,

1. THE FINANCIAL INTELLIGENCE ANALYSIS UNIT CONTINUED

◀ who have always performed their duties with loyalty and professionalism, to serious security risks.

ORGANISATIONAL STRUCTURE

The FIAU's structure is geared to effectively implement its governance responsibilities. The **Board of Governors** is tasked by law with setting the FIAU's policy and the **Director**, who heads the FIAU's day-to-day operations, is responsible for executing that policy.

The FIAU has four operational sections:

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

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

The **Legal & International Relations Section**, 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; and

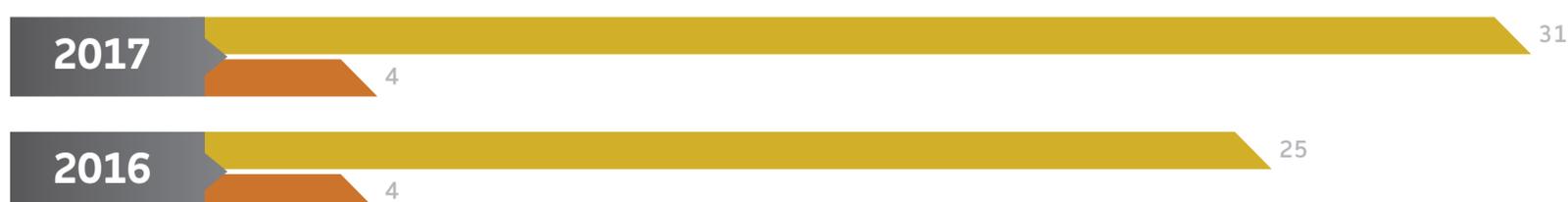
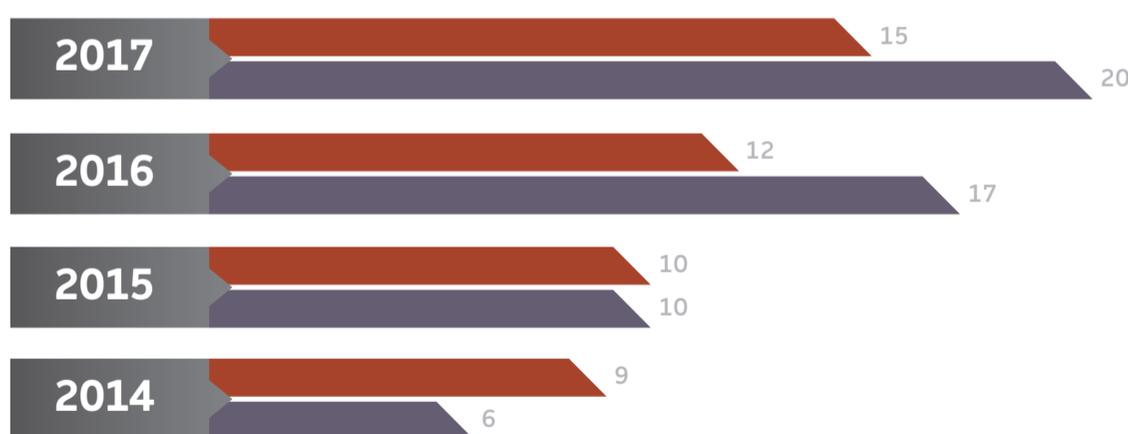
The **Administration & IT Section**, which manages the Unit's administrative, HR, accounting and IT set-up.

The Director also heads two internal committees, the **FAC** and the **CMC**, chairs the JCPMLFT, and acts as the secretary to the Board of Governors.

The PMLA also establishes the position of **Police Liaison Officer**, who is the Unit's direct contact within the Malta Police Force. This Officer, who is appointed by the Commissioner of Police, makes police records available to the FIAU to help it in its work.

FIAU STAFF

The FIAU's staff complement continued to grow during the year, reaching a total of 35 employees by the end of 2017 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 which is at least equivalent to MQF level 6, over 88% of the FIAU's staff have achieved this academic level or higher.



2. OPERATIONS

FINANCIAL ANALYSIS

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

The FIAU's main source of information is STRs, which are filed by persons subject to the PMLFTR. Reporting entities primarily submit STRs using the FIAU's online submission system, along with any additional information deemed necessary. All STRs are acknowledged and the FIAU provides feedback to the reporting entity on the quality of each STR.

Once an STR is received, a first assessment is carried out to determine whether the elements surrounding the case warrant further analysis and whether any of the information received by the Unit needs to be disseminated to the FIAU's foreign counterparts for intelligence purposes. Once an STR is assigned to an analyst, a preliminary assessment is also carried out. This assessment helps determine whether the elements surrounding the case warrant further in-depth analysis. Moreover, the preliminary analysis also serves to determine whether the Unit holds any relevant information on the subjects reported in the STR, to prioritise the case and draw up the foreseeable action plan.

On completion of the in-depth analysis, the findings are presented to the FIAU's FAC, who in turn

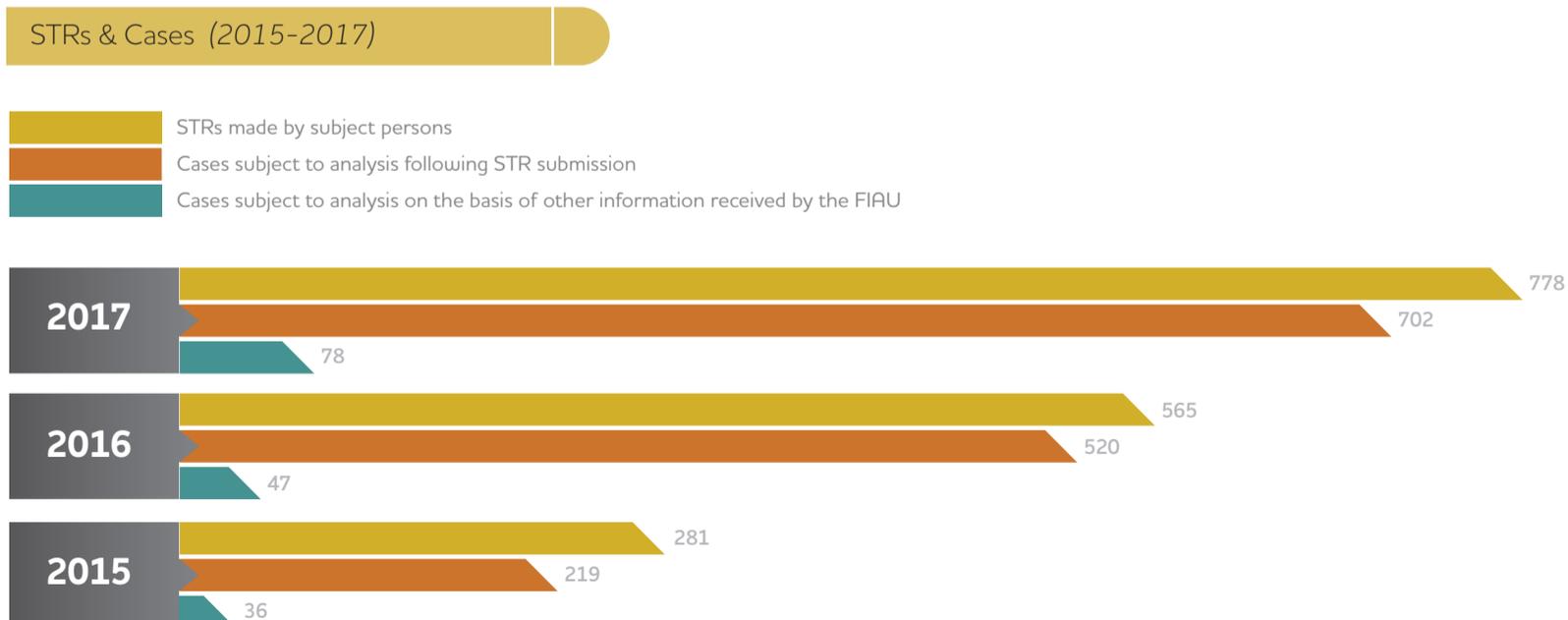
meticulously evaluates the analyst's findings and concludes whether there is a reasonable suspicion of ML/FT. In those cases where the Committee determines that a reasonable suspicion of ML/FT subsists, then a detailed analytical report is drawn up and disseminated to the Police for further investigation. In some instances, the Committee may also determine that sending a spontaneous intelligence report to another country's FIU, apart from, or in conjunction with, a report to the Police, is a more appropriate course of action. Further information on this aspect is provided in the international co-operation section of this report.

Apart from the operational analyses carried out by the Financial Analysis Section, officials within this section also carry out periodical strategic analyses to identify ML or FT patterns, trends and typologies. Further information on this aspect is available in the typologies and trends section of this report.

STATISTICS REPORTING

Although previous years have shown a constant increase in the number of disclosures made to the FIAU, the year under review was unparalleled with no fewer than 778 STRs submitted. In percentage terms this equates to a 38% increase over 2016 and a 177% increase over 2015.

The increase in STRs naturally led to an expected rise in the number of cases that the FIAU had to deal with. These STRs gave rise to 702 cases, which is a



2. OPERATIONS CONTINUED



◀ substantial increase in comparison to the 520 cases in 2016 and the 219 cases in 2015.

In addition to the 702 cases generated through STR submissions, the FIAU carried out an analysis in relation to a further 78 cases following the receipt of information from various other sources, bringing the total number of new cases subject to an analysis by the FIAU during 2017 to 780. This amounted to a similar case increase of 38% over 2016.

As was the case in 2016, the substantial increase in the number of cases initiated by the FIAU over 2017 is partly attributed to the increase in international co-operation. During 2017, the sharing of information between the FIAU and its foreign counterparts contributed to over 50% of the 78 cases initiated by the FIAU.

STRS BY CATEGORIES OF SUBJECT PERSONS

The STRs submitted to the FIAU during 2017 originated from 22 categories of subject persons¹, with a general increase in STR submissions noted across practically all categories. Credit institutions were once again the category that submitted the most STRs, with a 16% increase over 2016. Reports received from credit institutions in 2017 attributed to 51% of all STRs submitted. It is to be noted that despite the increase over the previous year in the number of STRs received by the FIAU, a significant lack of reporting was still evident across all categories of subject persons.

Of the 398 STRs filed by credit institutions in 2017, 343 were filed by the seven core domestic banks², which is an increase of almost 10% over 2016 filed by this group ▶▶

¹ The increase in the number of categories of subject persons over 2016 is due to a more sector-specific reclassification of categories of subject persons.

² Refer to Central Bank of Malta Financial Stability Review 2016, p 8; <https://www.centralbankmalta.org/financial-stability-report/>

2. OPERATIONS CONTINUED

of domestic banks. During 2017, the non-core domestic banks filed 20 STRs, a 9% decrease over 2016. The majority of these reports originated from two banks within this category of domestic banks and predominantly involved foreign, legal and natural persons having no connection to any Maltese natural or legal persons.

Thirty-five STRs were received in 2017 from credit institutions classified as international banks, which is a 289% increase over 2016. This is a category of banks whose clients have a very limited connection with the Maltese economy.

STRs filed by type of reporting entity as a percentage of the total number of STRs (2017)

Type of reporting entity	2013	2014	2015	2016	2017	2017
	N°	N°	N°	N°	N°	%
Credit Institutions	66	112	136	344	398	51.2%
Remote Gaming Companies	17	22	32	87	218	28%
Company Service Providers	15	13	18	34	50	6.4%
Financial Institutions - Money Remitters	-	-	-	-	14	1.8%
Financial Institutions - Electronic Money	-	-	-	-	8	1.0%
Financial Institutions - Payment Service Providers	-	-	-	-	19	2.4%
Financial Institutions - Others	-	-	-	-	7	0.9%
Financial Institutions ¹	8	17	11	30	-	-
Investment Services Licensees	10	9	26	12	12	1.5%
Insurance Licensees	1	1	7	9	12	1.5%
Trustees & Fiduciaries	7	12	16	19	10	1.3%
Independent Legal Professionals - Notaries	-	-	-	-	6	0.8%
Independent Legal Professionals - Advocates	-	-	-	-	2	0.3%
Independent Legal Professionals - Legal Procurators	-	-	-	-	1	0.1%
Independent Legal Professionals ²	8	5	11	5	-	-
Supervisory Authorities	2	3	10	7	6	0.8%
Casino Licensees	-	1	3	4	4	0.5%
Others	5	1	-	2	3	0.4%
Auditors	-	-	-	-	2	0.3%
Accounting Professionals ³	3	2	4	6	2	0.3%
Real Estate Agents	-	2	6	3	2	0.3%
Retirement Scheme Administrators	-	1	1	2	2	0.3%
Regulated Markets	1	1	-	1	-	-
TOTAL	143	202	281	565	778	

¹ In order to better reflect the nature of the disclosures which are being received by the FIAU, as from 2017 the type of reporting entity "Financial Institutions" was split up in five different types, namely: Exchange Bureau, Money Remitters, Electronic Money, Payment Service Providers, and Others (No STRs were filed during 2017 by financial institution type Exchange Bureau).

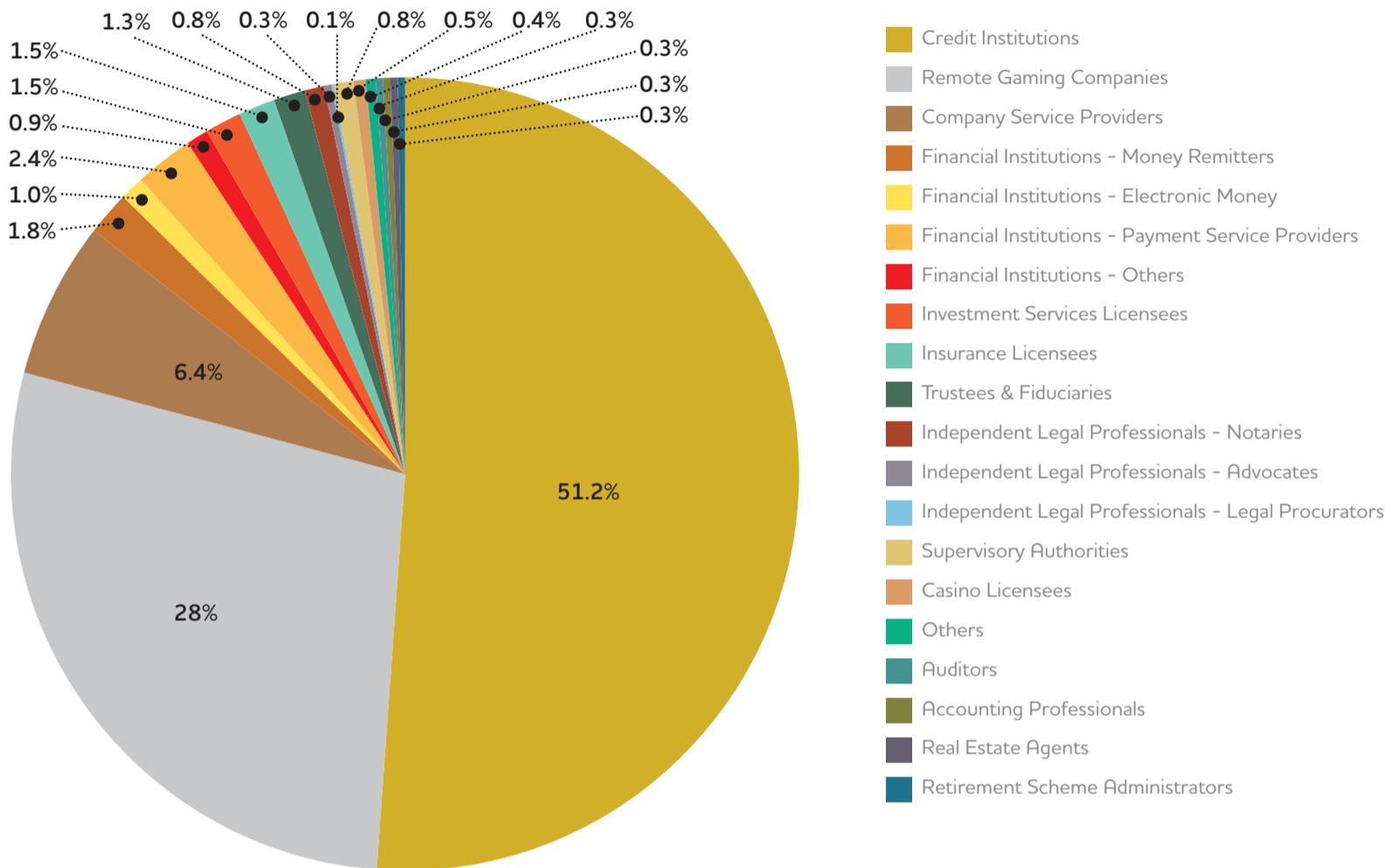
² As from 2017 the type of reporting entity "Independent Legal Professionals" were divided into three different types: Advocates, Notaries, and Legal Procurators.

³ As from 2017 the type of reporting entity "Accounting Professionals" no longer includes Auditors and statistics relating to this reporting entity are being represented separately. Statistics relating to reporting entity "Accounting Professionals" for the years 2013 to 2016 also include reports filed by Auditors.

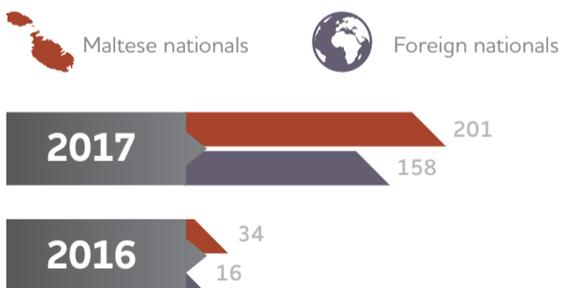
2. OPERATIONS CONTINUED



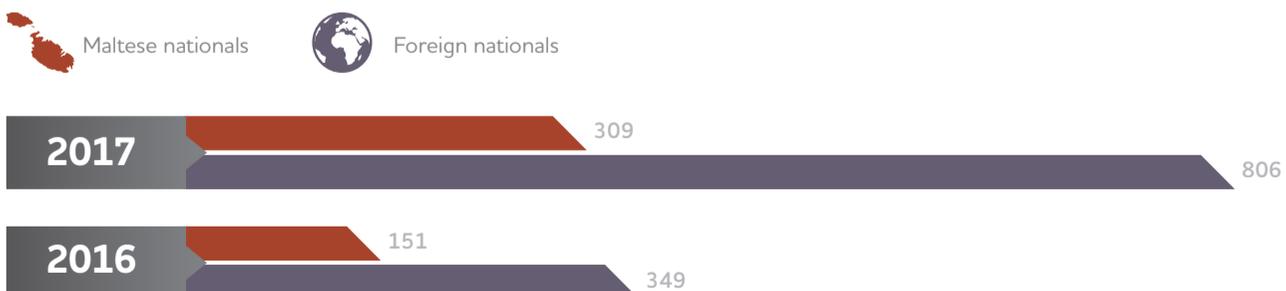
STRs filed by type of reporting entity in absolute numbers (2017)



Number of legal persons subject to STRs (2017)



Number of natural persons subject to STRs (2017)



2. OPERATIONS CONTINUED

As was the case in 2016, the FIAU noted a significant increase in the number of STRs received from remote gaming companies. The increase of 151%, or 131 reports, is mainly related to foreign natural persons with limited connections to Malta.

Other increases were also noted in STRs filed by financial institutions, independent legal professionals, auditors and company service providers.

Two sectors reported fewer STRs than in 2016. In particular, it was noted that the level of reporting by trustees and fiduciaries decreased by 47% compared to 2016, and reports from accounting professionals decreased by 67%.

PERSONS SUBJECT TO STRS

The 778 STRs received in 2017 included reports on 1,474 natural and legal persons, which is a 52%

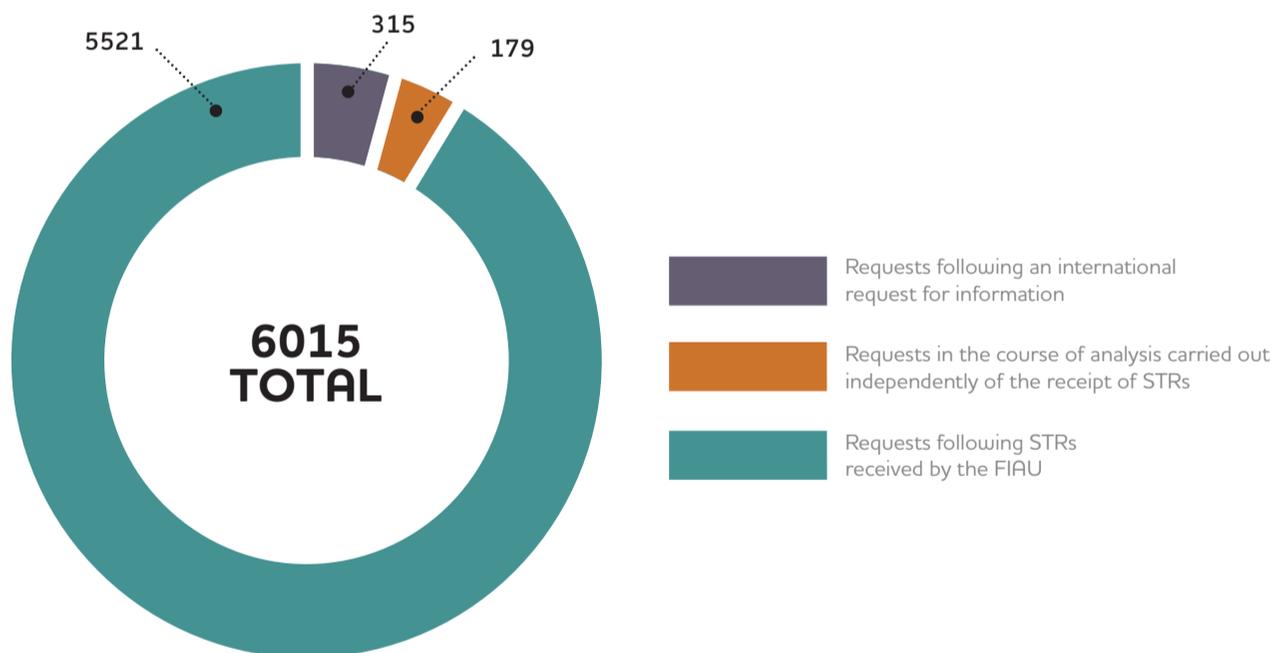
increase over the previous year. As expected, this increase is mainly attributed to the larger number of disclosures made to the FIAU during 2017.

Of the legal and natural persons reported to the FIAU in 2017, just over 65% were either non-Maltese nationals or foreign companies. This again underlines the strong international element to which Maltese reporting entities are exposed, an element that has also been prevalent in previous years.

REQUESTS FOR INFORMATION

The FIAU made 6,015 requests for information to 314 entities in 2017. These include persons subject to the PMLFTR, foreign FIUs, the Police, supervisory authorities, and Government departments and agencies. When compared to 2016, this figure represents an increase of almost 42%.

Requests for information made by the FIAU by type of initial disclosure (2017)



Number of requests sent (2017)



2. OPERATIONS CONTINUED

Requests made by the FIAU following the receipt of an international request for information contributed to 5% of all requests made in 2017, which is significantly less than in previous years. However, an increase of 3,370 requests was registered following the receipt of STRs, over the previous year.

As has been noted over previous years, credit institutions still remain the primary source of information for the FIAU. This conclusion is based on the fact that more than 75% of all requests for information sent by the FIAU in 2017 were directed towards such entities.

OUTCOME OF ANALYSIS

The FIAU's Financial Analysis Section dealt with 1,126 cases in 2017, 31% of which were initiated prior to the year under review. Of these, the FIAU concluded 551 cases, and a further 575 remained ongoing at the end of the year.

The FIAU forwarded 34 cases to the Police for further investigation, following a determination of reasonable suspicion of ML/FT, which equates to 6% of the cases concluded in 2017. The Unit's officials also shared 17 additional information reports with the Police after obtaining further information, which was connected to cases previously forwarded to the Police for further investigation.

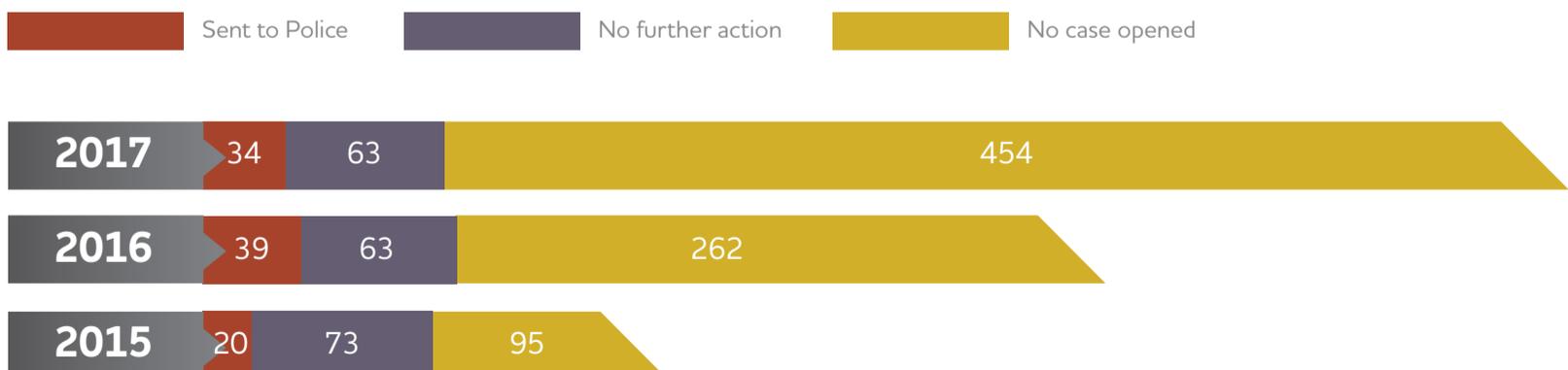
In addition to the cases that were forwarded to the Police, the Unit's officials also concluded a number of other cases towards the end of the year. These were subsequently forwarded to the Police in 2018 and are therefore not included in the figure of 34 cases referred in 2017.

Despite the noticeable upturn in the total number of cases subject to an analysis by the FIAU in 2017, the percentage of cases forwarded to the Police declined. It should be noted that the decline from 11% to 6% in fact equates to five fewer analytical reports forwarded to the Police in 2017.

Percentage of cases referred to the Police for further investigation (2013-2017)



Outcome of cases (2015-2017)



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

2. OPERATIONS CONTINUED

◀ In this respect, one has to bear in mind that the increase in the number of cases in which it is considered that an in-depth analysis is not required is immediately reflected in the statistics relating to the figure of 'No Case Opened'. On the other hand cases which require a full analysis have a considerable time lag as is evident in the number of cases that were still ongoing at the end of 2017.

Another reason for this decline in the number of cases sent to the Police is that, in a number of cases having a strong foreign element, the Unit considers it more appropriate to send a spontaneous intelligence report to foreign FIUs rather than to trigger an investigation in Malta. These cases are included in the statistics relating to 'No Case Opened'. Further information in relation to the sharing of spontaneous intelligence reports is available in the international co-operation section of this report.

Of the cases referred to the Police for further investigation in 2017, 43% originated from STRs that

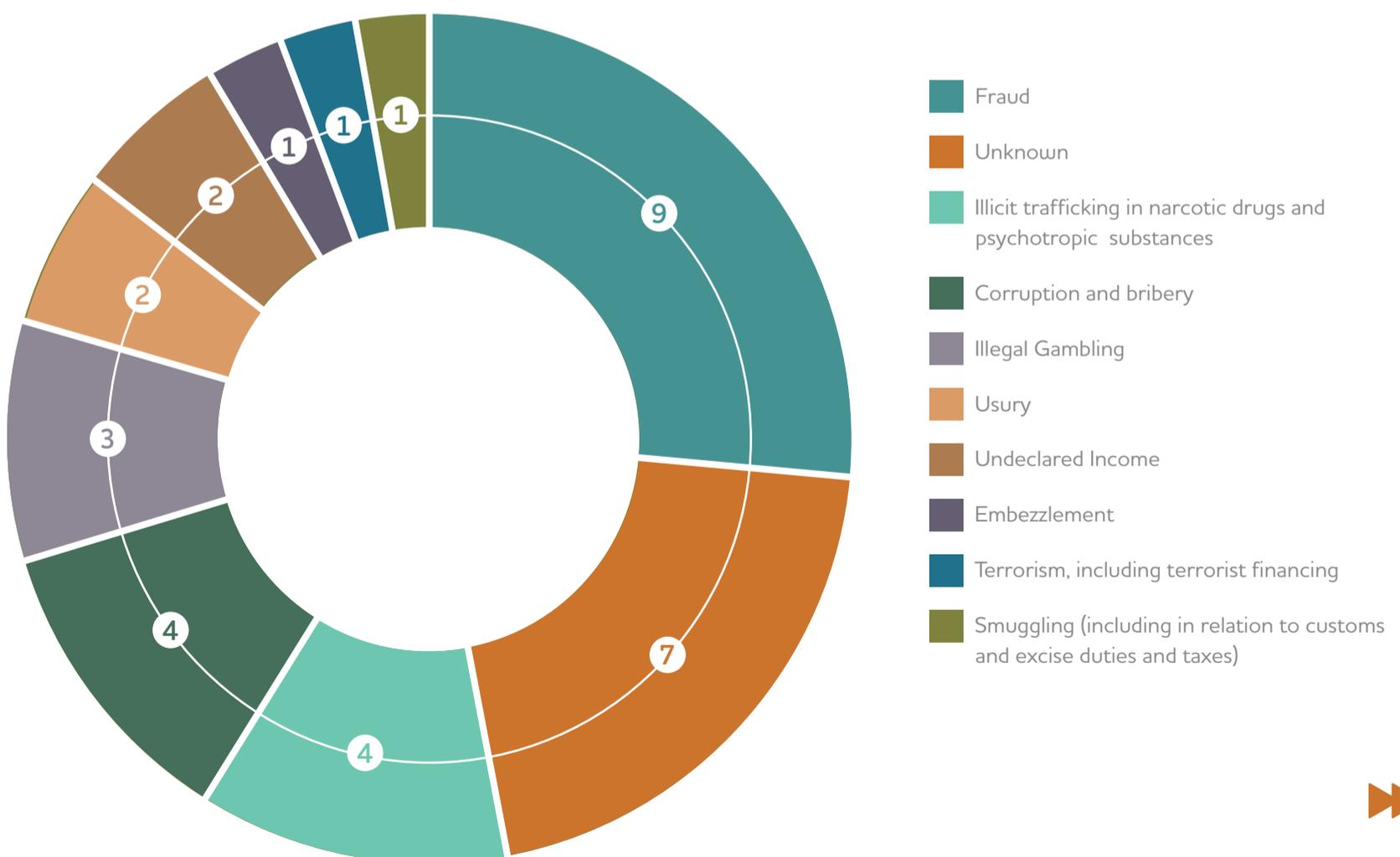
were submitted to the FIAU by credit institutions. Once again, this highlights the important role credit institutions have in protecting the financial system from ML/FT. A further 10 cases sent to the Police were initiated by the FIAU as a result of other information obtained by the Unit. It is pertinent to note that, in some cases that were initiated by the Unit, the FIAU may also have subsequently received STRs on the same subjects. In such cases the information obtained through these disclosures is combined with the case originated by the FIAU.

The remaining cases originated from STRs submitted to the FIAU by investment services licensees, supervisory authorities, financial institutions, trustees and fiduciaries, company service providers and real estate agents.

SUSPECTED PREDICATE OFFENCE

For the sixth year running, fraud featured as the predominant predicate offence, accounting for 26% of the cases referred to the Police for further investigation.

Suspected predicate offences in cases referred to the Police on suspicion of ML/FT (2017)



2. OPERATIONS CONTINUED

◀ In almost 18% of the cases, or 6 cases in absolute terms, referred to the Police for further investigation due to a suspicion of ML/FT, the use of a Maltese-registered company or bank account to launder the proceeds of predicate offences carried out in foreign jurisdictions was identified. On the other hand, those cases involving Maltese residents or Maltese nationals featured an extensive use of cash and facilities offered by credit institutions to launder the proceeds of predicate offences, most of which were carried out in Malta.

Further information on these cases is available in the typologies and trends section of this report.

As was the case in previous years, funds suspected to be the proceeds of drug trafficking carried out domestically featured in a few cases, as did funds suspected to relate to the laundering of funds linked to bribery and usury. For the third consecutive year, one case of suspected FT was identified and forwarded to the Police for investigation.

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

TYPOLOGIES AND TRENDS

The predominant typology observed in the cases analysed by the FIAU in 2017 and forwarded to the Police involved a number of Maltese nationals who were suspected to have made use of the Maltese financial system to launder the proceeds of illicit activity. As noted in previous years, the use of Maltese bank accounts featured prevalently, while the majority of the cases featured the use of various facilities offered by credit institutions by people suspected to be involved in drug trafficking and fraud.

The use of Investment services licensees

The FIAU identified an increase in the use of investment services licensees as a means of holding funds originating from illicit activity. In 2017, the FIAU referred three such cases to the Police for further investigation on persons suspected to be involved in usury and embezzlement.

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

As was noted in previous years, a number of cases sent to the Police for further investigation involved the use of domestic bank accounts, as well as the use of Maltese-registered companies.

In fact, 14 of the 34 cases sent to the Police in 2017 featured a Maltese-registered company, 8 of which in turn had the involvement of non-Maltese nationals. In a number of these cases, the domestic companies were suspected to be formed as part of international networks used to launder proceeds of fraud.

In previous years, the use of accounts held with domestic credit institutions featured in a number of cases where fraud was the suspected predicate offence. However, the use of domestic bank accounts was also noted in 2017 in cases where the suspected predicate offence was illegal gambling, undeclared income, corruption and drug trafficking.

The use of cash

In comparison to previous years, an increase was noted in the number of cases involving the use of cash. Cash deposits, which were not in line with the subject's known financial profile and for which no explanation was provided, featured in 11 cases that were referred to the Police for further investigation.

The suspected predicate offence in over 35% of these cases was fraud. However, the use of cash also featured ▶▶

“14 of the 34 cases sent to the Police in 2017 featured a Maltese-registered company, 8 of which in turn had the involvement of non-Maltese nationals”

2. OPERATIONS CONTINUED



Kenneth Farrugia, FIAU Director (right), signing the MoU with the FIU of Macedonia

◀ in cases where the suspected predicate offence was FT, corruption, drug trafficking and undeclared income. The use of cash also featured in 2 cases sent to Police for further investigation where, although the underlying predicate offence was unknown, the circumstances of the case were still deemed to be sufficient in forming a reasonable suspicion of ML.

The most common red flag indicators in these cases were the volume of deposits that were not in line with the customer's profile, as well as the failure to provide supporting documentation on the origin of the funds being deposited in cash.

The use of transferable cheques

Over the years the FIAU has also noted the use of transferable cheques in cases referred to the Police for further investigation. During 2016 the FIAU sent two cases to the Police involving the use of transferable cheques. In these cases, the suspected predicate offence was unlicensed financial activity and contraband. In 2017, the FIAU referred one case to the Police involving the use of transferable cheques. In this case, the suspected predicate offence was undeclared income.

The use of safe deposit boxes

An increase was noted in 2017 in the number of cases sent to the Police involving the use of safe deposit facilities. The suspected predicate offences in these cases were usury and drug trafficking.

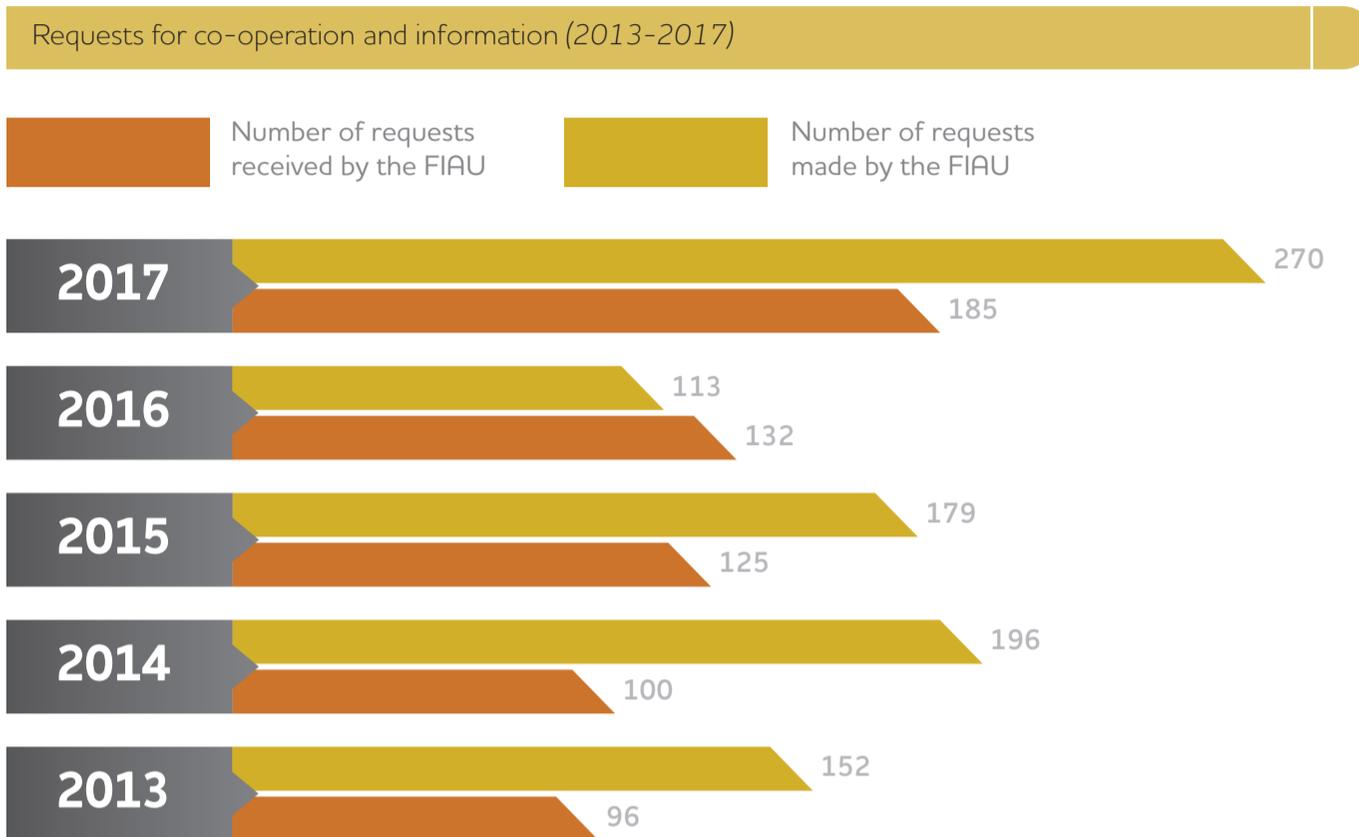
The use of remote gaming companies

In the disclosures made to the FIAU in 2017, the predominant typology in the remote gaming industry was the use of pre-paid cards, which featured in over 27% of the STRs made, as well as stolen identification details. The use of pre-paid cards highlighted a sector-specific method of ML in the remote gaming sphere.

INTERNATIONAL CO-OPERATION

The exchange of information between FIUs is of significant importance in combatting ML/FT. As a result, the FIAU proactively co-operates and exchanges information with other FIUs, both when pursuing its analyses and when assisting other FIUs in their functions. Co-operation and exchange of

2. OPERATIONS CONTINUED



Information with other FIUs is imperative for the FIAU to be able to carry out its functions effectively and in an unbridled manner.

Information may be exchanged either on receipt of a request for information from a foreign FIU or spontaneously whenever an FIU believes that the information in its possession can be of interest to one or more of its foreign counterparts. 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. In fact, the FIAU, as a member of the Egmont Group of FIUs, exchanges information with other Egmont members via the Egmont Secure Web, while also making use of the FIU.Net system to exchange information with FIUs from EU jurisdictions.

Under Maltese law, the FIAU is authorised to exchange information with foreign counterparts without the necessity of having MoUs or formal agreements in place. However, it might be that the signature of an MoU is a pre-requisite for the exchange of information in other jurisdictions. In such circumstances the FIAU still actively pursues the

conclusion of MoUs with these jurisdictions. The FIAU has signed MoUs with the FIUs of Belgium, Cyprus, the Principality of Monaco, Latvia, Slovenia, Romania, San Marino, Canada, South Africa, Japan, Tunisia, the Holy See, Georgia, Panama and Israel. On 27 September 2017 the FIAU entered into an MoU with the FIU of Macedonia, bringing the total number of MoUs concluded by the FIAU to 16.

Requests made by the FIAU to other FIUs

An increase of 139% was noted in the number of requests for information made to other FIUs in 2017, which in turn reflects an ever-increasing international element to cases subject to an analysis by the FIAU.

As was the case in previous years, the majority of requests made by the FIAU were addressed to FIUs of European countries, which consisted of over 69% of all requests for information made by the FIAU. This was followed by the FIUs in the Americas, to which the FIU sent almost 16% of its requests, and in Asia, to which the FIAU sent almost 11% of its requests. In 2017 the FIAU's top counterparts were the United Kingdom, Italy, Germany, Switzerland and the United Arab Emirates.

2. OPERATIONS CONTINUED

Requests for information made by the FIAU – by region and number of FIUs (2017)

Region	Number of requests made by the FIAU	Number of FIUs to which a request was made by the FIAU
EU/EEA	150	24
Europe (non-EU/EEA)	37	37
Asia	29	8
Americas	43	17
Africa	6	6
Oceania	5	2

The timeliness of foreign FIUs in replying to international requests for information made by the FIAU is considered to be satisfactory, with 57% of the requests made being replied to within a month. However, as was noted in previous years, the increased delay in replies of the remaining 43% of the requests made is one of the main factors contributing to delays in concluding cases.

Timeliness of responses by foreign FIUs to requests for information made by the FIAU (2017)

Time taken for the foreign FIUs to reply	Number of answered requests	Percentage of answered requests
Within 1 week	36	17%
Within 1 month	81	39%
Longer than 1 month	90	43%
TOTAL	207	100%

Requests received by the FIAU from other FIUs

The number of requests for information received by the FIAU during 2017 was unprecedented, with 185 requests received from 53 countries. This marks an increase of 40% over 2016 and 48% over 2015.

Almost 84% of the requests received originated from 36 European countries. As was the case in 2016, the main originators of these requests were the United Kingdom and Italy. Requests from the FIUs in Asia accounted for almost 9% of the requests received by the FIAU and 5% of the requests received in 2017 originated from the FIUs of the Americas.

Requests for information received by the FIAU – by region and number of FIUs (2017)

Region	Number of requests received by the FIAU	Number of FIUs from which a request was received by the FIAU
EU/EEA	127	22
Europe (non-EU/EEA)	28	14
Asia	16	10
Americas	10	3
Africa	3	3
Oceania	1	1

Despite the increase in the number of requests for information received by the FIAU in 2017, an improvement over 2016 was noted in the time the FIAU took to reply to these requests. Of the 185 requests received by the FIAU in 2017, 175 requests were replied to by the end of the year. Of these requests for information, 31% were replied to within a week of the date of receipt and a further 43% were replied to within a month of the date of receipt.

Timeliness of responses by the FIAU to requests for information received from foreign FIUs (2017)

Time taken for the FIAU to reply	Number of answered requests	Percentage of answered requests
Within 1 week	55	31%
Within 1 month	75	43%
Longer than 1 month	45	26%
TOTAL	175	100%

2. OPERATIONS CONTINUED

Spontaneous Intelligence Reports

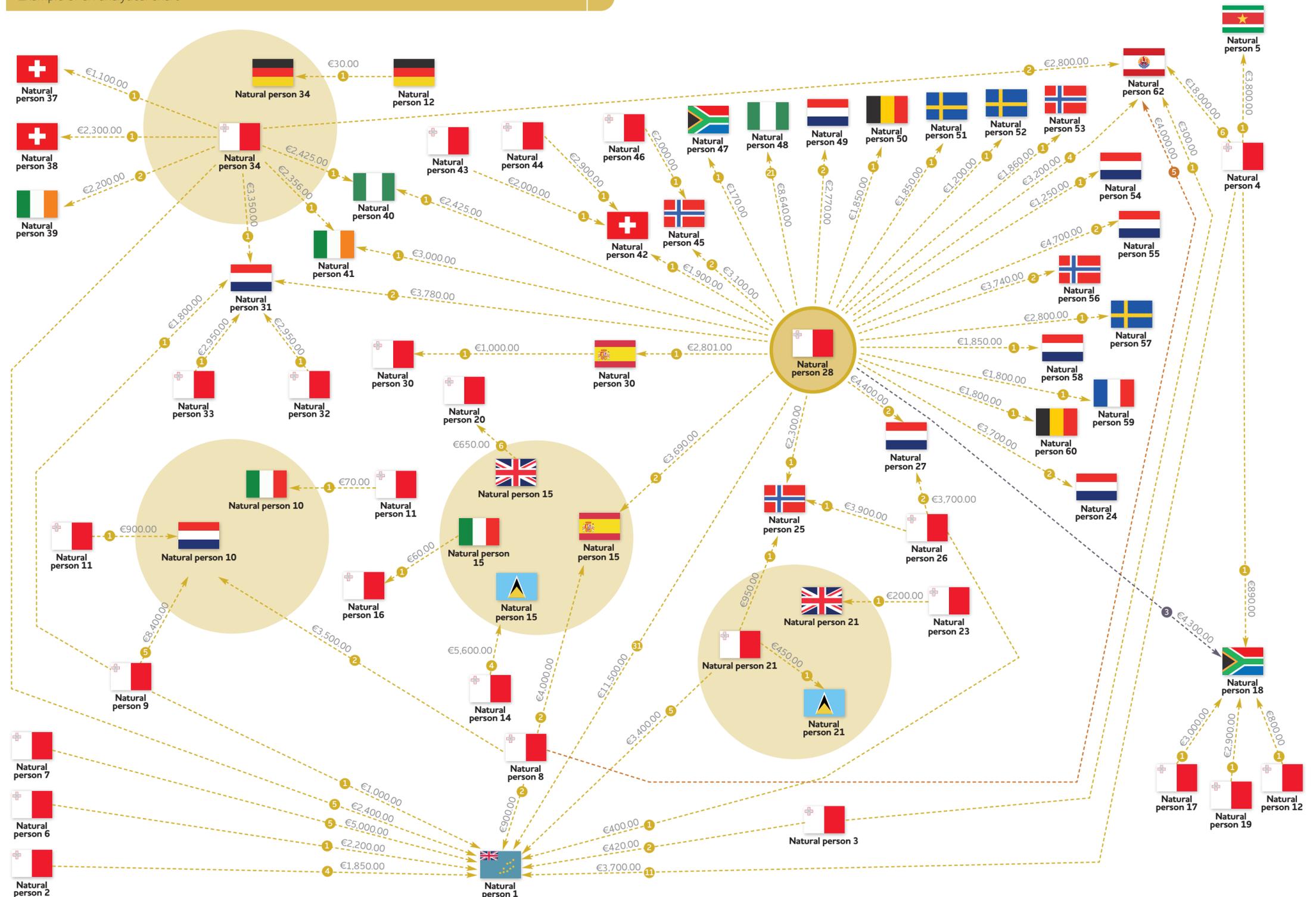
The sharing of information between FIUs in the form of spontaneous intelligence reports has always been of utmost importance and the increase noted in these reports in 2017 is testament to that. The FIAU received 169 spontaneous intelligence reports, which represents an increase of almost 99% over 2016.

In turn, a total of 277 spontaneous intelligence reports were disseminated by the FIAU to the FIUs of 66 countries in relation to 187 cases. This represents an increase of 105% compared to 2016 and, once again, highlights the international element prevalent in STRs submitted to the FIAU and the work carried out by the FIAU thereafter.

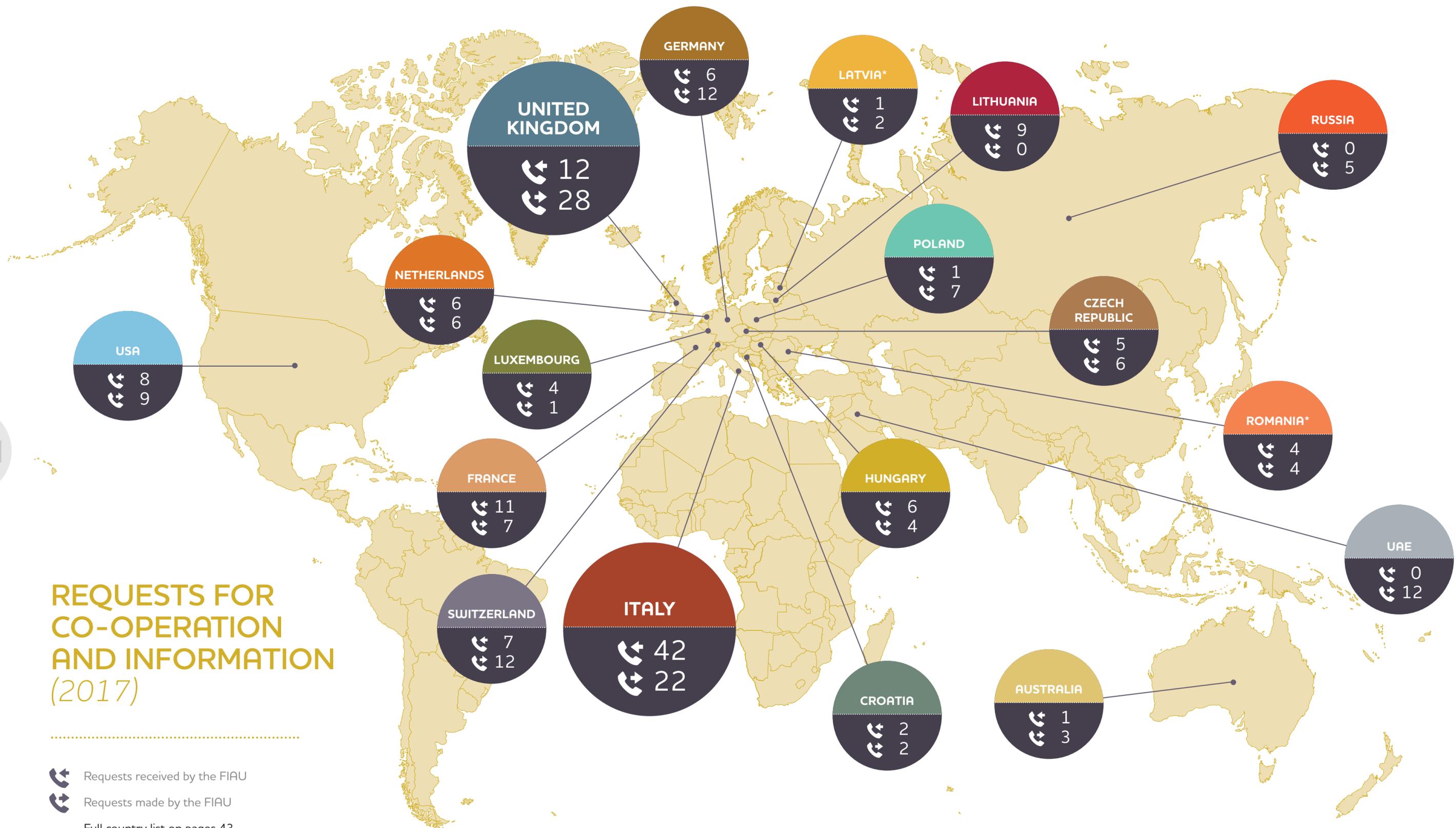
Spontaneous intelligence reports are shared by the FIAU with other FIUs when information in possession of the Unit is deemed relevant for another FIU and should be shared for the purposes of combating money laundering or the funding of terrorism. The significant increase in the sharing of spontaneous intelligence reports by the FIAU during 2017 resulted from an increase in the receipt of information in the form of STRs as well as other information obtained by the FIAU, such as when carrying out an analysis, that was deemed useful for other countries. Statistics show that the FIAU has been proactive and co-operative in the spontaneous sharing of information with other countries since 2014.

It is worth noting that the 4th AMLD, which has since been transposed to Maltese legislation, obliges FIUs in EU member states to promptly share information spontaneously (i.e. not upon request) with the FIU of another member state when it receives an STR that concerns that member state.

Example of an analytical chart



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



REQUESTS FOR CO-OPERATION AND INFORMATION (2017)

Requests received by the FIAU

Requests made by the FIAU

Full country list on pages 43

* Country with MoU signed with FIAU

2. OPERATIONS CONTINUED

COMPLIANCE MONITORING

Article 26 of the PMLA holds the FIAU responsible for monitoring and ensuring subject person compliance with the PMLFTR and the Implementing Procedures. The Compliance Section of the FIAU monitors subject persons falling within the definitions of “relevant financial business” and “relevant activity” in terms of the PMLFTR by carrying out on-site compliance examinations, off-site compliance examinations and supervisory meetings.

The Compliance Section adopts a risk-based approach to supervision. This approach ensures that the resources available are used in the most efficient way possible, while giving high-risk areas the necessary focus and consideration. The Compliance Section evaluates the risk posed by each subject person by taking into consideration multiple risk factors during its risk assessment. The selection of subject persons for compliance reviews is the result of this risk assessment and a review of the intelligence available at the FIAU.

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

On-site supervision

On-site supervision is the primary activity through which the Compliance Section monitors subject person compliance with the PMLFTR and the Implementing Procedures. The section may decide to carry out a full scope examination, a targeted examination or a thematic examination. A full scope examination involves the assessment of all the obligations emanating from the PMLFTR and the

Implementing Procedures and which apply to the subject person being assessed.

A targeted inspection focuses on a specified area, such as a particular AML/CFT obligation, a specified category of customers, products and/or geographical exposure. The area of focus is usually selected following an off-site review of the subject person’s policies and procedures, as well as an analysis of the available information and other intelligence on the subject person. A thematic examination focuses on a specified area or obligation, and will review the same area or obligation across a number of subject persons, often from the same sector.

In terms of Article 27(3)(b), the FIAU may request a supervisory authority to carry out compliance examinations on its behalf or jointly with the FIAU. As the competent authority under the Act, the FIAU retains responsibility for ensuring that subject persons are being adequately supervised and assessed. In the instances when other supervisory authorities carry out compliance examinations on behalf of the FIAU, the FIAU remains actively involved throughout the entire compliance examination process and the Unit retains complete responsibility for determining any breaches and for determining and issuing sanctions on subject persons.

An on-site examination typically involves off-site preparatory work that includes the collection and review of various documentation requested from the subject person, analysis of available information and intelligence, and other ancillary work. The on-site examination also involves conducting interviews with the MLRO, and where appropriate other employees, and the review of a sample of customer files selected by the FIAU’s compliance officers. Compliance examinations may also include the specific review of the AML/CFT policies and procedures, the review of specific AML/CFT systems, and the review of specific measures implemented by subject persons to ensure compliance with their legal obligations. ➔

“...the FIAU remains actively involved throughout the whole compliance examination process. As the competent authority for supervising subject persons, the FIAU retains complete responsibility for determining any breaches

2. OPERATIONS CONTINUED

◀ Off-site supervision

Off-site supervision is another important aspect of the Compliance Section's activity. Typically, off-site supervision is a process by which the Compliance Section conducts a thorough analysis of a subject person's business to gain an in-depth understanding of the ML/FT risks associated with that subject person's business and the controls the subject person has in place to mitigate exposure to ML/FT risks. The process begins with a request for documentation and information from the subject person. This is supplemented by readily available information and intelligence, and the collection of additional information from other sources.

Together, information and documentation obtained are analysed and evaluated to determine the ML/FT risks inherent in the subject person's business, and to understand what measures the subject person has put in place to mitigate and manage these risks. The process may also involve meetings with senior management and the MLRO to test and complete the analysis being conducted. On conclusion of the off-site examinations, the Compliance Section provides feedback of its analysis to the subject person. Off-site examinations may also lead to an on-site compliance examination.

Supervisory AML/CFT Meetings

The Compliance Section also conducts a number of supervisory meetings with subject persons. Supervisory meetings assist the Compliance Section to understand the subject person's business in more detail and to comprehend the subject person's current AML/CFT processes and procedures. Supervisory meetings are also a useful tool for the Compliance Section to evaluate the progress being made by subject persons when new AML/CFT measures are required to be developed and implemented. These supervisory meetings can be held with subject persons as a one-time meeting or on a recurring basis in certain situations, particularly where the FIAU would be closely monitoring an AML/CFT action plan that a subject person may be implementing.

Joint agreement with MFSA

A division within the MFSA's Enforcement Unit is tasked with the responsibility to supervise AML/CFT within the financial sector. A joint procedure has been established between this division of the MFSA and the Compliance

Section of the FIAU to supervise subject persons within the financial sector, ensuring their compliance with the PMLFTR and the Implementing Procedures.

During 2017, 22 on-site compliance examinations were carried out solely by the FIAU on DNFBPs, and 45 on-site compliance examinations were carried out jointly with the MFSA in the financial sector, bringing the total number of on-site examinations to 67. The table below indicates the total examinations conducted on DNFBPS and in the financial sector.

Total on-site AML/CFT examinations

	2015	2016	2017
TOTAL	71	96	67

The FIAU's risk-based mechanism enables it to focus its resources on those sectors that are perceived to carry the highest risks in facilitating ML/FT, while also considering the size of each sector. The table below highlights the categories of subject persons that were assessed via on-site examinations in 2017.

Visits by category of subject persons

Category	Percentage
Company Service Providers	29%
Investment Services	11%
Trust and Fiduciaries	10%
Accountants & Auditors	10%
Notaries	7%
Financial Institutions	6%
Advocates	6%
Credit Institutions	5%
Tax Advisors	5%
Fund Administrators	5%
Administrators of Private Foundations	3%
Insurance	2%

2. OPERATIONS CONTINUED

◀ Joint agreement with MGA

During the first quarter of 2017, the FIAU and the MGA started a collaboration exercise to jointly address the AML/CFT supervision of gaming operators. This collaboration was also initiated in preparation for the transposition of the 4th AMLD into Maltese Law, which brings the inclusion of remote gaming operators as subject persons carrying out 'relevant activity' in terms of the PMLFTR. As from 2018, remote gaming operators became subject to supervision by the FIAU and the MGA.

Through an agreement between the FIAU and MGA, the MGA will act as an agent of the FIAU to supervise both land-based and remote gaming operators that fall within the scope of the Regulations.

Annual Compliance Report

Subject persons are required to complete and submit an ACR. The information obtained from the ACR assists the Compliance Section to risk assess subject persons and therefore to evaluate the level of ML/FT risk inherent with the subject person's business and operations. The information presented in the ACR is filtered through the risk assessment process of the FIAU to identify subject persons that present the highest ML/FT risk exposures. The information presented to the FIAU in the ACR is used by the Compliance Section when carrying out off-site compliance examinations and also when carrying out the preparatory work for on-site compliance examinations.

Over the past years, the number of subject persons submitting an ACR has increased. The increase in ACR submissions shows an increase in the subject persons' awareness of their obligations in terms of the PMLFTR and the Implementing Procedures. This increase was also attributed to the follow-up actions taken by the FIAU on those subject persons who failed to submit their ACR. The increase in submissions has enabled the Compliance Section to carry out a more effective risk assessment of the subject persons and to allocate its supervisory resources more efficiently.

Subject persons that fail to submit an ACR are in contravention with their obligations in terms of the Implementing Procedures and this failure is taken seriously by the FIAU. Failure to submit an ACR is an adverse risk indicator and the Compliance Section factors the non-submission of an ACR into its risk

assessment process when determining the overall ML/FT risk exposure of a subject person.

In the first quarter of 2017, the FIAU started a process to update the ACR forms. The purpose behind the enhancement of the ACR is to gather more detailed information on the business operations, AML/CFT policies and procedures, and AML/CFT control measures that subject persons have in place. The updated ACR forms will be made to cater for the different categories of subject persons, allowing the Compliance Section to gather information that is sector specific. The ACR forms will also allow for a more efficient risk assessment to be carried out by the Compliance Section and therefore to more efficiently allocate its supervisory resources.

Assistance on AML/CFT obligations of subject persons

A role entrusted to the Compliance Section is that of providing support to subject persons who have AML/CFT-related queries. In 2017, the Compliance Section, in collaboration with the Legal and International Relations Section, replied to no less than 130 queries received from subject persons *vis-à-vis* their AML/CFT obligations.

Compliance Monitoring System

During 2016, the Compliance Section embarked on a project to upgrade its existing subject person database and risk analysis system, known as the Compliance Monitoring System.

The Compliance Monitoring System comprises of an integrated database of subject persons and their compliance data. The new Compliance Monitoring System, with its increased functionality, will also include a reporting/analytical engine to streamline FIAU processes. A key feature of the new analytical engine will be a risk algorithm that enables the FIAU to score subject persons against a variety of risk criteria.

Once functional, the risk algorithm will enable the Compliance Section to rapidly assess a subject person's inherent risk and to re-evaluate that risk in response to a change in circumstances. This quantitative risk tool will support qualitative analysis to determine the level of supervision that is appropriate for each subject person. Another component of the new Compliance

2. OPERATIONS CONTINUED

Monitoring System will be a portal through which subject persons will submit their relevant forms and data, as well as their ACRs.

Sanctions

Article 18(3) of the PMLA assigns the responsibility to consider breaches of the AML/CFT legislative provisions and to take the appropriate actions to the Director of the FIAU. The Director's powers vested in Article 18(3) are exercised through the Compliance Monitoring Committee. The CMC was established by the Board of Governors of the FIAU as a delegated body to consider cases brought before it by case officers in relation to 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, and the Legal and International Relations Manager.

The main responsibilities of the CMC are the consideration of:

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

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

In 2017 the CMC met 17 times to assess cases of potential breaches of the PMLFTR and/or the Implementing Procedures by the Financial Sector and the DNFBPs identified through on-site compliance examinations, off-site compliance examinations, non-submission of ACRs and other sources.

In reaching its conclusions, the CMC takes several factors into consideration. These include the seriousness of the breach, the extent to which the breach was deliberate or reckless, the financial resources and other circumstances of the subject person on whom the sanction is to be imposed, the

subject person's conduct prior to and/or following the breach, the subject person's size and nature of its business and compliance history of the subject person.

In 2017, a number of penalties, reprimands and warnings were levied against subject persons who infringed the provisions set out in the PMLFTR and the Implementing Procedures.

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

Number of Administrative Sanctions over the past three years			
	2015	2016	2017
Reprimands	20	6	14
Penalties	56	167	7

The total penalties levied in 2017 amounted to €61,145 of which €38,750 were imposed against Credit Institutions. Other administrative sanctions were issued to Investment Service Providers, Notaries and Company Service Providers.

All subject persons 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 time frames were reprimanded. A number of administrative penalties and reprimands due to be levied against subject persons in relation to the obligation to submit the ACR were still being processed as at the end of 2017. In the first quarter of 2018, the FIAU issued 60 administrative sanctions for failure to submit the 2017 ACR and 75 reprimands for failure to submit the 2017 ACR within the stipulated time frames.

The table below breaks down the number of administrative sanctions imposed in 2017 on different categories of subject persons.

Number of Administrative Sanctions given during 2017 according to Sector – DNFBPs & the Financial Sector		
	Reprimands	Penalties
DNFBPs	5	5
Financial Sector	9	2

2. OPERATIONS CONTINUED



◀ MONEY LAUNDERING CASES

This section provides a review of judgments delivered by the Courts of Malta in relation to money laundering charges. In 2017, the Courts convicted seven persons of money laundering while acquitting a further four persons from this charge. Furthermore, the Court of Appeal confirmed four earlier convictions and an acquittal. A conviction was overturned on appeal and the accused acquitted.

IL-PULIZIJA

VS

GENISE (GENOVEFFA) RENSIK MIFSUD

COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
29 MARCH, 2017

Nature of laundering offence: Third-party laundering

Type of predicate offence: Fraud

Penalty: 3 months imprisonment, suspended for 2 years

The accused was engaged by third parties to receive funds on their behalf, in return for which the accused would get a commission on the funds received. It transpired that the funds received were generated through a racket run by these third parties, who used to pose as representatives of Microsoft Corporation. The funds received in the accused's bank account totalled some €3,000.

The accused was charged with money laundering, to which she pleaded guilty. As a result, the Court found her guilty and condemned her to a prison term of 3 months, suspended for 2 years.

IL-PULIZIJA

VS

CHRISTIAN ALEXANDER VAN DALEN

COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
30 MARCH, 2017

Nature of laundering offence: Self-Laundering

Type of predicate offence: Fraud

2. OPERATIONS CONTINUED

Penalty: Effective prison term of 6 years, a €15,000 fine (*multa*) and confiscation of all monies and property (movable and immovable)

The accused was employed as an affiliate manager with an online gaming company operating from Malta. Van Dalen used to earn a commission of between 25% and 50% on gambling revenue generated via customers he steered towards the company. The Court heard that, in the course of his employment, the accused had artificially inflated the number of customers by using the details of account holders to generate fictitious new accounts. In this manner he managed to generate fraudulent gains totalling some €153,000, which he concealed by transferring these proceeds to his wife's bank account, as well as into an electronic wallet account held in his name.

The accused was charged with money laundering and fraud related offences to which he pleaded guilty. As a result, the Court found him guilty and condemned him to an effective prison term of 6 years, fined him €15,000, and had all his monies and property (movable and immovable) confiscated in favour of the Government of Malta.

IL-PULIZIJA
VS
BRIAN BUTTIGIEG U JOANNE CUTAJAR

COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
14 JUNE, 2017

Nature of laundering offence: Self-Laundering/Third-party laundering

Type of predicate offence: Misappropriation

Penalty: 4 years imprisonment and a fine (*multa*) of €30,000; 2 years imprisonment, suspended for 4 years and a fine (*multa*) of €20,000, respectively

An anonymous tip-off from a customer led to the discovery that the accused, Brian Buttigieg, a manager at a fast-food franchise, had been carrying out sales without registering them into the cash

register system, and consequently selling food without issuing fiscal receipts to customers. The accused was then pocketing the cash for himself to the detriment of the restaurant, and forwarding the money to his partner, co-accused Joanne Cutajar, to deposit them into her personal bank account.

The Court declared that Joanne Cutajar was fully aware of the source of the funds being forwarded to her. The accused were both found guilty of money laundering, with Brian Buttigieg also being found guilty of misappropriation.

IL-PULIZIJA
VS
GEORGE-OLIVER SCHEMBRI U DONALD
CAMILLERI

COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
11 SEPTEMBER, 2017

Nature of laundering offence: Self-Laundering
Type of predicate offence: Fraud, corruption and bribery

Penalty: 2 years imprisonment, suspended for 4 years, and a fine (*multa*) of €110,000; 18 months imprisonment, suspended for 4 years, and a fine (*multa*) of €30,000, respectively

The accused worked in tandem with a public official from Transport Malta, who would inflate bills for road works carried out by contractor Alfred Schembri and Sons, of which the accused George-Oliver Schembri was a director. The difference was then shared between the accused and the public official, to the detriment of the public authority.

The accused pleaded guilty to charges of fraudulent gain, obtaining money under false pretences, bribery of public officials and money laundering. In handing out the punishment, the Court took into consideration the fact that the accused had reimbursed the public authority in full.

2. OPERATIONS CONTINUED



**IL-PULIZIJA
VS
MORGAN EHI EGBOMON**

**COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
29 NOVEMBER, 2017**

Nature of laundering offence: Self-Laundering
Type of predicate offence: Unknown (undeclared cash)

Penalty: Effective prison term of 3 years, a fine (*multa*) of €5,000 and forfeiture of all monies and items found in his possession

The accused was arrested at the Malta International Airport with a large amount of money in cash, which he had failed to declare. The monies found in his possession were €38,000, 4,500 Hungaria Forint, 20,000 French Francs and US\$144,300.

The accused was charged with money laundering, as well as with failing to declare that he was carrying more than €11,646.87 (at the time equivalent to some Lm5,000) in cash to the Comptroller of Customs. The accused pleaded guilty to all charges. As a result, the Court condemned the accused to an effective prison term of 3 years, fined him €5,000 and had all the monies and other items found in his possession confiscated in favour of the Government of Malta.



Appeals Cases

**IL-PULIZIJA
VS
SHARON CAMILLERI**

**COURT OF CRIMINAL APPEAL
23 FEBRUARY, 2017**

On 13 July, 2016, the Court of Magistrates (Malta) as a Court of Criminal Judicature had found Sharon Camilleri not guilty of money laundering and acquitted her. The Attorney General filed an appeal before the Court of Criminal Appeal, arguing that the facts as well

as the circumstances of the case should have led to Ms Camilleri's conviction. The First Court acquitted the accused on the grounds that the prosecution had failed to prove that the accused's monies were linked to an underlying criminal activity.

The Court of Appeal concurred with the conclusions of the First Court. It highlighted that while in money laundering cases the burden of proof shifts on the accused to justify how his or her assets had been obtained, the prosecution must first and foremost prove, at least *prima facie*, the link between the criminal activity, its proceeds and the monies found in the accused's possession. The Court concluded that no such a link had been established at first instance and, as a result, confirmed the acquittal.



2. OPERATIONS CONTINUED



**IL-PULIZIJA
VS
CHARITY OFAME OVBIAGELE**

**COURT OF CRIMINAL APPEAL
5 APRIL, 2017**

On 16 October, 2014, the Court of Magistrates found the appellant guilty of money laundering for having received gifts, which she had suspected were purchased with the proceeds of crime. Charity Ofame Ovbiagele appealed the decision and requested the Court of Appeal to revoke the part of the judgment finding the appellant guilty of money laundering. The grounds for complaint included, among others, the fact that, at the time of the commission of the alleged offence, the specific provision of the law relied upon at first instance did not require the accused to merely 'suspect' that the gifts received were purchased with monies constituting proceeds of crime; but rather, required 'knowledge'.

Furthermore, the appellant argued that the Court of Magistrates did not take into consideration the defendant's submissions that certain money transfers constituting the alleged offence pre-dated the date of the charge.

The court upheld the appellant's request, stating that the gifts had been received from a person who was also found to be in possession of funds derived from wholly licit sources. It was therefore not possible or logical to expect somebody who receives a gift to be able to distinguish whether such a gift had been purchased with licit or illicit funds.

**IL-PULIZIJA
VS
CHRISTIAN GRECH**

**COURT OF CRIMINAL APPEAL
27 APRIL, 2017**

The Court of Magistrates (Malta) as a Court of Criminal Judicature had on 6 October, 2016, found Christian

“The Court took into consideration a number of relevant aspects, primarily the fact that the appellant would be making good for his criminal actions by serving the term of imprisonment”

Grech guilty of money laundering, sentencing him to three years imprisonment and imposed a fine (*multa*) of €32,000.

Mr Grech lodged an appeal, wherein he requested only that the Court reconsider the severity of the punishment imposed. Among the grounds for the complaint, the appellant lamented that jurisprudence cited in his final oral submissions demonstrated that lighter punishments have been awarded in cases where the circumstances were far more serious and that he was, furthermore, already serving a sentence of 20 years imprisonment for separate convictions. The appellant also claimed that the illicit funds transferred amounted only to circa €5,000 per year, rendering the total amount of €31,000 relatively low, and not, as had been determined at first instance, 'considerable' in value. Moreover, his involvement had been limited solely to the transferring of the funds in question, and he had not pocketed any amounts for himself.

The Court of Appeal altered the judgment by waiving the pecuniary fine of €32,000. In its determinations, the Court took into consideration a number of relevant aspects, primarily the fact that the appellant would be making good for his criminal actions by serving the term of imprisonment.



2. OPERATIONS CONTINUED



IL-PULIZIJA
VS
ALFRED DELIA U MARCO DELIA

COURT OF CRIMINAL APPEAL
9 NOVEMBER, 2017

On 23 May, 2013, the Court of Magistrates (Malta) as a Court of Criminal Judicature found Alfred Delia and Marco Delia guilty of money laundering and sentenced them to an effective prison term of 18 months, fined them €5,000 each and had their respective vehicles confiscated in favour of the Government of Malta.

Both Alfred and Marco Delia appealed the decision, arguing that the monies used for the purchase of the mentioned vehicles were not proceeds of crime and therefore no money laundering had occurred.

The Court of Appeal rejected the appellants' request on the grounds that the appellants did not provide proof to the Court's satisfaction that the monies in question derived from legitimate means.

As a result, the Court of Appeal confirmed the guilty verdict of the First Court. However, in doing so, it altered the punishment awarded by suspending the term of imprisonment for four years. Both the fines and the confiscation of vehicles ordered by the First Court were confirmed on appeal.

IL-PULIZIJA
VS
GENISE (GENOVEFFA) RENSIK MIFSUD

COURT OF CRIMINAL APPEAL
18 DECEMBER, 2017

On 29 March, 2017, the Court of Magistrates (Malta) as a Court of Criminal Judicature found Genise (Genoveffa) Rensik Mifsud guilty of money laundering and sentenced her to a prison term of three months suspended for two years. The Attorney General filed an appeal before the Court of Criminal Appeal, arguing that the First Court had incorrectly imposed a punishment lower than the law prescribes.

The Court of Appeal upheld the Attorney General's appeal. While confirming the guilty verdict, it altered the punishment by increasing the term of imprisonment to 12 months suspended for two years. Furthermore, the Court of Appeal confiscated all the monies in the accused's bank account in favour of the Government of Malta.

Acquittals

IL-PULIZIJA
VS
PAUL SPAGNOL U MARIA-CARMELA FENECH

COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
19 APRIL, 2017

Paul Spagnol and Maria Carmela Fenech were charged with money laundering; Mr Spagnol was separately charged with a number of other related offences, including theft and receiving stolen property. The money laundering charges came about following suspicion that the accused had used illicitly obtained funds to pay for an insurance policy. However, the accused provided the Court with sufficient evidence to prove that the source of the funds used was legitimate. The accused were therefore acquitted of money laundering charges.

“The Court concluded that it had not been proven that the accused had any knowledge that his company was being used as an instrument for tax evasion”

2. OPERATIONS CONTINUED



**IL-PULIZIJA
VS
GERNOT KNOESS**

**COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
28 JUNE, 2017**

In 2004, the accused, an architect, and director and shareholder of M Architecture Limited (a Maltese-registered company), entered into a contract of works for a value of €8,500,000 to convert a property in Germany. The owner of the property, Margit Cezkowski, transferred on account €4,000,000 to the Maltese bank account of M. Architecture Limited for the commencement of works. A few weeks later, Mrs Cezkowski entered into a loan agreement with M Architecture Limited, claiming to be facing liquidity problems. The sum of €2,000,000 were transferred back into Mrs Cezkowski's account in virtue of this agreement.

Back in Germany and at around the same time, Mrs Cezkowski's lawyer, Michael Wolski, negotiated an agreement on Mrs Cezkowski's behalf whereby the tenant of the property in question would pay the sum of €13,500,000 to terminate the lease prior to the lapse of the agreement. Part of this amount was also transferred to M Architecture Limited's bank account in Malta and the circumstances in which this took place raised suspicion of tax fraud in Germany.

Mr Wolski was tried in Germany and sentenced to imprisonment for tax evasion. However, no charges

were levied in Germany against the accused. The accused was subsequently charged in Malta. However, the Court concluded that it had not been proven that the accused had any knowledge that his company was being used as an instrument for tax evasion. He was therefore acquitted of all charges.

**IL-PULIZIJA
VS
NAZZARENO SIVE RENO GRECH**

**COURT OF MAGISTRATES (MALTA)
AS A COURT OF CRIMINAL JUDICATURE
10 OCTOBER, 2017**

The accused was charged with money laundering and other charges related to theft, violence and threats. The Court heard how the accused used to steal money from his parents as well as demand money from them through physical violence and threats.

The Court found the accused not guilty of money laundering, theft and violence. The Court concluded that the accused could not be found guilty of money laundering since the prosecution did not, at least *prima facie*, prove the link between the criminal activity, its proceeds and the money or properties found in the accused's possession.

The case was not appealed.

3. TRAINING

Training received by FIAU staff

In 2017, FIAU staff members attended a number of seminars, training workshops, conferences and courses, both in Malta and abroad.

Particular importance was given to the impact that the coming into force of the 4th AMLD was to have on the local AML/CFT landscape. In view of the addition of gaming operators to the list of subject persons, FIAU officers attended a number of events to better understand this new reality. Officers from the Compliance as well as the Legal and International Relations Section attended seminars on the new legislative framework applicable to gaming and on other regulatory aspects applicable to gaming operators.

A seminar on land-based casinos, organised by the MGA, was attended by all the officers within the Compliance Section as well as an officer from the Legal and International Relations Section.

Worth noting is a two-day seminar, organised by the Moneyval Secretariat in connection with Malta's 5th Round Moneyval Evaluation, attended by FIAU officers. The aim of this event was to launch and explain the evaluation process, as well as provide guidance on what evaluators would be looking at to determine the extent of Malta's application of the FATF Recommendations.

Officers from the Analysis and Compliance Section attended important conferences abroad: The 11th Annual European AML & Financial Crime Conference, organised by AMLP in London and the 5th International Anti-Money Laundering & Financial Crime Conference, organised by BACEE in Bratislava.

Two officers from the Legal and International Relations Section attended a course organised by ERA, entitled The 4th & 5th Anti-Money Laundering Directives, held in Trier (Germany). An officer from the Analysis Section took part in a workshop on the use of the FIU.net platform, hosted in The Hague (Netherlands).

To keep abreast of recent technological developments and the potential AML/CFT risks these same technologies present, an officer from the Legal and International Relations Section attended a seminar on blockchain technology and the legal implications its use could have, and an internal presentation on virtual currencies was organised for all FIAU staff members.

Training provided by the FIAU

One of the main priorities of the FIAU in 2017 was to ensure that subject persons were adequately informed



Training on the revised version of the FIAU Implementing Procedures Part 1, held in February 2017

about their AML/CFT obligations. To this end, FIAU officers participated as speakers in a number of seminars and conferences organised by the FIAU itself or by sector representative bodies.

One of the main events was a half-day seminar in February, 2017, organised by the FIAU entitled Implementing Procedures Part I – Amendments & Training Session. The purpose of this event was to explain to subject persons the main changes carried out through a revision of the Implementing Procedures – Part I. The seminar was particularly well attended and a repeat session had to be organised in April to meet demand.

Officers from the Legal and International Relations Section took part in a number of events organised to provide gaming companies with insights on their new AML/CFT obligations and how to meet them. Through participation in panel discussion and seminars, the FIAU sought not only to explain what these new obligations entail but also to engage with the sector, in particular following the launch of a Consultation Document on the application of AML/CFT measures by remote gaming companies.

An officer from the Legal and International Relations Section also participated in a panel discussion in the course of a half-day seminar in July, organised by the Notarial Council jointly with a private service provider. The aim of this seminar was to provide an outline of the main AML/CFT obligations applicable to the notarial profession and to discuss practical difficulties encountered by notaries when exercising their profession.

4. OTHER DEVELOPMENTS & INITIATIVES

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

The JCPMLFT is an informal committee chaired by the FIAU, which brings together representative bodies of subject persons and the competent authorities involved in contrasting ML/FT. The JCPMLFT met once in 2017 and, among other issues, those present were informed on the developments taking place at EU level and about the transposition process of the 4th AMLD.

AMENDMENTS TO THE PMLA AND THE PMLFTR IN 2017

A series of amendments to the PMLA came into force on 1 December, 2017, with the publication in the *Government Gazette* of Act XXVIII of 2017. Legal Notice 372 of 2017 was subsequently published in the *Government Gazette* issue of 20 December 2017, providing for a new version of the PMLFTR to come into force on 1 January, 2018. The FIAU carried out a consultation exercise in July with subject persons and other stakeholders on how to revise the PMLFTR as part of the transposition of the 4th AMLD into Maltese law. The amendments to the PMLA were also required as part of the transposition process though some of them addressed other issues, such as providing for a clear process on how subject persons may appeal from administrative penalties imposed by the FIAU.

BENEFICIAL OWNERSHIP REGISTERS

On 20 December, 2017, four legal notices – Legal Notice 373 of 2017, Legal Notice 374 of 2017, Legal Notice 375 of 2017 and Legal Notice 376 of 2017 – were published in the *Government Gazette*, providing for the establishment of beneficial ownership registers as required by the 4th AMLD. As of 1 January, 2018, beneficial ownership information relative to determinate legal persons and arrangements has to be disclosed to the MFSA in the case of trusts, to the Registry of Companies in the case of commercial

partnerships and to the Registrar for Legal Persons in the case of foundations and associations.

AMENDMENTS TO THE IMPLEMENTING PROCEDURES

The FIAU published a revised version of Part I of the Implementing Procedures Part I in 2017, following a process of consultation with private sector representatives and relevant supervisory authorities. This revision was the most comprehensive to date and was primarily intended to provide for the use of technological alternatives to traditional paper-based measures for conducting customer due diligence. This updated version, published on 27 January, 2017, also reflects recent legislative amendments to other laws and offers additional guidance on particular AML/CFT requirements.

CONSULTATION WITH THE REMOTE GAMING SECTOR

On 10 July, 2017, the FIAU, in conjunction with the MGA, issued a consultation document on how it envisaged AML/CFT obligations were to be applied to the remote gaming sector following transposition into Maltese law of the 4th AMLD. Feedback was received from a number of interested stakeholders and this formed the basis for the second Consultation Document addressed to the remote gaming sector, which was issued early in 2018.

POLICIES AND PROCEDURES FOR THE PUBLICATION OF AML/CFT PENALTIES

On 22 December, 2017, the FIAU's Board of Governors approved a number of changes to the policies and procedures governing the publication of administrative penalties imposed on subject persons for breaches of the PMLA and the PMLFTR. These changes became necessary following the coming into force of Act XXVIII of 2017, which limited publication of administrative penalties to cases where these exceed €10,000, and they have become final and due.

4. OTHER DEVELOPMENTS & INITIATIVES CONTINUED

◀ EU ML/FT SUPRA-NATIONAL RISK ASSESSMENT

On 26 June, 2017, the European Commission published the first ever SNRA, as required by the 4th AMLD, outlining the main risks for the internal market in a wide range of sectors and the horizontal vulnerabilities that can affect these sectors. On this basis, the SNRA presents the mitigating measures that should be pursued at EU and national levels to address these risks and puts forward a number of recommendations for the different actors involved in the fight against ML and TF. Apart from being considered by Member States, the SNRA is also to be taken into consideration by the individual subject persons when drawing up their respective Business Risk Assessment.

AMENDMENTS TO THE 4TH AMLD

On 18 December, 2017, the Presidency of the Council of the European Union and the European Parliament reached an informal agreement, confirmed two days later by the Council, on a series of proposals to amend the 4th AMLD. These proposals, which had been presented as part of the Commission's 2016 Action Plan against FT, include providing wider access to Beneficial Ownership Registers and a series of measures to address the ML/FT risks associated with pre-paid cards and virtual currencies, improve co-operation between Member States' FIUs as well as setting out the enhanced due diligence measures to be applied in the case of high risk third countries.

FATF STATEMENTS

The FATF is an inter-governmental body which sets standards and promotes the effective implementation of legal, regulatory and operational measures for combating ML/FT and other related threats to the integrity of the international financial system. As part of this effort, it publishes a list three times a year identifying those jurisdictions that present strategic or significant deficiencies in their AML/CFT framework.

The FIAU publishes these lists on its website and informs subject person accordingly, so that they may consider them when meeting their AML/CFT obligations in terms of law.

SUSTAINABLE DEVELOPMENT

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

Over the years, the FIAU has adopted several measures aimed at minimising energy usage and the reduction of the Unit's carbon footprint. This includes the continued application of a policy requiring double-sided printing and the sole purchase of elemental chlorine free (ECF) paper.

The Unit also increased its efforts to ensure that staff segregate waste with a direct focus on waste paper separation, as well as reduce the use of paper and printing by converting and opening documents in digital form. To reduce the use of hard copies further, the Unit acquired and fitted TVs in all meeting rooms to allow staff to access documents stored electronically during meetings.

In 2013, a decision was taken to release the FIAU's annual report in electronic format and distribute it by means of a USB drive. This decision was re-confirmed in 2015 while in 2016 a decision was taken to reduce the number of USB drives and resort to distributing the annual report to subject persons by means of e-mail. This measure has been re-confirmed in 2017 and, in addition, the Unit has taken the decision to reduce the number of USB drives even further and increase the use of e-mails when distributing the annual report. This measure is mainly intended to reduce the Unit's carbon footprint.

5. PARTICIPATION IN INTERNATIONAL FORA

THE MALTESE PRESIDENCY OF THE COUNCIL OF THE EUROPEAN UNION

In the first half of the year throughout the term of Presidency of the Council of the EU, Malta was tasked with spearheading two legislative proposals in the field of anti-money laundering and the countering of financing of terrorism. These were a Directive proposal to amend the 4th AMLD and a Directive on countering money laundering by criminal law. Two FIAU officers actively participated in the respective working groups that were piloting these two directives and were responsible for chairing the technical meetings and handling the necessary technical drafting.

The Maltese Presidency managed to broker an agreement between all 28 member states in the Council on the Directive Proposal on countering money laundering by criminal law. In relation to the proposed Directive to amend the 4th AMLD, which was being discussed and negotiated between Council and Parliament, the Maltese Presidency, though it did not manage to reach a final deal, did attain an agreement with Parliament on a number of key aspects of this Directive.

THE EXPERT GROUP ON MONEY LAUNDERING AND TERRORIST FINANCING

The EGMLTF is an expert group chaired by the EU Commission. The purpose of this expert group, which brings together the national AML/CFT experts from 28 member states, is to advise and provide expertise to the EU Commission and to serve as a co-ordinating

body and a platform for the exchange of views on AML/CFT matters.

The EGMLTF met four times in 2017 – on 10 February, 6 June, 13 October and 11 December. Experts had the opportunity to be updated on and discuss a number of legislative proposals, namely the Proposed Directive to amend the 4th AMLD, the Proposed Directive on countering money laundering by criminal law, the revision of the cash control regulations, as well as a number of other legislative proposals relevant to AML/CFT. 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.

Throughout these meetings delegates were also updated on various on-going projects in other fora, such as the European Supervisory Authorities' Anti-Money Laundering Sub-Committee and the FATF. The 11 December meeting was dedicated solely to the development of a methodology to assist the EU Commission in identifying and designating high risk jurisdictions, as required by the 4th AMLD.

EU-FIU PLATFORM

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

In 2017 the EU-FIU Platform was convened three times, on 29-30 March, 20-21 September and 11-12 December. Besides focusing on a number of AML/CFT related developments, throughout these meetings EU-FIUs extensively discussed the future of

“The Maltese Presidency managed to broker an agreement between all 28 member states in the Council on the Directive Proposal on countering money laundering by criminal law”

5. PARTICIPATION IN INTERNATIONAL FORA CONTINUED



Participants in the 24th Egmont Group plenary held in Macau, SAR.

◀ FIU.net (the computer network supporting the exchange of information between EU-FIUs) and the relationship with EUROPOL. It is worth noting that 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 analysis.

THE EGMONT GROUP

The Egmont Group is an informal network of world-wide FIUs, offering a platform for over 150 FIUs to exchange best practices and expertise, and promotes more effective co-operation and intelligence sharing between FIUs. The Egmont Group has also developed a secure communication network, “the Egmont Secure Web”, to enable member FIUs to communicate and securely share confidential information.

The Egmont Group held two meetings in 2017, a working groups meeting in Doha, Qatar, between 29 January and 2 February, and a plenary meeting in Macao, SAR, between 2 and 7 July. The FIAU was represented at these meetings by the Director, the Deputy Director and officers from the analysis and legal sections. A number of studies and papers of relevance to the FIUs’ functions developed by Egmont Members were approved. These included typology studies on foreign terrorist fighters and ISIL operations. A number of training sessions focusing on topics of operational interest to FIUs, such as FIU co-operation

with law enforcement and co-operation with domestic law enforcement on terrorist financing cases were also delivered by various experts throughout these events.

MONEYVAL

MONEYVAL is a Committee of the Council of Europe tasked with evaluating compliance with the FATF international AML/CFT standards. MONEYVAL adopts a dynamic peer review process of evaluations to continuously improve the capabilities of Council of Europe member countries to fight ML/FT. The FIAU forms part of the Maltese MONEYVAL delegation, which is also composed of the Attorney General’s Office, the Malta Police and the MFSA.

MONEYVAL held three Plenary meetings in 2017 – in May-June, September and December.

It launched the 5th Round Mutual Evaluation Process of Malta. The evaluation process formally commenced with a country training seminar that took place here on 16 and 17 November, 2017. This will culminate in a two-week on-site fact-finding mission to be held in November, 2019.

The 5th round of MONEYVAL evaluations will not only evaluate whether national legislation complies with international standards on a technical level, but will place more emphasis on effectiveness, i.e. on whether the legislation is being effectively implemented in practice and whether results are being achieved.

APPENDIX

Requests for information (2017) by country

Requests received by the FIAU		Jurisdiction	Requests made by the FIAU	
N°	Replies		N°	Replies
1	1	Albania	-	-
1	1	Andorra	-	-
-	-	Argentina	1	-
-	-	Armenia	1	-
1	1	Australia	3	3
2	2	Austria	2	2
1	1	Azerbaijan	-	-
-	-	Bahamas	1	1
-	-	Bahrain	1	-
3	3	Bangladesh	-	-
3	2	Belgium	2	2
-	-	Belize	1	-
1	1	Bosnia & Herzegovina	-	-
-	-	Brazil	6	6
1	1	British Virgin Islands	3	3
2	2	Bulgaria	8	6
-	-	Cameroon	1	1
-	-	Canada	3	2
1	1	Cape Verde	-	-
-	-	Cayman Islands	1	1
-	-	Chile	1	1
-	-	Colombia	1	1
2	1	Croatia	2	1
-	-	Curacao	2	2
3	3	Cyprus	11	10
5	4	Czech Republic	6	6
-	-	Egypt	1	-
1	1	Estonia	1	1
3	3	Finland	-	-
11	11	France	7	7
6	6	Germany	12	7
1	1	Gibraltar	8	6
-	-	Greece	1	-
1	1	Guernsey	-	-
1	1	Holy See	1	-
-	-	Hong Kong	5	3
6	5	Hungary	4	4
1	1	India	-	-
-	-	Ireland	1	1
2	2	Isle of Man	-	-
1	1	Israel	-	-
42	38	Italy	22	19
1	1	Ivory Coast	-	-
-	-	Jersey	3	3



APPENDIX CONTINUED

Requests for information (2017) by country

Requests received by the FIAU		Jurisdiction	Requests made by the FIAU	
N°	Replies		N°	Replies
1	1	Jordan	-	-
1	1	Kosovo	-	-
1	1	Latvia	2	2
1	1	Lebanon	2	2
-	-	Liechtenstein	2	2
9	8	Lithuania	-	-
4	4	Luxembourg	1	1
-	-	Macao	1	-
1	1	Macedonia	-	-
1	1	Mauritius	1	-
5	5	Moldova	1	-
1	1	Monaco	1	1
3	3	Montenegro	-	-
6	6	Netherlands	6	5
-	-	New Zealand	2	1
-	-	Panama	1	1
1	1	Peru	4	4
2	2	Philippines	1	-
1	1	Poland	7	6
-	-	Portugal	6	5
4	4	Romania	4	3
-	-	Russia	5	4
-	-	S.Korea	1	1
-	-	Saint Kitts and Nevis	4	3
2	2	San Marino	-	-
-	-	Saudi Arabia	1	1
-	-	Serbia	1	1
1	1	Slovakia	4	4
1	1	Slovenia	2	-
2	2	Spain	7	5
1	1	Sri Lanka	-	-
-	-	St Vincent & Grenadines	1	1
-	-	Sweden	4	4
7	6	Switzerland	12	10
3	3	Syria	-	-
-	-	Tunisia	2	2
2	2	Turkey	6	3
-	-	U.A.E	12	11
-	-	Ukraine	2	1
12	12	United Kingdom	28	17
-	-	Uruguay	2	-
8	8	USA	9	5
-	-	Venezuela	2	2
185	175	TOTAL	270	207

APPENDIX CONTINUED



Spontaneous intelligence reports (2017) by country

Spontaneous Intelligence reports received by the FIAU	Jurisdiction	Spontaneous Intelligence reports sent by the FIAU
1	Albania	-
-	Armenia	1
-	Australia	2
-	Austria	7
-	Bahrain	1
-	Belarus	1
-	Belgium	1
-	Belize	1
-	Brazil	2
-	British Virgin Islands	5
-	Bulgaria	2
-	Cameroon	1
-	Canada	6
-	Curacao	1
2	Cyprus	2
3	Czech Republic	4
1	Denmark	2
-	Egypt	1
-	Finland	2
1	France	5
-	Georgia	1
1	Germany	17
-	Gibraltar	2
-	Greece	4
2	Guernsey	-
1	Holy See	-
-	Hong Kong	6
1	Hungary	6
1	Iceland	-
-	India	2
-	Ireland	3
10	Isle of Man	-
-	Israel	2
1	Italy	14
-	Ivory Coast	1
9	Jersey	-
-	Latvia	2
1	Lebanon	3



APPENDIX CONTINUED

Spontaneous intelligence reports (2017) by country

Spontaneous Intelligence reports received by the FIAU	Jurisdiction	Spontaneous Intelligence reports sent by the FIAU
-	Liechtenstein	2
1	Lithuania	-
104	Luxembourg	2
1	Macedonia	-
-	Mauritius	3
-	Mexico	1
-	Monaco	1
1	Netherlands	27
-	New Zealand	1
-	Norway	11
-	Panama	1
-	Peru	2
-	Poland	6
-	Portugal	1
1	Romania	4
1	Russia	8
-	S.Korea	1
-	Saint Kitts and Nevis	2
-	Saudi Arabia	1
-	Serbia	1
-	Seychelles	1
-	Singapore	1
-	Slovakia	4
2	Slovenia	2
-	South Africa	1
-	Spain	4
-	Sri Lanka	1
-	St Vincent & Grenadines	1
1	Sweden	21
-	Switzerland	5
-	Togo	5
-	Turkey	3
-	U.A.E	3
-	Ukraine	2
20	United Kingdom	30
2	USA	8
169	TOTAL	277



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