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Unità di Informazione Finanziaria per l'Italia

# Annual Report Financial Intelligence Unit

Rome, May 2014

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Financial Intelligence Unit

# Annual Report 2013

Rome, May 2014



The Financial Intelligence Unit (FIU) for Italy is the central national body charged with combating money laundering and the financing of terrorism. It was set up at the Bank of Italy pursuant to Legislative Decree 231/2007, in compliance with the international rules and standards requiring each country to institute its own FIU, independently run and operating autonomously.

The FIU collects information on potential cases of money laundering and financing of terrorism mainly in the form of reports of suspicious operations filed by financial intermediaries, professionals and other operators. It conducts a financial analysis of this data with the sources and powers assigned to it, and assesses the results with a view to transmitting them to the competent investigative and judicial authorities for further action.

The regulations require supervisory authorities, government departments and professional bodies to provide information to the FIU. The Unit works closely with the investigative and judicial authorities to identify and analyse anomalous financial flows. It is a member of the global network of FIUs that share the information needed to tackle cross-border money laundering and financing of terrorism.

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## 1. LEGISLATIVE FRAMEWORK

### 1.1 Proposal for a fourth AML Directive

On 5 February 2013, following a broad consultation among all the parties concerned, the European Commission presented a proposal for a fourth directive on the prevention of the use of the financial system for the purpose of money laundering and financing of terrorism. The new directive will completely replace the existing Directive 2005/60/EC (Third Directive) and take into account the Recommendations issued by the FATF in February 2012.

The work was then continued by a group formed within the European Council and by the competent committees of the European Parliament, which made several changes to the proposal.

The Financial Intelligence Unit for Italy (FIU) took part in both the European Council group of experts and the network of Financial Intelligence Units (the EU FIUs Platform), which has carried out further studies and drawn up proposals on relevant aspects.

As the Italian FIU has emphasized throughout the process, the proposed directive contains several provisions that are less detailed than the corresponding FATF Recommendations and does not aspire to achieve close harmonization. Partly because there are no European mechanisms for coordinated implementation of the directive, this approach leaves open the possibility of divergences between the national implementing laws, allowing scope for regulatory arbitrage and evasion. Ultimately, this will jeopardize the overall effectiveness of the system and impede fair competition between operators in the single member states.

These risks can be mitigated in specific areas and as regards technical aspects by assigning the task of establishing rules and practices jointly to the European supervisory authorities<sup>1</sup> and the EU FIUs Platform. The latter's role was acknowledged in the course of the preparatory work, partly owing to the suggestions put forward by the Italian FIU.

There is no difference in the notion of money laundering, in terms of conduct, in the proposal compared with the current directive, which already complies with international standards. One major novelty, based on FATF's Recommendations, is the explicit inclusion of tax crimes among the serious crimes that are considered predicate offences to money laundering, with a minimum threshold for punishable offences. Enlarging the list of predicate offences may enhance cooperation among the European FIUs. For full cooperation, however, the exchange of information should take place regardless of whether criminal acts are involved. These points are still under discussion.

Another step forward was the Commission's announcement in 2013 that it would be drafting a legislative proposal for a common definition of the criminal offence of money laundering applicable across the EU. This will include the definition of the criminal

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<sup>1</sup>European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Market Authority (ESMA).

conduct (including self-laundering) and the harmonization of predicate offences and penalties.

The proposal for the fourth AML Directive is clearer on the matter of the risk-sensitive approach already adopted in the Third Directive. Each member state is required to make an assessment of the risks of money laundering and financing of terrorism to which it is exposed in order to mitigate them through regulations and controls. A supranational system of risk assessment is also envisaged to identify the risks at the European level and provide a point of reference for national risk assessments. The European supervisory authorities and the EU FIUs Platform will contribute to the EU-wide risk assessment.

A risk assessment must also be performed by the institutions and persons subject to AML requirements (obliged entities) in order to decide what form the preventive measures required by law should take.

The proposal focuses closely on the procedures and controls involved when intermediaries and other operators conduct customer due diligence (CDD). It defines more precisely the 'beneficial owner' of firms and entities. It envisages specific instruments to ensure transparency of the ownership structure and beneficial ownership of firms and trusts; it also requires up-to-date information on the beneficial owner to be kept and made available to the authorities and the entities conducting the CDD.

In line with the standards laid down by the FATF, the proposed directive maintains a central role for the FIUs in preventing money laundering and the financing of terrorism, increases their autonomy and independence, and details their tasks and powers. The FIUs thus collect and analyse reports of suspicious transactions and other relevant information, notify the law enforcement and judicial authorities of the results of their analyses and gather additional information from obliged entities.

When cooperating at international level, the FIUs must collect and share the information requested using the same powers available domestically. For the first time, and with the support of the FIU for Italy, the EU FIUs Platform is recognized as the appropriate structure to draw up guidelines on the application of the rules of the directive, the coordination of cooperation efforts, and the conduct of joint analyses of cases of mutual interest.

Following the Commission's advisory opinions, on 11 March 2014 the European Parliament approved, at the first reading, the text of the fourth directive with some amendments. The Council will approve the text drafted by its committees. The two texts will then be amalgamated following the appropriate procedures in which the EU Parliament, the Council and the Commission are involved.

## 1.2 National legislation

### 1.2.1 Primary legislation

In 2013 no amendments were made to primary legislation on combating money laundering.

A series of studies and drafting exercises were carried out as part of several government initiatives aimed at making self-laundering a criminal offence under Italian law.

#### Studies on self-laundering – Proposed amendments to Legislative Decree 231/2007

In the Italian Penal Code the offences envisaged in Article 648-bis (money laundering) and 648-ter (use of money, assets or benefits of illegal provenance) preclude the punishment of self-laundering, i.e. laundering by the person who committed or participated in the commission of the offence that produced the money, assets or benefits (predicate offence). In fact, the use and concealment of criminal proceeds by the author of or accomplice in the predicate offence is deemed to be a non-punishable post factum (an event occurring after the fact).

This approach does not affect the system of preventive measures, which is based, in accordance with Legislative Decree 231/2007, on a broad concept of money laundering that includes self-laundering.

However, the fact that self-laundering is not a punishable criminal offence makes it harder to punish money laundering, with repercussions on the overall effectiveness of measures to combat that activity. It is not easy to demonstrate that the money launderer did not participate in the commission of the predicate offence and, moreover, it may be to the advantage of the person charged with money laundering to plead complicity in the predicate offence as this generally carries a shorter sentence than the offence of money laundering.

This situation, in which self-laundering is not a criminal offence, is unparalleled in the legislation of the other leading countries.

Following government-sponsored studies of the issue of self-laundering a number of legislative proposals have been put forward.

The Ministry of Justice working party on self-laundering coordinated by Mr Francesco Greco, of which the Italian FIU was part,<sup>2</sup> proposed redefining the criminal offence of money laundering to include instances of self-laundering and merging the offences of money laundering and use of proceeds. The new offence would be included in the category of crimes against the economic and financial system and would be punishable according to the predicate offence and specific mitigating or aggravating circumstances.

Several proposals for amendments to the provisions of Articles 648-bis and 648-ter of the Penal Code have been put forward by the Ministry of Justice committee, chaired by Professor Giovanni Fiandaca, charged with drafting measures relating to organized crime,

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<sup>2</sup> The group was set up by decree of the Minister of Justice of 8 January 2013. It comprised – in addition to Mr Francesco Greco (Assistant Public Prosecutor with the Court of Milan) and the Head of the FIU for Italy, Mr Claudio Clemente – General Giuseppe Bottillo, commander of the Special Foreign Exchange Unit of the Finance Police (Guardia di Finanza), Professor Angelo Carmona, Mr Gianfranco Donadio from the Bureau of Antimafia Investigation and Mr Antonio Martino of the Revenue Agency.

and by the committee, headed by Mr Roberto Garofoli, set up by the Presidency of the Council of Ministers to draw up proposals to combat crime, including by freezing assets.

On the basis of their findings the two committees proposed introducing the offence of self-laundering following different legal approaches, keeping the distinction between the two offences as envisaged in the existing penal code.

Lately, several proposals to introduce self-laundering as part of a broader legislative overhaul have been examined. One such proposal was put forward very recently by the Ministry of Justice in connection with the bill now before the Senate containing ‘provisions concerning corruption, money laundering and falsification of accounts’.

The findings of the working party and of the committee chaired by Mr Garofoli include proposals for some major reforms to the legislative and organisational system designed to strengthen the tools used to prevent money laundering. The suggestions include increasing the sources of information available to the FIU; establishing regular information exchanges and cooperation with law enforcement agencies and judicial authorities, exercising closer control over professionals’ and non-financial operators’ compliance with requirements; and reviewing the system of criminal and administrative sanctions to reflect the nature and seriousness of the offences and ensure they are proportionate, effective and dissuasive.

The Italian FIU has repeatedly called for a review of primary legislation to bring it more into line with the FATF’s Recommendations and improve the effectiveness of preventive measures.

The 2013 law for the implementation of diverse EU Directives (so-called “European law”)<sup>3</sup> introduced a new system to monitor for tax purposes all transfers to and from abroad through banks and financial intermediaries; it will make use of typical anti-money-laundering tools regulated by Legislative Decree 231/2007. The Revenue Agency’s central office for combating international tax crimes (UCIFI) and the Finance Police can require financial intermediaries to produce records of operations registered in the Single Electronic Archive (AUI) and all entities required to perform customer due diligence to reveal the identity of beneficial owners engaging in foreign transactions and the associated business relationships.

### 1.2.2 Secondary legislation

Some major changes took place during the year in the field of secondary legislation, including the publication of provisions and consultation documents relating to anti-money-laundering requirements.

**The White List** On 1 February 2013 the Ministry for the Economy and Finance issued a decree updating the list of non-EU countries considered to have equivalent controls on money laundering to those imposed by the Third AML Directive. The Russian Federation was excluded from the list, with the chief consequence that obliged entities cannot apply simplified customer due diligence measures when dealing with banking and financial institutions located there.

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<sup>3</sup> Law 97/2013.

During 2013 the supervisory authorities drew up a series of regulations concerning customer due diligence measures. They implement the provisions of Legislative Decree 231/2007, which are based on the principle that it is essential to know the identity of the customer and beneficial owner and the nature and purpose of the business relationship and the service provided, and to monitor these profiles continuously, in order to correctly identify suspicious transactions.

On 3 April 2013 the Bank of Italy, in agreement with Consob and Ivass, issued a set of instructions for banking and financial intermediaries, which came into force on 1 January 2014. The instructions make a distinction between ordinary customer due diligence measures, simplified measures and enhanced measures based on the assessment of the risk of money laundering and financing of terrorism. They contain a non-exhaustive list of the criteria further identifying both the subjective elements (customer and activity) and the objective elements (location, type of business relationship, nature of transaction) considered in anti-money-laundering regulations. These criteria also apply to the beneficial owner and the executor, both of which are more clearly identified.

To be eligible for simplified customer due diligence measures obliged entities must nonetheless obtain sufficient information to verify that the risks are low. Enhanced measures must be taken in the specific cases indicated or in general whenever the risk of money laundering or financing of terrorism is greater.

In accordance with the Bank of Italy's instructions, at the beginning of 2014 Consob issued provisions concerning customer due diligence by auditors and auditing companies employed by entities of public interest.<sup>4</sup> Consob also issued clarifications to the effect that financial brokers can comply with customer due diligence requirements by applying the measures and following the rules and procedures of the financial intermediary employing them.<sup>5</sup>

In 2013 Ivass launched a public consultation on provisions relating to registration and customer due diligence measures for insurance companies and brokers. The regulation proposal is also based on the proportionality principle, according to which customer due diligence measures must reflect the degree and breadth of the risks of money laundering and financing of terrorism. The entities and persons subject to the provisions implement them according to the type, volume and structure of their business.

On 22 May 2014 the Financial Security Committee took note of the guidelines drawn up by the National Council of Notaries for the application of customer due diligence measures by notaries. The guidelines, which were the outcome of discussions with the authorities concerned, including the FIU, contain instructions for customer profiling and set out the obligations of notaries with a view to enhancing the risk based approach and simplifying formalities.

On 3 April 2013 the Bank of Italy, in agreement with Consob and Ivass and having heard the FIU, issued an Order containing new provisions on the upkeep of the AUI. Intermediaries and auditing companies must follow standard procedures for recording all the data acquired in the course of customer due diligence and the data relating to transactions carried out. The Bank of Italy's new measures, which came into force on 1

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<sup>4</sup> Decision 18802 of 18 February 2014.

<sup>5</sup> Decision 18731 of 18 December 2013, which came into force on 1 January 2014.

January 2014, provide a clearer definition of the terms ‘customer’, ‘executor’ and ‘beneficial owner’ and review the rules on registering business relationships and transactions in compliance with the instructions on customer due diligence.

Transmiss-  
ion of  
aggregate  
data

Banking and financial intermediaries use the AUI data to prepare aggregate statistics for transmission to the Italian FIU (S.A.R.A. data<sup>6</sup>). On 23 December 2013 the Unit introduced new measures on the transmission of these data to incorporate the new regulations on the AUI and the innovations introduced with the financial intermediation reforms.

Obligations  
to refrain  
and return

Some of the measures introduced by the Ministry and the FIU implement the obligations to refrain and return contained in Article 23 of Legislative Decree 231/2007, amended by Legislative Decree 269/2012. Under this provision, if institutions or persons subject to anti-money-laundering regulations are unable to comply fully with customer due diligence requirements, they may not enter into or maintain a continuous business relationship or engage in transactions with or provide professional services to the customer. Any assets of the customer held by the obliged entity must be re-credited to a bank account indicated by the customer, specifying that the sums are returned owing to the inability to carry out customer due diligence.

The Ministry for the Economy and Finance issued a Circular Order on 30 July 2013 clarifying the procedure to be followed when returning funds and the cases in which it applies. The Order details the notices to be sent to the customer if due diligence cannot be performed and the type of account to which the funds may be credited. Moreover, the obliged entity must keep the information on transfers made to return funds and allow the FIU access to it.

The nature of the information required is specified by the FIU in an Order issued on 6 August 2013. On 10 March 2014 the FIU issued instructions on how obliged entities should give notice of restitutions of funds using the same network set up for other reports. The data collection system recently became operational when the FIU received the first notifications of this type.

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<sup>6</sup> See § 5.2.

## 2. ACTIVE COOPERATION

Under anti-money-laundering legislation, financial intermediaries, professionals and other qualified operators must work together in the interests of a rapid identification and reporting of potential money laundering and financing of terrorism.

The FIU is charged with making a financial analysis of suspicious transaction reports (STRs) and transmitting the results to the investigative authorities, the Special Foreign Exchange Unit of the Finance Police and the Bureau of Antimafia Investigation, for further enquiries.

### 2.1 Suspicious transaction reports received by the FIU

In 2013 the FIU received 64,601 reports, a reduction of 3.6% on 2012, equal to about 2,500 reports (Table 2.1).<sup>7</sup>

Data and trends

Table 2.1

	Reports received				2013
	2009	2010	2011	2012	
Number	21,066	37,321	49,075	67,047	64,601
Percentage change	44.3	77.2	31.5	36.6	- 3.6

However, this result does not alter the long-term upward trend that set in after the anti-money-laundering reforms of 2007, peaking in 2012 with a total of 67,047 STRs. In the first four months of 2014 the number of reports rose sharply compared with a year earlier (about 26,000 reports, an increase of 25.1%).

A breakdown of STRs by type of reporting entity shows that the reduction in the total number of reports in 2013 was mainly confined to banks and Poste Italiane SpA. While this category continues to account for the largest share of reports (83.2% of the total), in number they declined by almost 5,000 (-8.8%; Table 2.2).

Breakdown of STRs by reporting entity

<sup>7</sup> Detailed information on STRs can be found in Quaderni dell'antiriciclaggio, in the series Dati statistici published on the FIU website at <https://uif.bancaditalia.it/pubblicazioni/quaderni/index.html>

Table 2.2

	STRs by type of reporting entity				
	2012		2013		(% change on 2012)
	(number)	(% share)	(number)	(% share)	
Total	67,047	100.0	64,601	100.0	- 3.6
Banks and Poste Italiane S.p.A.	58,929	87.9	53,745	83.2	- 8.8
Financial intermediaries excl. banks and Poste Italiane S.p.A. <sup>8</sup>	5,748	8.5	8,020	12.4	39.5
Professionals	1,988	3.0	1,985	3.1	- 0.2
Non-financial intermediaries	382	0.6	851	1.3	122.8

The drop in the number of reports from banks and Poste Italiane S.p.A. was only partly offset by a rise in those filed by other categories of reporting entities (Table 2.2), such as other financial intermediaries, which accounted for 12.4%, up 40% in number compared with the previous year. Most of this increase came from payment institutions and intermediaries on the lists instituted under Articles 106 and 107 of the 1993 Banking Law<sup>9</sup> and e-money institutions (Table 2.3). Detailed figures for the first two categories show that the increase was concentrated among a very small number of reporting entities, chiefly payment institutions dealing in money transfers.<sup>10</sup> The particularly large percentage increase among e-money institutions was also due to the FIU's efforts to raise awareness, not least by conducting inspections.

<sup>8</sup> This category includes the entities listed in Articles 11.1 – except a) and b) – 11.2 and 11.3 and in Article 10.2(a), (b), (c) and (d) of Legislative Decree 231/2007.

<sup>9</sup> Legislative Decree 385/1993.

<sup>10</sup> Reports from this category increased even though many entities had moved their headquarters abroad and were therefore no longer required to report (except those with a 'contact point' in Italy).

Table 2.3

	STRs by category of financial intermediary				(% change on 2012)
	2012		2013		
	(number)	(% share)	(number)	(% share)	
Financial intermediaries	64,677	100.0	61,765	100.0	- 4.5
Banks and Poste Italiane S.p.A.	58,929	91.1	53,745	87.0	- 8.8
Financial intermediaries per Arts 106 & 107 L.D. 385/1993, payment institutions	3,739	5.8	5,645	9.2	51.0
Insurance companies	369	0.6	602	1.0	63.1
E-money institutions	535	0.8	1,304	2.1	143.7
Trust companies – Law 1966/1939	270	0.4	263	0.4	- 2.6
Asset management companies & OIECs	158	0.2	134	0.2	- 15.2
EU and non-EU investment firms	36	0.1	45	0.1	25.0
Other financial intermediaries <sup>11</sup>	641	1.0	27	0.0	- 95.8

There was no change in the number of reports filed by professionals,<sup>12</sup> about 92% of which were notaries (Table 2.4). The National Council of Notaries played a major role as go-between for the transmission – in accordance with anti-money-laundering legislation – of virtually all the reports filed by notaries (99%). On 1 March 2013 the changeover to a procedure compatible with the RADAR (anti-money-laundering data collection and analysis) system was completed following an interim period when both old and new methods were operational.

The number of reports filed by non-financial intermediaries<sup>13</sup> increased from 382 to 851, with a particularly sharp jump in percentage terms. About 91% of these reports were filed by gaming and betting companies.

The sharp rise in total reports filed in the early months of 2014 was mainly ascribable to banks and Poste Italiane S.p.A., other financial intermediaries, and professionals, especially notaries.

<sup>11</sup> The category includes the other entities listed at Articles 10.2(a), (b), (c), (d), (f) and 11.1, 11.2 and 11.3 of Legislative Decree 231/2007.

<sup>12</sup> This category includes persons and entities listed at Articles 12.1 and 13.1 of Legislative Decree 231/2007.

<sup>13</sup> This category includes persons and entities listed at Articles 10.2(e), (f), (g) and 14.1 of Legislative Decree 231/2007.

Table 2.4

Reports received by category of professionals and non-financial intermediaries					
	2012		2013		(% change on 2012)
	(number)	(% share)	(number)	(% share)	
Professionals	1,988	100.0	1,985	100.0	- 0.2
Notaries and National Council of Notaries	1,876	94.4	1,824	91.9	- 2.8
Accountants, bookkeepers, employment consultants	90	4.5	98	4.9	8.9
Law firms, law and accounting firms and law partnerships	10	0.5	21	1.1	110.0
Lawyers	4	0.2	14	0.7	250.0
Auditing firms, registered auditors	5	0.3	10	0.5	100.0
Other professional service providers <sup>14</sup>	3	0.1	18	0.9	500.0
Non-financial operators	382	100.0	851	100.0	122.8
Gaming and betting firms	283	74.1	774	91.0	173.5
Gold traders and manufacturers and retailers of precious stones and metals	54	14.1	26	3.0	- 51.9
Other non-financial operators <sup>15</sup>	45	11.8	51	6.0	13.3

#### New reporting entities

The entities registered to file reports via the RADAR system – currently numbering 3,300 – increased by 487 during 2013, for the most part professionals. This is a positive sign that the preventive measures are making their mark, although so far there has been no rise in the actual number of reports.

Despite the enormous progress made in recent years, some major problems of cooperation remain. First, a remarkably small number of STRs are filed by non-financial operators and professionals other than notaries, which to date account for just 1.6% of all reports received by the FIU.

#### General government entities

General government departments and entities are not really participating in the reporting system, depriving it of a potentially significant contribution.

<sup>14</sup> This category includes persons and entities listed at Articles 12.1 and 13.1 of Legislative Decree 231/2007.

<sup>15</sup> This category includes persons and entities listed at Articles 10.2(e), (f), (g) and 14.1 of Legislative Decree 231/2007.

In order to raise awareness within the public sector the FIU has entered into contact with Italy’s anti-corruption authorities (CIVIT, subsequently re-named the National Anti-corruption Authority, ANAC) to find ways of involving the public administration in anti-money-laundering measures and encouraging the adoption of best practices. Work is under way with the Ministry of the Interior to draw up anomaly indicators for the various general government departments.

Contacts with the Milan town authorities have proved fruitful, resulting in the creation of an internal anti-money-laundering function, and with the association of municipal authorities of Lombardy, which intends to promote initiatives among its associates.

## 2.2. Suspicious transactions

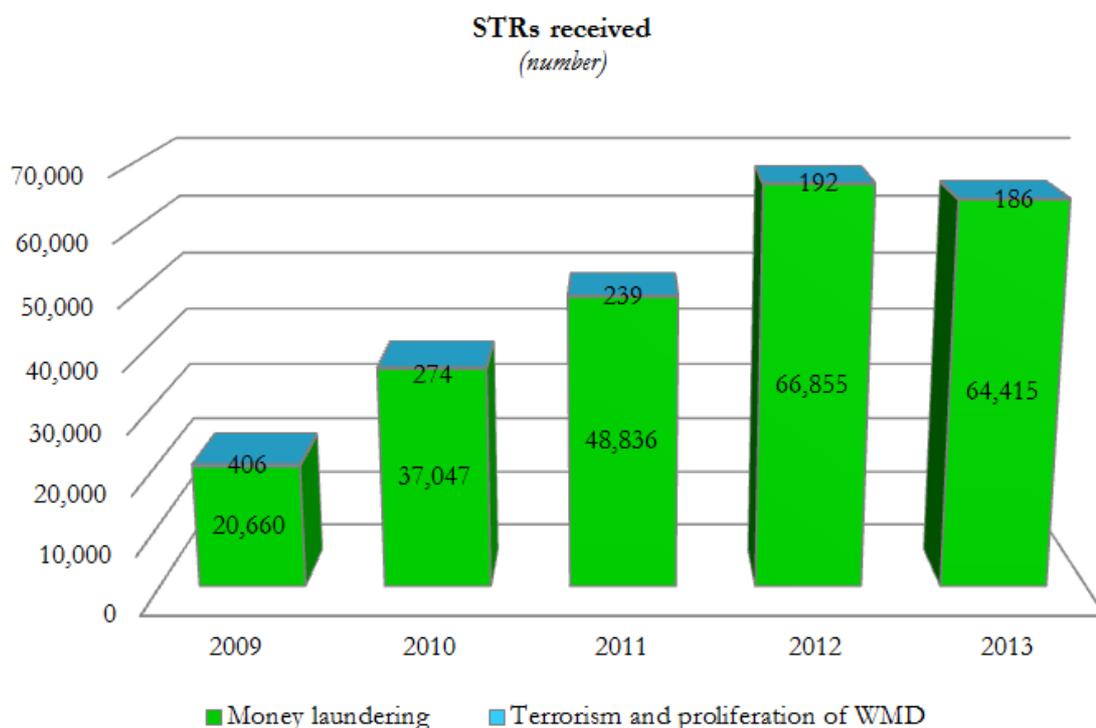
About 99.7% of STRs received in 2013 related to suspected money laundering. The number of reports of suspected financing of terrorism or proliferation of WMD was extremely small (respectively 131 and 55 reports; Table 2.5 and Figure 2.1).

Breakdown  
of STRs by  
category

Table 2.5

Distribution of STRs by category					
	2009	2010	2011	2012	2013
	(number)				
Total	21,066	37,321	49,075	67,047	64,601
Money laundering	20,660	37,047	48,836	66,855	64,415
Financing of terrorism	366	222	205	171	131
Financing of proliferation of WMD	40	52	34	21	55

Figure 2.1



Geographical location

As in previous years, Lombardy was the region that sent in the largest number of reports (11,575, equal to 17.9% of the total), followed by Lazio (9,188 and 14.2%) and Campania (7,174 and 11.1%)<sup>16</sup> (Table 2.6 and Figure 2.2).

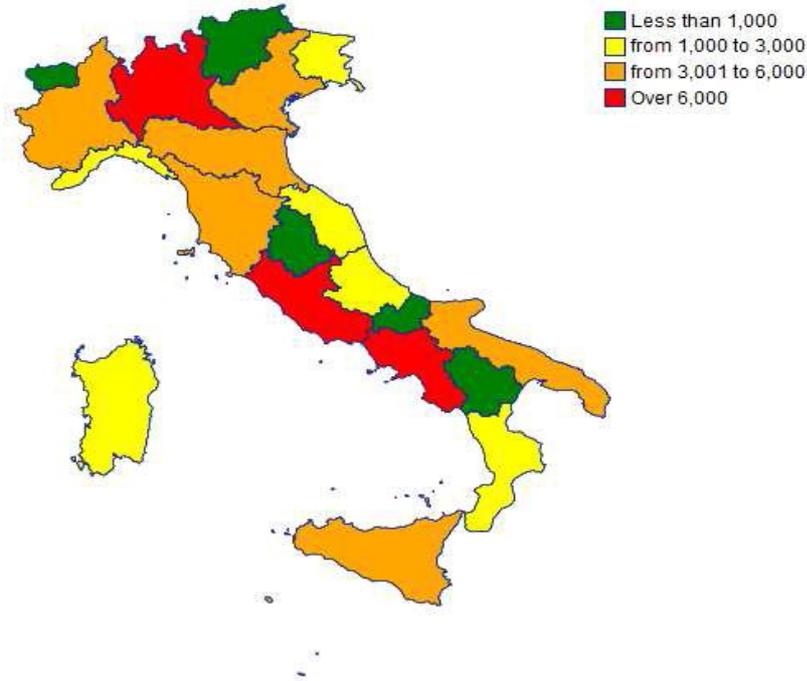
Although the three regions account for 43.2% of all reports, their percentage share dropped by 1.3 points with respect to 2012. There was an increase instead in the share of other regions – Basilicata, Calabria, Molise, Puglia and Friuli Venezia Giulia – which recorded a sharp rise in the number of reports.

<sup>16</sup> Because reporting entities can indicate more than one suspicious transaction in each report, the source of the report is conventionally assumed to be the same as the place of the request/execution of the first transaction.

Table 2.6

Distribution of STRs by region where transaction occurred					
	2012		2013		
	(number)	(% share)	(number)	(% share)	(% change on 2012)
Lombardy	12,396	18.5	11,575	17.9	-6.6
Lazio	9,801	14.6	9,188	14.2	-6.3
Campania	7,633	11.4	7,174	11.1	-6.0
Veneto	4,674	7.0	4,959	7.7	6.1
Emilia-Romagna	5,267	7.9	4,947	7.7	-6.1
Tuscany	4,415	6.6	3,956	6.1	-10.4
Puglia	3,116	4.6	3,800	5.9	22.0
Piedmont	4,973	7.4	3,577	5.5	-28.1
Sicily	3,017	4.5	3,215	5.0	6.6
Marche	2,692	4.0	2,348	3.6	-12.8
Calabria	1,745	2.6	1,969	3.0	12.8
Liguria	1,597	2.4	1,761	2.7	10.3
Sardinia	1,254	1.9	1,182	1.8	-5.7
Abruzzo	1,238	1.8	1,085	1.7	-12.4
Friuli-Venezia Giulia	885	1.3	1,020	1.6	15.3
Basilicata	369	0.6	626	1.0	69.6
Trentino-Alto Adige	588	0.9	613	0.9	4.3
Umbria	515	0.8	514	0.8	-0.2
Molise	189	0.3	350	0.5	85.2
Valle D'Aosta	187	0.3	112	0.2	-40.1
Abroad	496	0.7	630	1.0	27.0
<b>Total</b>	<b>67,047</b>	<b>100.0</b>	<b>64,601</b>	<b>100.0</b>	<b>-3.6</b>

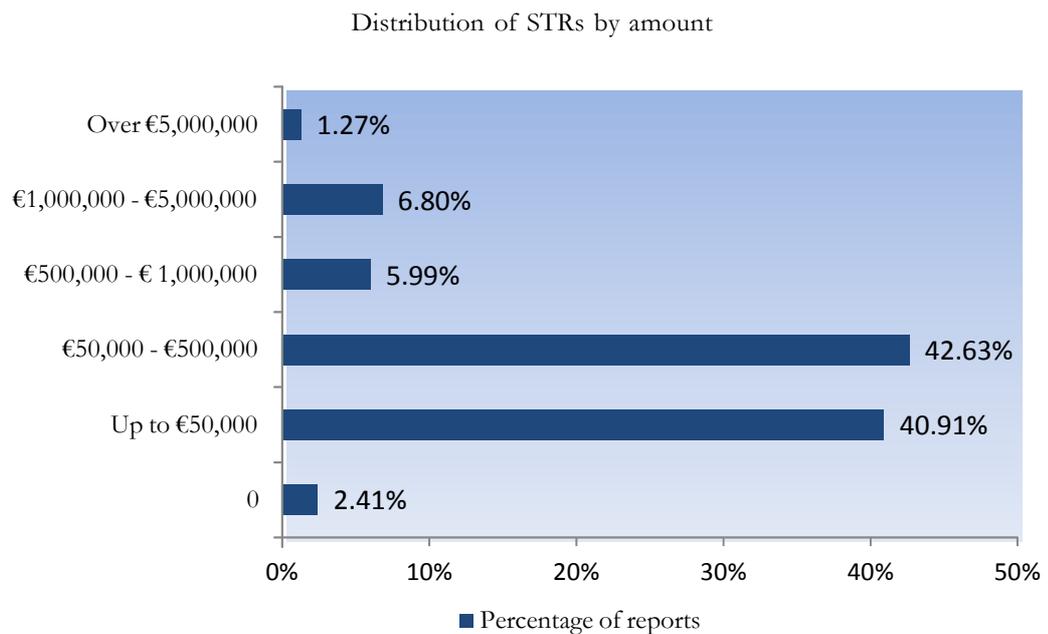
Figure 2.2



Amounts reported

The total value of suspicious transactions reported to the FIU in 2013 was about €84 billion, compared with €77 billion in 2012.<sup>17</sup> More than 27,000 STRs received by the FIU during the year (43.3% of the total) concerned amounts of less than €50,000 (Figure 2.3). Reports for amounts over €500,000 accounted for 14.1% of the total.

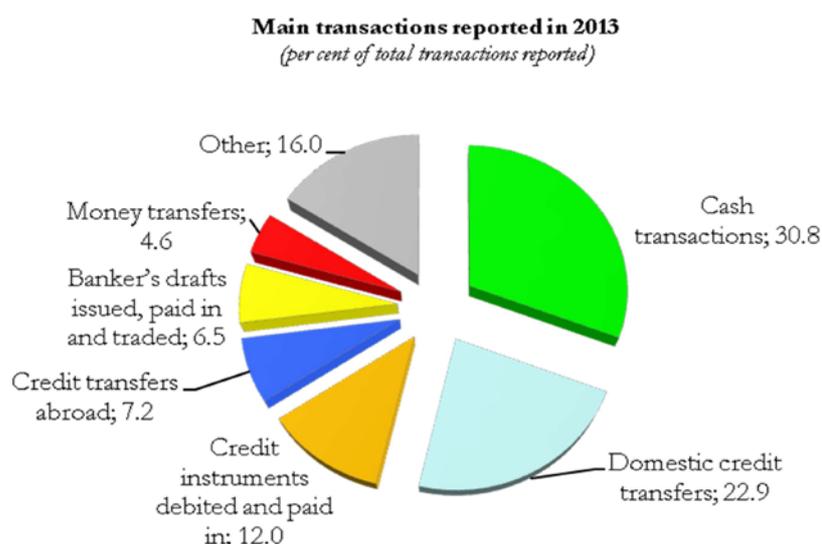
Figure 2.3



<sup>17</sup> The figure is estimated on the basis of the amounts stated by the reporting entities.

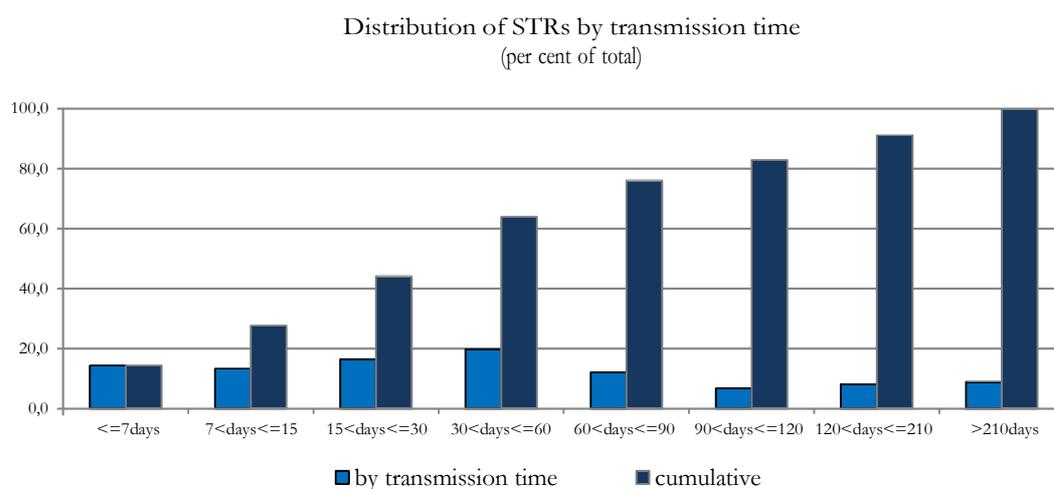
There were no major changes in the types of transaction reported compared with previous years. A total of 183,632 STRs were received in 2013,<sup>18</sup> of which 56,496 were cash transactions (30.8% of the total) and 55,309 credit transfers (30.1%; Figure 2.4).

Figure 2.4



The transmission times for STRs have continued to diminish. In 2013, 44% of reports were made within a month of the suspicious transactions taking place and 65% were received within two months (Figure 2.5). A significant percentage of STRs are still filed more than seven months after the date of execution (9% of reports filed in 2013).

Figure 2.5



<sup>18</sup> There is no limit on the number of suspicious transactions that can be reported on the form. However, the reporting entity may simplify the task by reporting only the most important transactions.

Late transmission by some types of reporting entities

The overall improvement in transmission times was largely due to the efforts of banks. The length of time some categories of reporting entities take to identify and report suspicious transactions continues to be a source of concern. Non-financial companies filed only 42.6% of report within three months of the date of the transaction. The category of professionals performed better, filing 85.2% of reports within the same time frame.

However, the time lag between the transaction date and the filing of the STR is not always an indication of delay or negligence. Sometimes, suspicion is aroused by elements that only come to light after the transaction has been completed or following internal checks.

In recent years there has been a significant improvement in the quality of the information contained in the STRs, in terms of both completeness and clarity, partly thanks to the introduction of the RADAR system in 2011.

Problems

Failure to comply with instructions for filling in the STRs

Some problems remain, however. A percentage of reports continue to be filed for precautionary reasons, relating to transactions that are unlikely to involve money laundering even though they have anomalous aspects. Reports that do not fully comply with the reporting rules are also not uncommon (omission of important information, failure to observe structured data fields correctly with adverse effects on later phases of processing).

The FIU provides the reporting entities with considerable support, not only for registering with the portal, but also for compiling and filing reports and interpreting messaging errors and discards. A dedicated e-mail address is available for this purpose.<sup>19</sup> The FAQs are listed on the portal and on the FIU website.

In 2012 the FIU began to hold meetings with leading banks and financial intermediaries to discuss the most common faults or inaccuracies encountered during both aggregate and sample analyses of the reports. It is hoped by this means to standardize compilation of the STR form and improve the quality of the reports.

### Meetings with reporting entities

The meetings offer an important opportunity to exchange information.

The reporting entities invited to take part were chosen on the basis of the frequency and repetitiveness of the problems encountered and the volume of STRs filed. The seven entities selected accounted for about a third of all reports received.

The first point to be discussed was transmission time, as in many cases the delays did not seem to be due either to the detection time by the automatic systems or to the unexpected availability of new information (requests by the judicial or investigative authorities, news releases, etc.).

The compilation of the STRs was also examined, especially the correct use of structured data fields (customers, transactions, business relationships) because when these items are only entered in the descriptive sections automatic data matching is not possible.

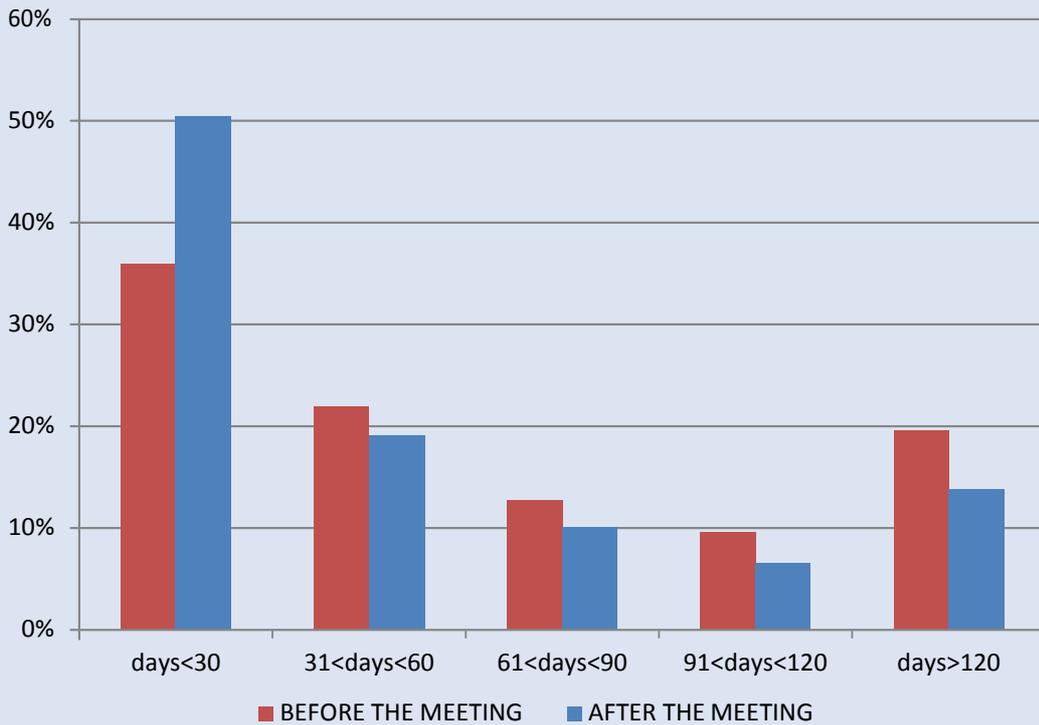
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<sup>19</sup> [uif.helpsos@bancaditalia.it](mailto:uif.helpsos@bancaditalia.it).

The outcome of the meetings was assessed by monitoring subsequent STRs. There was an improvement in the use of structured data fields and a large increase in the number of more complete and better organized reports. In terms of transmission times, STRs filed within 30 days of the last transmission listed as suspicious rose by 15 percentage points (Figure 2.6).

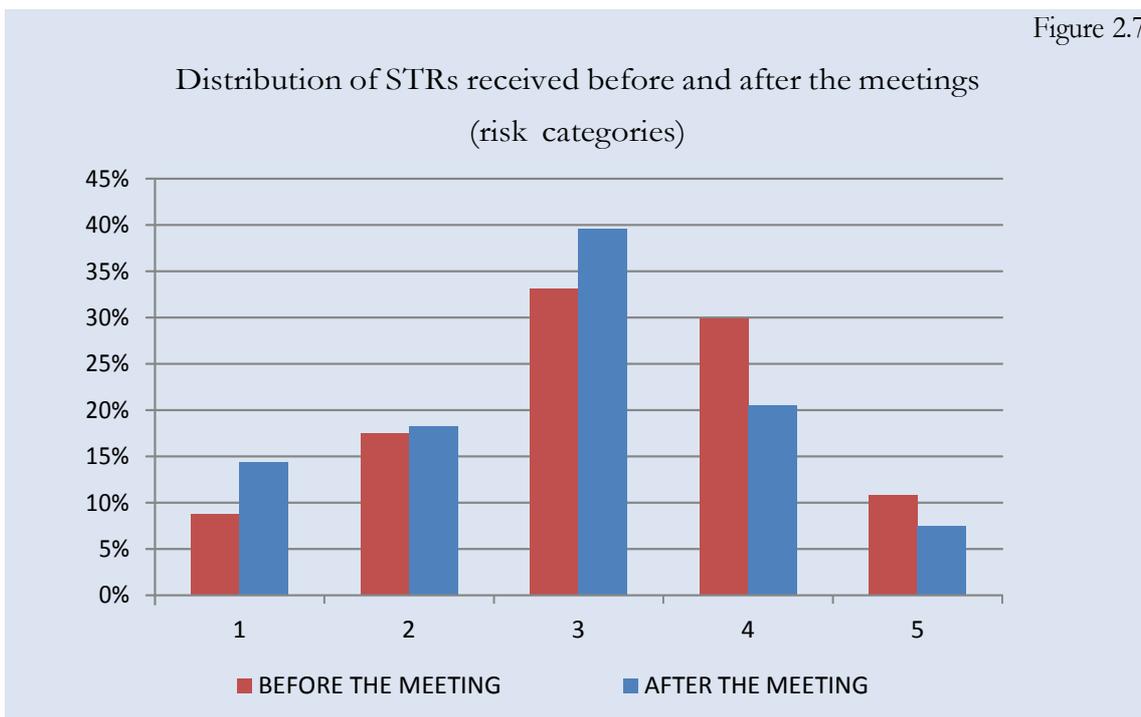
Figure 2.6

Distribution of STRs received before and after the meetings  
(transmission times)



During the meetings the importance of the reporting entity's risk assessment was also emphasized as in several cases it appeared to be overestimated. Once again the reaction was positive and a more balanced use of the risk categories ensued.

Figure 2.7



The FIU plans to send the largest reporting entities periodical feedback containing indicators of the main aspects of their reporting activity (number of reports, transmission times, structuring of the main report data fields, risk assessment). This feedback will be in addition to the information provided in accordance with Article 48 of Legislative Decree 231/2007 on archived reports. A comparison of the indicators with the average for the same category of reporting entities will be useful for self-evaluation purposes and for introducing specific improvements.

### 3. OPERATIONAL ANALYSIS

The FIU conducts financial analysis of the suspicious transactions and transmits its findings to the Special Foreign Exchange Unit of the Finance Police and the Bureau of Antimafia Investigation for consequent action.

The analysis consists in a thorough examination of the transactions' financial aspects, to ascertain the origin and destination of the funds and identify possible unlawful purposes.

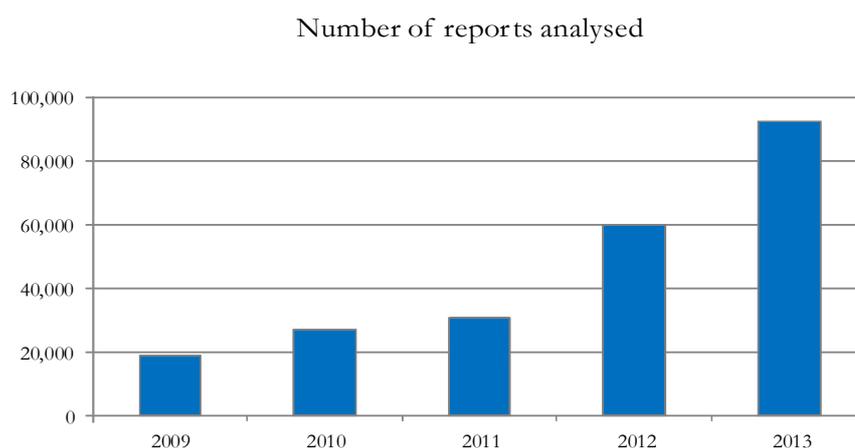
#### 3.1. The numbers

In 2013 the unit analysed 92,415 suspicious transaction reports (STRs) and forwarded them to the investigative bodies in electronic format. Compared with 2012, the number of reports increased by more than 32,000, or 53.8% (Table and Figure 3.1). Starting in early 2014 the reports have been transmitted via an electronic portal, permitting immediate sharing of the results of the analyses.

Table 3.1

Reports analysed by the FIU					
	2009	2010	2011	2012	2013
Number	18,838	26,963	30,596	60,078	92,415
Percentage change on previous year	40.7	43.1	13.5	96.4	53.8

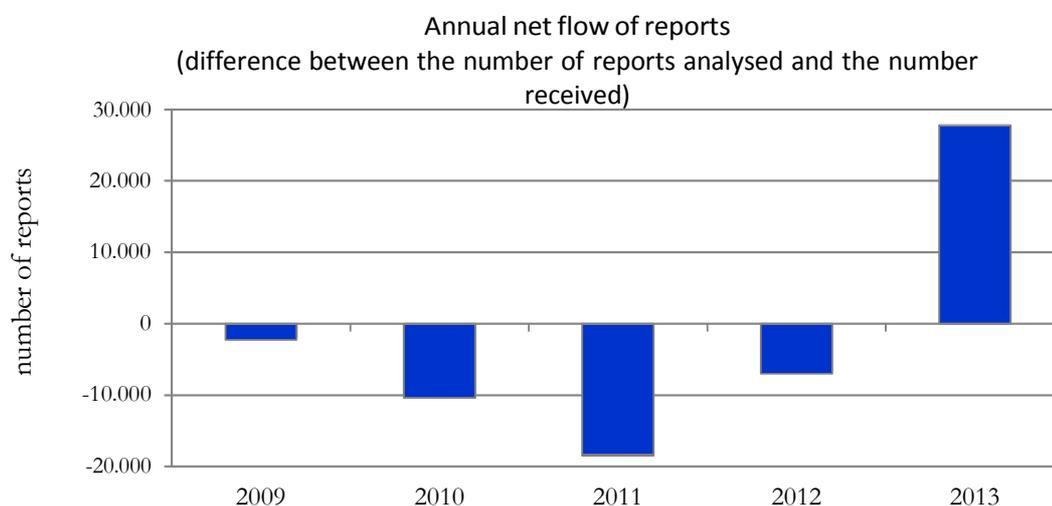
Figure 3.1



In 2013, for the first time, the Unit analysed more reports than it received. The significant reduction in the backlog was made possible by the revision of work processes in the last two years, increasing the use of information technology, and by the professional expertise of the Unit's staff. Progress in this direction was already discernable in 2012,

when the outgoing flow of reports analysed practically matched the number of reports received (Figure 3.2).

Figure 3.2



At end-2013 there was a backlog of some 12,000 to be processed, down by nearly 28,000 from a year earlier. The backlog continued to shrink in the first few months of 2014, despite the further increase in reports received, and by the end of April it was down to about 7,000, a level that can be considered normal in connection with a monthly inflow of about 6,500 reports.

### 3.2. The process of analysis

The hallmarks of reports processing are full use of the RADAR system’s potential and an approach closely calibrated to risk, in line with international principles.

Since the inception of the system, the examination of suspicious transactions has benefited from the greater quantity and exploitability of the data available to analysts and from the presence of a “platform” of support for the activities of analysis.

The reporting model allows a report to be enriched with information clarifying the reasons for suspicion, e.g. reference to financial transactions recorded in a longer span of time than that in which the specific suspicious transaction took place, and attached documents for assessment of the transaction’s anomaly. The greater quantity of data available has reduced the need for supplementary requests to the reporting entities, with beneficial effects on overall efficiency.

The computerization of reports handling has reduced not only processing time but also the work involved in acquiring reports and transmitting them to the competent bodies, allowing resources to be concentrated to a greater extent on the examination of suspicious transactions.

In addition to its impact on the process of reporting and analysis, the RADAR system generates a synthetic risk indicator – automatic rating – meeting the FATF’s international standards calling for a selective approach in the handling of suspicious

transaction reports.<sup>20</sup> It is an effective tool for initial assessment of the potential risk of the transactions reported to the FIU.

### 3.3. Risk assessment

Assessment of reported transactions' risk is accomplished through a multistage process involving both the reporting entity and all of the Unit's staff engaged in the different levels of processing and control.

The process starts out with the reporting entity's evaluation of the degree of money laundering risk entailed in the transaction, on a five-point scale. Although influenced by a number of factors connected with the characteristics of the reporting entity (internal organization, diagnostic ability, geographical extension), this assessment, by reasons of its qualitative connotations, is of considerable assistance in the financial analysis for which the FIU is responsible.

Risk class indicated by the reporting entity

The reporting entity's opinion figures alongside the Unit's assessment, which does not supersede it; it remains part of the record even after the Unit has transmitted the report to the investigative bodies.

As soon as the reports are entered into the RADAR system, they are cross-checked with the information in the Unit's database. The greater body of information thus available on each report makes it possible to conduct an initial, automatic rating of the risk, based on an algorithm that takes account of what experience has shown to be relevant factors for identifying money laundering.

Automatic rating

The variables selected include the existence of previous reports and the number of reporting entities, the amounts reported, transactions with counterparties or intermediaries located in "high-risk" jurisdictions, criminal proceedings against the persons reported, and information acquired from foreign financial intelligence units.

On the basis of these factors, the system assigns an automatic rating to each report on an increasing scale of one to five, which may tally with the assessment by the reporting entity but may also differ from it, in that the automatic rating derives from a different information set and is based on an algorithm that uses independent and mainly quantitative variables.

The rating so assigned determines handling priorities and represents an intermediate step with respect to the final rating, which the Unit's analysts assign to each suspicious transaction report at the end of its processing. The final rating summarizes the level of risk assigned to the transaction in the light of all available information and the analyst's overall evaluation.

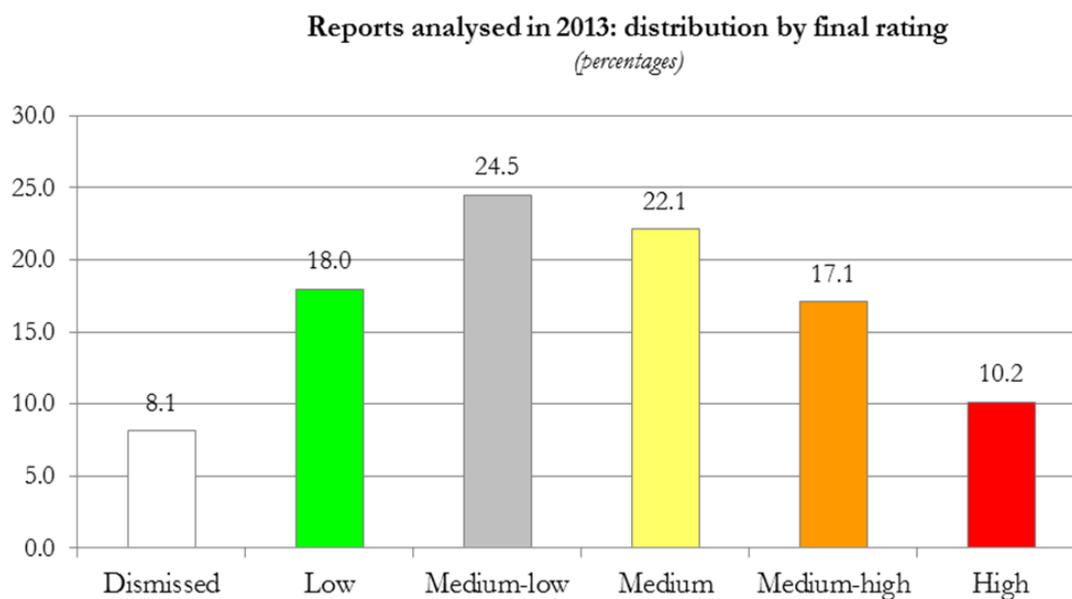
Final FIU rating

In 2013, at the completion of processing, 27.3% of the reports analysed were considered high-risk (high and medium-high rating), 22.1% medium risk (medium rating) and 42.5% minor risk (low and medium-low rating). About 8% of the reports analysed were dismissed because they were considered to indicate zero risk<sup>21</sup> (Figure 3.3).

<sup>20</sup> See "Recommendation 29, International standards on combating money laundering and the financing of terrorism and proliferation", and "Interpretative note to Recommendation 29".

<sup>21</sup> On the dismissal procedure, see § 3.5.

Figure 3.3



The final ratings assigned by the FIU and the assessments originally given by the reporting entities basically coincided for about two-thirds of the 92,415 reports analysed in 2013 (Table 3.2). The final ratings confirmed about 25% of the initial assessments of moderate risk (low, medium-low) and 39% of those of high risk.

Table 3.2

Comparison for each report between the risk indicated by the reporting entity and the final rating assigned by the FIU  
(percentage composition)

FIU rating	Risk indicated by the reporting entity		
	Low and medium-low	Medium, medium-high and high	Total
Low and medium-low	25.1	25.5	50.6
Medium, medium-high and high	10.3	39.1	49.4
Total	35.4	64.6	100.0

Note: the cells in light blue give the percentages of reports for which the final rating assigned by the FIU and the risk class indicated by the reporting entity correspond.

### 3.4. The methodology

The process by which the FIU analyses suspicious transaction reports is composed of several phases. The so-called first-level analysis checks whether the available facts on the reported activity (contained in the report or otherwise known to the Unit) actually support a suspicion of money laundering or terrorist financing or suggest, instead, the presence of anomalies ascribable to other causes.

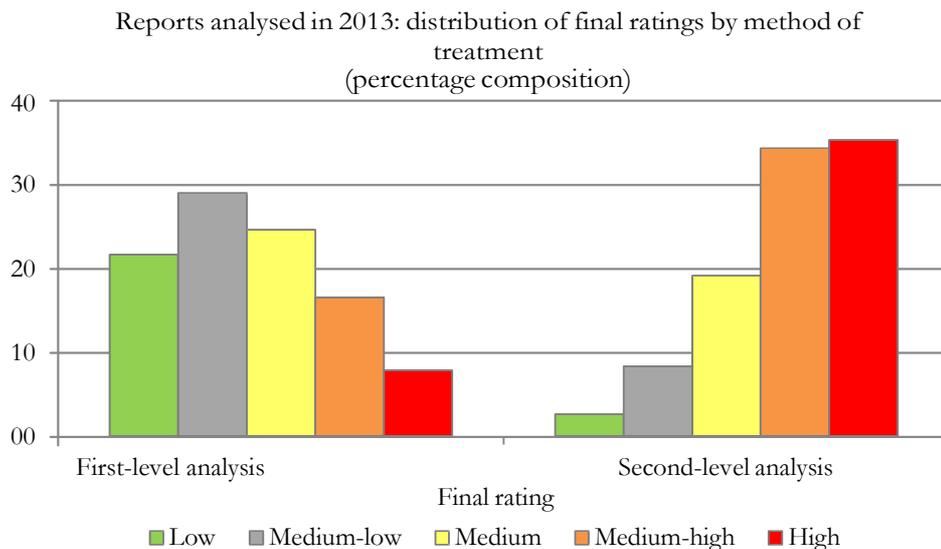
If the suspicion appears to be founded and the information already available is sufficient to formulate a final opinion on the degree of money laundering risk and on the possible underlying criminal activity, a simplified report is prepared and the final rating is assigned.

If instead, when there is a high risk of money laundering, it is necessary to obtain additional information (for example, consultation of outside databases, communication with the reporting entity or other persons subject to the reporting requirement, analysis of the data in the single electronic archive) or the situation is particularly complex, the report is submitted to a second-level analysis. At its completion a detailed technical report on the investigation and its conclusions is prepared and the final rating is assigned.

The assessment process, then, is a diversified one involving a multiplicity of information sources and, at times, several analysts. Analysis conducted at two levels – the first mandatory, the second only if necessary – makes it possible to handle a large number of reports while maintaining a high standard of quality of results.

The first-level analysis lends itself to handling low-risk reports or reports ascribable to known or easily recognizable types of activity; more than 75% of the reports handled in this way involve medium or lower levels of risk (Figure 3.4). Second-level analysis mainly concerns reports involving high levels of risk (some 70% of the reports handled were assigned a high or medium-high risk rating at the end of the second-level analysis) or transactions not classified by type.

Figure 3.4



The FIU data warehouses now being created<sup>22</sup> will electronically summarize and cross-reference all the data directly available to the Unit and the information in the most important databases of the Bank of Italy. This powerful tool will make it possible to refine work processes and speed them up further by making available a large volume of selected data already in the phase of first-level analysis.

### FIU data warehouse

The data warehouse project aims to create an integrated platform of the data of interest to the FIU originating from a variety of sources, a series of application tools for the joint exploitation of such data and a series of application services, and to facilitate the introduction and use of end-user computing packages, including open-source packages, for sophisticated second-level data analysis. With the start-up of the data warehouse, scheduled by the end of 2014, the internal and external components of the data with which the FIU works will be progressively integrated.

Fourteen databases have been identified whose contents (transaction data internal and external to the FIU) will be correlated and queried automatically. They have been checked for congruence, currency and reliability, evaluated for usefulness and the data divided into reference categories, each subsequently subdivided, so as to achieve a useful level of detail for financial analysis by the FIU, on the basis of three fundamental parameters that influence risk: subjective profile, financial dimension and transaction phenomenology.

The subjective profile comprises variables likely to assist an understanding of the transaction in the light of the characteristics of the person carrying it out and his socio-economic position.

The financial dimension regards the set of all the variables that provide information on the economic characteristics of the person and on their consistency with the transaction reported.

The framing of the reported transaction by type of transaction and phenomenon makes it possible to assign it to known categories, guiding the subsequent analysis. This process of classification is amenable to further development and needs to be updated continually, both in order to adapt the categories of phenomena made available to reporting entities and to refine the FIU's classifying ability.

The data selected and gathered by the data warehouse, appropriately interpreted with the use of advanced analytic methods, will offer analysts and, downstream, the entire anti-money-laundering chain, high-value-added information for a more thorough assessment of reported transactions and for the management and analysis of reports. The same data can also be used to support the Unit's other functions, such as inspection, strategic analysis, exchanges of information with the judicial authorities, with foreign FIUs and with the sectoral supervisory authorities, for the preparation of patterns and models of anomalous conduct, and to support the FIU's research activity and publications.

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<sup>22</sup> See also § 9.4.

### 3.5. Dismissals

Suspicious transaction reports are dismissed when the evidence available to the FIU either shows they are unfounded or is insufficient to reasonably support suspicions of money laundering or the financing of terrorism and the proliferation of weapons of mass destruction. For purposes of information sharing, dismissed reports are nevertheless transmitted to the investigative bodies. The dismissal of a report is automatically notified to the reporting entity.<sup>23</sup>

Dismissal does not imply the definitive deletion of reports from the record. Dismissed reports remain on file with the FIU and are reassessed by the FIU and the investigative bodies should new pertinent financial or investigative information come to light.

In 2013 the FIU dismissed 7,494 reports, or 8.1% of the total analysed, an increase of 4,223 (129%) compared with the previous year. Of the reports dismissed in 2013, 70% had been classified as low or medium-low risk by the reporting entities.

Table 3.3

	Reports dismissed by the FIU				
	2009	2010	2011	2012	2013
Total number analysed	18,838	26,963	30,596	60,078	92,415
Reports dismissed	4,024	3,560	1,271	3,271	7,494
Reports dismissed as a percentage of total analysed	21.4	13.2	4.2	5.4	8.1

In the early months of 2014 the FIU, after informing the Financial Security Committee, adopted new standards for the dismissal of suspicious transaction reports. The new standards take account of the prominence assigned by the new FATF recommendations to the selectiveness of the analyses conducted by financial intelligence units and, thanks to the cooperation of the Finance Police, benefit from the FIU now being able to access information on the level of interest of the reported persons. The new information will improve the evaluation of reports, making it possible to increase the number of reports dismissed and reduce the share proposed for investigative follow-up.

### 3.6. Postponements of transactions

The FIU – also at the request of the Special Foreign Exchange Unit of the Finance Police, the Bureau of Antimafia Investigation and the judicial authorities – may postpone

<sup>23</sup> Legislative Decree 231/2007, Article 48.1.



transactions that are suspected of involving money laundering or terrorist financing for up to five working days.<sup>24</sup>

Exercise of the power of postponement

In 2013 the FIU was notified of 308 transactions for it to assess for possible postponement; as a result of its analysis and after contacting the investigative bodies and judicial authorities, the Unit postponed 64 transactions amounting to just under €62 million (Table 3.4)

Table 3.4

	Postponements				
	2009	2010	2011	2012	2013
Number of transactions	14	34	45	40	64
Total value of transactions (millionsofeuros)	29.7	64.9	90.3	21.6	61.9

### 3.7. Information flows on investigative interest

Pursuant to Article 48.2 of Legislative Decree 231/2007, the investigative bodies must notify the FIU of the reports that have no further follow-up. Since the early months of 2014 the information flows on the outcomes of reports are also exchanged only electronically, via the portal that channels all exchanges of information on suspicious transaction reports between the Unit and the investigative bodies.

Even if the information made available is not entirely sufficient, it gives the FIU an important feedback for assessing its own activity and the overall effectiveness of suspicious transaction reports.

A first significant fact is the percentage of reports which in the opinion of Finance Police warrant investigation, in recent years averaging around 50% of those analysed; in these cases it must be inferred that the reporting entities effectively identified valid grounds for suspicion.

As to the rating of risk, the feedback indicates that the scores assigned by the FIU (final rating from medium to high)<sup>25</sup> were confirmed in the investigations in some 80% of cases; findings that reports were “not of investigative interest” corresponded with dismissals or with low or medium-low final ratings in about 85% of cases.

In evaluating the share of reports warranting investigative development, it is necessary to bear in mind the intrinsic nature of suspicious transaction reports, which are based not on evidence of a criminal offence but on reasonable grounds for suspicion considering the financial characteristics of the transactions requested by customers. A correct initial suspicion does not necessarily always correspond with the existence of a crime; nor is it necessarily true that a suspicion is unfounded if subsequent investigation does not result in definite findings on the crime committed. That said, the fact that half of suspicious

<sup>24</sup> Legislative Decree 231/2007, Article 6.7(c).

<sup>25</sup> See § 3.3.

transaction reports are deemed to warrant the opening of specific investigations speaks for the overall reliability and importance of the active cooperation of intermediaries and other persons subject to the reporting requirements.

For a more thorough evaluation of the effectiveness of the system of prevention, it would be necessary to have not only information on whether reports are deemed to warrant follow-up at the end of the first, “pre-investigative” analysis, but also information on the outcomes of the investigations and on subsequent trials (number of reports of crime submitted to the judicial authorities, convictions, etc.).<sup>26</sup>

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<sup>26</sup> At present the Bureau of Antimafia Investigation not only informs the Unit of its findings of investigative interest upon initial assessment of incoming reports, but also, when possible, updates the Unit on the results of its investigations and on the preventive measures adopted.

## 4. TYPOLOGIES OF SUSPICIOUS TRANSACTION REPORT, INDICATORS AND PATTERNS OF ANOMALY

Suspicious transaction reports are useful not only in detecting specific cases of money laundering (or predicate offences) with a view to their suppression but also in recognizing contextual factors that may help to counter money laundering and the financing of terrorism. An overall analysis of the reports can reveal connections among persons, businesses and activities, recurrent patterns of behaviour, vulnerabilities of instruments or payment circuits, or the susceptibility of particular sectors or types of business to infiltration; these are elements which, when correlated with the databases at the disposal of the FIU, can assist strategic analysis to determine tendencies or the emergence of new money laundering risks.<sup>27</sup>

If reports are to contribute effectively in this area, operations analysis must be flanked by focused activity to observe, classify and systematically arrange the single elements that characterize suspicious transactions.

### 4.1 Classifying and typing STRs

The classification of reports consists first of all in identification of their profile characteristics and then, where possible, the definition of formal types of behaviour at risk of money laundering.

Profile characteristics are recurrent elements that financial analysis has determined to be relevant in assessing the potential use of the transactions for money laundering. The aspects considered include the channel used for moving the funds (e.g., money transfers), the financial instrument chosen (cash, credit transfer, prepaid payment card, virtual money), the country of origin or destination (off-shore centres, parts of the country at special risk), economic sector (construction, waste disposal, “cash for gold” businesses, non-profit organizations), membership of specific communities or relational networks, and the use of complex, opaque vehicles or corporate structures.

Typing goes one step further from profile classification. It focuses on the potential nexus of purpose among the various elements considered, which in the light of the characteristics of the transactions, the persons involved and additional elements (geographical and temporal, for instance) appear to form part of a single design that may be connected with criminal conduct.

As a rule the examination of types, based essentially on the tools of financial analysis, cannot detect specific predicate crimes linked to operations recognized as suspicious. It can only identify behaviours at risk. In some cases the behaviour can be linked to immediate illegal aims (for instance, the invoicing of non-existent transactions suggests the typical aim of tax fraud), but these themselves may conceal further aims: that is, the behaviour typed as illicit may also serve for a variety of other criminal purposes.

The financial instruments and patterns that serve illicit purposes can be used for a great variety of ends, ranging from tax evasion to fraud and to the more serious types of

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<sup>27</sup> See § 5.1.

organized criminal activity, such as laundering the proceeds of drug trafficking, clandestine toxic waste dumping, or traffic in human beings.

Better investigative feedback will enhance the capacity to infer the linkages between types of behaviour, channels, financial instruments and specific illicit purposes.

Classifying profiles and types is essential; it is the foundation for carrying out the FIU's mandate of developing and maintaining anomaly indicators and patterns and models of anomalous behaviour to distribute to financial institutions to foster better knowledge of behaviours at risk.<sup>28</sup> So far the FIU has produced 12 patterns of anomaly relating to such crimes as tax fraud, usury, improper use of public funds, and leasing and factoring fraud.

The definition of types speeds up the reporting institution's assessment of suspicion and facilitates the FIU's own operational analysis, with ways of interpreting the cases examined that results in more efficient processing of reports ascribed to known phenomena. Shared with the investigative bodies, the types further qualify the reports.

### Organized crime

Suspicious transaction reports often bear on actions that further financial examination or subsequent investigation show to be linked to organized crime. However, the analysis of these transactions cannot identify either patterns of operation or economic sectors that are typical distinguishing marks of organized crime (even though some models and sectors are more susceptible than others to infiltration).

In fact, experience has shown that from the financial standpoint organized crime takes a diversity of forms, drawing on the entire catalog of instruments that can serve to "move" large volumes of funds and cover their traces. Common features of the transactions and operations examined are massive use of cash, false invoicing, corporate veils and fictitious ownership by nominees. Splitting of transactions is habitual, with a rapid series of transfers among locations that may be very far from one another geographically, among unrelated sectors, in sequences that are hard to read. In many cases it is virtually impossible to disentangle the proceeds of crime from the profits of legitimate businesses (even though the control of the latter is very likely the fruit of previous money laundering).

Only the careful and patient accumulation of additional information on financial movements and the reconstruction of the economic and financial profile of the persons involved and their hidden connections can permit correct determination of the precise criminal nature of financial behaviour which on its face may have seemed – in terms of persons and modes – anomalous but not necessarily criminal. In many cases not until a broader picture of relationships and connections has been reconstructed do apparently insignificant suspicious transactions emerge as functional to the interests of organized crime.

These ways of operating imply access to professional skills, technical accounting and financial expertise, and "relationships" that are often found not directly within the criminal organization but in a "grey area" of more or less conscious complicity.

In fact, the ability to create and manage extensive relational networks is one of the essential characteristics of organized crime. These networks include both members of the organization proper and other persons (businessmen, professionals, sometimes public

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<sup>28</sup> See § 4.4.



administrators) whose interests converge either permanently or episodically with those of the criminal organization. The latter are crucial in manipulations and conditioning aimed at acquiring usually indirect control of businesses, product chains and economic initiatives that serve the interests of organized crime.

To carry out such reconstructions efficiently, the information uncovered by law enforcement investigations is essential. Experience shows that the “screens” erected by lawbreakers rarely succeed in severing all the links with persons whose prior involvement in illegal activity is known. Finding one focus among the countless relations is often the key to deciphering the actual roles and the true origin of financial flows.

## 4.2. Profile characteristics

Characterization of profiles considers elements – such as financial instruments and channels, legal and corporate vehicles, and economic sectors – that in and of themselves are neutral as far as the legal or illegal nature of the activity is concerned. Experience indicates the presence of “families” of reports in which given profile characteristics recur repeatedly either singly or in combination.

Precisely because they are generic and neutral, as a whole the characteristics display a certain stability. The main changes observed in 2013 are described below.

### Payment instruments

As regards payment instruments, although the number of reports is marginal, the Unit has examined the potential illicit use of virtual currencies.

### Bitcoin

Bitcoin was introduced in 2009 as a digital means of payment for goods and services alternative to legal tender. The new virtual currency has expanded progressively, reaching a total of 12.5 million Bitcoins in circulation, according to open source data, equivalent to about €6 billion at the average exchange rate in March 2014.<sup>29</sup>

This method of payment does not require that the users who effect transactions be identified, and it is not subject to public regulation or controls. Bitcoins are readily obtained on specialized platforms operated by foreign companies that allow the opening of an on-line account analogous to a bank current account. Through the account the user can buy and sell Bitcoins, exchange them for legal tender, and purchase goods and services offered by merchants both on-line and materially.

Bitcoins’ value is highly volatile, exposing users to significant risks of speculation. Nor are there any guarantees or controls safeguarding customers and companies against unlawful appropriation (computer theft and hacking).

The diffusion and risks of virtual currencies – Bitcoin in particular – are set out in the Bank of Italy’s latest Financial Stability Report (No. 1, May 2014). The FIU is currently studying the possible risks of money laundering and terrorist financing from Bitcoin, given that some suspicious transaction reports have been submitted on anomalous purchases of Bitcoins using payment cards or cash with foreign counterparties. Bitcoin transactions, even though they are recorded in special on-line databases, do not permit identification of

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<sup>29</sup> Banca d’Italia, Financial Stability Report, No. 1, May 2014, p. 43.

the persons involved, which makes it easy to transfer funds anonymously and to use the instrument within the illegal economy.

By sector, some parts of the economy continue to be particularly exposed to the risk of criminal infiltration, such as gaming and gambling,<sup>30</sup> waste disposal, electricity generation from wind and other renewable sources,<sup>31</sup> earth moving and quarrying, and “cash for gold” businesses. Sectors

As to the characterization of the persons involved, a significant criterion is the status of “politically exposed person,” both as defined by law (“natural persons of other EU and non-EU countries who are or have been entrusted with prominent public functions”<sup>32</sup>) and in the broader definition of the proposed fourth anti-money-laundering directive, which extends to home country PEPs as well. PEPs

As far as the structures used for money laundering are concerned, the sharp focus on the activity of trusts has continued, and new attention has been directed to securitization vehicles in view of their potential for abuse, especially when they qualify as financial intermediaries in another EU country in which they are located and thus under current rules are eligible for simplified controls. Investigation has found that securitization vehicles can be utilized improperly, like trusts, to conceal the beneficial ownership of certain assets and impede correct reconstruction of the resulting financial flows. Trusts and securitization vehicles

Given their characteristics, the vehicles are susceptible to conferring on the vehicle company formal ownership of assets that are managed formally in its own name but actually – through the creation of distinct, economically independent sections – in the interest of the persons conferring the assets who, buying the securities issued by each section, continue to be the beneficial owners of the new investment.

In this way the vehicle companies can also serve for fictitious transfers of securities or real estate to foreign residents, for the purpose of tax advantages, putting the securitized goods out of reach of creditors or legal provisions of the authorities, or concealing the provenance of the assets.

The same end, concealing the connection between an asset and its beneficial owner, can also be attained by life insurance with a high financial content (e.g. unit linked and index linked policies) issued by foreign companies. In this case a person transfers a given asset to a foreign insurance company (bonds, say, or investment fund units), usually through a trust company. In return the insurance company issues a life policy to the person ceding the asset, sometimes with the interposition of a trust company. The value of the policy and its yield are structurally linked to those of the underlying asset, which originally belonged to the policyholder, i.e. the grantor of the trust.

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<sup>30</sup> For some transactions in this context, the FIU has also developed types, which have been incorporated in the “patterns of anomalous behaviour” (see § 4.4).

<sup>31</sup> In the past, organized crime has infiltrated the renewable energy industry through holdings in or support to special “vehicle companies” engaged in the preliminary phases of projects, such as negotiating rights to the land where the facility is to be built and getting the required concessions and authorizations, which are then sold at a profit to Italian or foreign companies that will actually build the plant.

<sup>32</sup>Legislative Decree 231/2007, Article 1.2(o).

### 4.3. The typologies

The typologies of behaviour at risk most commonly found in suspicious transaction reports can be grouped into three main categories: fiscal offences, unlawful appropriation, and corruption.

#### 4.3.1. Fiscal types

This typology covers suspicious transactions relating to conduct whose recognizable, “typical” purpose involves tax evasion or fraud.

In recent years the FIU has made available indicators and patterns of anomaly to help reporting institutions in forming a picture of the anomalous behaviours most frequently observed in particular sectors and in the use of particular contract models.<sup>33</sup>

The main types of anomalous behaviour in this area involve bank accounts held in the name of individuals but used for fund movements involving businesses (more than 6,200 reports), giro transfers between mutually connected individuals and companies (about 3,700 reports) and repeated cash withdrawals on company accounts (more than 3,300 reports).

A good many reports refer to transactions involving international tax fraud or invoicing fraud. Financial analysis has detected fraudulent mechanisms such as “carousels” and “paper mills”. In some cases techniques of planning have been detected, designed to obtain undue fiscal advantages, used by firms operating in Italy but also through companies formally established abroad, often in tax havens.

There have been an increasing number of reports on leasing and factoring. Many of these reports relate to the nature of the customer (economic capacity not sufficient for the commitment undertaken, involvement in criminal investigations) or, in factoring cases, the non-existence of the claim being factored (false invoices between the obligor and the debtor, false documentation).

An interesting case in this regard is the direct exchange of goods and services between companies,<sup>34</sup> which lends itself to fraudulent accounting, based on disparities in the real values of the goods exchanged, favoured by the difficulty of quantifying the goods or services.

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<sup>33</sup> See the patterns of anomaly relating to intra-EU VAT fraud and international tax fraud, issued respectively on 15 February 2010 and 23 April 2012; see also the anomaly patterns for improper use of leasing (17 January 2011) and factoring (16 March 2012). The indicators include the Bank of Italy measures dated 24 August 2010.

<sup>34</sup> In Italy this pattern is used mainly in advertising. A modern development is “bartering,” a sort of multilateral clearing system for goods within a circuit of companies with no transfers of funds.

#### 4.3.2. Unlawful appropriation

This type comprises a series of suspicious financial behaviours directed to unlawful appropriation of funds either through deception (such as computer fraud) or unconscionable exploitation of economic hardship (e.g. usury, “cash for gold” operations, and pawn shops).

The issue and regular updating of several patterns of anomalous behaviour already released by the FIU has heightened awareness of the multifariousness and complexity of these illegal phenomena and helped to enhance the reports in number and quality.<sup>35</sup> Reports linked to usury nearly doubled in 2013 to over 2,000, as the severe economic and financial crisis of recent years has made the social fabric more permeable to criminal infiltration. Presumably many of the reports connected with “cash for gold” and pawn tickets reflect the same situation.

#### “Cash for gold” and pawn tickets

Reports have made it clear that some “cash for gold” businesses contact potential customers, whom they know to hold pawn tickets, to propose that a mandate to reclaim the pawned objects be given to persons designated by the “cash for gold” operators themselves. If the customer agrees, the ticket is simply handed over in exchange for a receipt.

The “cash for gold” operators may also purchase the reclaimed object directly from the customer, usually at a more advantageous price, subtracting the amount originally advanced. This practice, which produces a true commerce in pawn tickets, naturally offers fertile terrain for underlying illegal activities, possibly connected with usury as well.

A significant number of reports last year (some 1,700) related to computer fraud, essentially in connection with identity theft (phishing) victimizing the reporting banks’ customers. The illegally acquired data are used as credentials, gaining access to the institutions’ on-line systems to make Internet purchases, order credit transfers on prepaid cards (in false names, used for cash withdrawals), or more often to make credit transfers to current accounts in the name of persons who cooperate, for a fee, in sending the funds out-of-country via money transfer circuits.

More than 120 reports were classified as relating to unauthorized financial activity. For the most part the illicit behaviour is inferred from financial movements of current accounts, often consisting in repeated inward and outward credit transfers with payments details that indicate financial intermediation (loans and reimbursements, investment services) in the name of persons not authorized to engage in it, with economic and financial profiles not adequate to the transactions.

#### 4.3.3. Corruption and misappropriation of public funds

The FIU has kept its focus on the behavioural typologies that may indicate the misappropriation of public resources, drawing up patterns of anomalous behaviour

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<sup>35</sup> The communication of 5 February 2010 set forth a pattern on computer fraud. FIU communications of 24 September 2009 and 9 August 2011 dealt with usury.

specifically designed to facilitate the reporting institutions in detecting corruption or misappropriation.<sup>36</sup>

In 2013 the Unit received some 600 reports signaling possible misappropriation of public funds, in some cases showing suspicion about the correct application of the rules on the traceability of the financial flows involved in public works, service and supply contracts.<sup>37</sup>

Examination of the transactions so reported is unlikely to uncover objective signs of corruption; subjective elements of anomaly can arise, however, such as a lifestyle out of line with the official salary of the suspected corrupt administrator.

A solid hypothesis of corruption requires the acquisition of further evidence from the context in which the suspicious behaviour takes place, with special regard for the professional activity of the persons involved and their relationship with the public sphere. It is important for reporting institutions to pay attention to all the persons who have public decision-making powers, even if they do not qualify formally as PEPs.

A number of recurrent elements have been found in the cases mentioned in these reports.

Often, in order to ensure anonymity or to dissimulate the identity of the beneficial owners, the perpetrators exploit innovative investment instruments, trusteeships, or highly complex corporate chains with no real economic justification, possibly with foreign units and screened by trusts.

The FIU has found a correlation between predicate offences of tax evasion and avoidance (e.g. false invoicing) and the use of unrecorded funds for purposes of corruption.

The reports involving corruption frequently centre on the anomalous use of cash, especially large cash deposits.

Among the reports involving home country PEPs, special importance attaches to the alleged misappropriation of public funds pertaining to political parties and their investment in real estate or other assets.

#### 4.4. Indicators of anomaly, patterns and models of anomalous behaviour

Indicators of anomaly<sup>38</sup> and patterns of anomalous behaviour<sup>39</sup> are supplied to obliged entities in order to help them in discharging their obligation to report suspicious transactions and to share knowledge as broadly as possible and ensure uniform conduct among reporting institutions. The patterns have the further objective of promoting active cooperation on the part of groups of addressees that are still relatively insensitive to the issue and calling attention to innovative types of transaction.

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<sup>36</sup> The patterns of anomaly were released by the FIU on 13 October 2009 and 8 July 2010.

<sup>37</sup> Law 136/2010, Article 31.

<sup>38</sup> The anomaly indicators are issued and periodically updated, at the FIU's proposal, by the various competent authorities according to type of reporting institution, pursuant to Legislative Decree 231/2007, Article 41.2.

<sup>39</sup> The anomalous behaviour patterns are issued by the FIU pursuant to Legislative Decree 231/2007, Article 6.7(b).

The development and updating of the indicators and patterns use the FIU's classification and typing of suspicious transaction reports. The specification of profile characteristics and types provides information on the diffusion of behaviours at risk and permits anticipation of their evolution and identification of the changes to call to the system's attention.

The results of the report analysis are supplemented by the entire set of information in the Unit's possession, derived from inspections and cooperation with judicial authorities, investigative bodies, sectoral supervisory authorities and other countries' FIUs, as well as from dialogue with financial institutions and their trade associations.

On 30 January 2013, at the proposal of the FIU, the Bank of Italy issued a measure specifying indicators of anomaly for auditing firms and registered auditors assigned to audit entities of public interest. The main factors for auditors to consider are accounting transactions designed to conceal financial resources, especially for substantial amounts; financial investments out of proportion to the customer's economic profile or activity; invoices for services that the audit does not find to have been rendered; and invoices lacking essential data or issued in the name of non-existent counterparties.

Anomaly indicators for auditing firms and registered auditors

On 11 April 2013 the FIU, with the cooperation of the Finance Police and the Agency for Customs and Monopolies, released two patterns of anomalous behaviour relating to gaming. The measure is premised on the notion that the increased financial flows to the sector in recent years may heighten the risk of infiltration by organized crime and possible connection with money laundering.<sup>40</sup>

Gaming

The indications are distinguished according to type of addressee of the money laundering legislation. The first pattern is of general application, except for the gaming sector proper. As regards customers, the addressees are asked to assess the information they acquire on gaming operators, such as lack or revocation of the Agency's gaming concession and possible knowledge of any penal proceedings under way. In objective terms, elements to consider include the use for gaming operators' activity of accounts held by persons not active in the gaming sector; an excessive volume of activity on the account by comparison with the gaming operator's economic profile; repeated credits by gaming operators to the same gamblers or for substantial overall amounts, especially if followed by cash withdrawals, including via ATM, or transfers to third parties.

The second pattern applies exclusively to addressees operating in the gaming sector itself. It describes possible anomalies both for gaming with a physical presence and for on-line gaming. The subjective anomalies mentioned include inconsistencies in customer due diligence (gaming operators and players) and information on penal proceedings involving counterparties. Objective elements include a volume of gaming disproportionate to the customer's economic profile and gaming activity highly concentrated on a single gambler or gaming operator.

In the sector of gaming with physical presence, addressees must consider anomalous use of large amounts of cash, especially banknotes of large denominations, the time

<sup>40</sup> On the threat of money laundering in this sector, see the FATF report "Vulnerabilities of Casinos and Gaming Sector".

sequence of winnings and the frequency of cancelled bets. For on-line gaming, factors to observe include anomalous use of the gaming account; reloading of gaming accounts, especially for large amounts, followed by cash withdrawals or closure; withdrawals of funds from the account effected during the period preceding the transmission of the documents necessary to open the account.

Anomalous  
use of trusts

On 2 December 2013 the FIU issued a pattern of anomaly to detect the use of trusts for fictitious interpositioning for illegal purposes. The pattern is designed for use by intermediaries and professionals who do business with trusts, both in the constitution and in the execution phase.

Given the peculiar characteristics of trusts, addressees were reminded of the need to acquire sufficient information and documentation on any trust (in particular, the latest updated text of the act instituting the trust) in order to grasp the objectives of the parties, the identity of the beneficiaries and of the trustee, and the modalities of execution.

Where a single person holds several roles (grantor, trustee, beneficiary, guardian), there is greater risk that the trust is being exploited for fictitious interpositioning with illegal purposes.

As regards the subjective profile, the pattern cites the presence in various roles within the trust of persons who, according to the information available, are in financial difficulties or under investigation. In objective terms, the document mentions the presence in the act instituting the trust of clauses that violate the separation of assets typical of trusts as such (for instance, provision for systematic and unwarranted use of the assets conferred on the trust by the grantor and a stated purpose of the trust inconsistent with the nature of the assets or with the trustee's management activity).

Anomalous use  
of payment  
cards

On 18 February 2014 the FIU issued a schema of anomalous behaviour patterns relating to payment cards. Further to operational analysis, including on-site inspections, the Unit was able to identify certain uses of cards that are not consistent with their typical payment purposes or with the economic profile of the cardholders. A broad range of cases were found in which payment cards were used for cash withdrawals or reloadings, effected frequently or even simultaneously, for substantial amounts, and where actual payment activity is limited or nil.

The FIU's analysis pinpointed certain commercial sectors characterized by the issue of large numbers of cards and their intensive use. While in some sectors (goods shipment, travel agencies, e-commerce) this utilization is to some extent natural given operational needs, the Unit recalled the necessity that financial institutions always assess the compatibility of the overall use of credit cards with the company's business and turnover. In other sectors – such as construction, cleaning services, money transfer, on-line gaming, betting agencies, “cash for gold” and insurance sub-agencies – recourse to prepaid cards must be subjected to especially close scrutiny.

The Unit recalled the problems that may undermine intermediaries' ability to identify the anomalous use of payment cards. The cardholder's risk profile must be correctly determined in the course of customer due diligence, in order to distinguish the transactions of retail from business customers.

## 5. STRATEGIC ANALYSIS

In addition to the operational analysis of STRs, which focuses on single cases or affairs, the FIU also conducts broader strategic analysis, whose purpose is to detect and assess phenomena, developments and tendencies, operational practices, and weaknesses in the system, utilizing the reports and all the other information at the Unit's disposal.

International standards distinguish between these two types of activity.<sup>41</sup> Strategic analysis supports operational decisions and choices, helping to orient the Unit's various activities and contributing to planning and the prioritization of objectives.

### 5.1. Characteristics and purposes

Strategic analysis rests on two pillars: definition of the typologies and patterns of anomalous financial conduct and the observation and study of financial flows and money laundering phenomena.<sup>42</sup>

The aims of strategic analysis include the identification of factors that serve for risk assessment both system-wide and in selected operational areas. Under the first head, systemic analysis helps to identify the elements that go into national risk assessment.<sup>43</sup> Under the second, it enables the Unit to gain information and knowledge functional to determining the level of risk in selected sectors, groups of persons and instruments, and geographical areas.

Analytical methodology is adapted to the phenomenon studied, the data available and the objectives pursued. Quantitative techniques permit the determination of statistical trends and anomalies. The role of the variables is analyzed by exploiting enormous masses of data while taking all the other relevant information into account.

Analysis exploits all the data available to the Unit, in particular aggregate anti-money-laundering reports detailed in § 5.2 and the RADAR system's data on suspicious transaction reports. When necessary, additional data are requested from intermediaries, and the results and information deriving from other FIU operational activities, such as inspections and cooperation with other authorities nationally and internationally, are also exploited.

The FIU uses data from banks' automated prudential returns and the Central Credit Register, access to which is guaranteed by the Unit's direct institutional link with the Bank of Italy. Commercial and open-source databases are also drawn on.

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<sup>41</sup> FATF Recommendation 29 and Egmont Group of Financial Intelligence Units, "Operational Guidance for FIU Activities and the Exchange of Information", 28 October 2013, points 41-42.

<sup>42</sup> Legislative Decree 231/2007, Article 6.6(a) and 6.7(a).

<sup>43</sup> See § 7.2.1.

Apart from enhancing overall, general knowledge on money laundering for the benefit of the system, strategic analysis is intended to generate operationally relevant results. Anomalous values detected by use of an econometric model can highlight situations and contexts that warrant closer analysis.

## 5.2. The aggregate data

**The aggregate data reports** The main source for the FIU's analysis of financial flows, as mandated by Legislative Decree 231/2007, Article 6, is the monthly aggregate anti-money-laundering reports of financial intermediaries, aggregating the data in each intermediary's single database. They cover all customer transactions (including split transactions) whose amount exceeds €15,000. By comparison with many other countries that require the transmission of data regardless of grounds for suspicion, the Italian data are distinguished by being aggregate and anonymous.

**The data** The data may be aggregated by instrument (credit transfer, cash deposit or withdrawal, etc.), by the location of the reporting branch, by the customer's economic sector or residence, or by the location of the counterparty and the latter's intermediary. Both inward transactions (credits, deposits, etc.) and outward transactions (debits, withdrawals, etc.) are reported, with separate indication of the value of transactions ordered for cash.

Table 5.1 gives the main statistics by category of intermediary, deriving from the aggregate monthly data reports received by the FIU in 2013.

Almost all the data continue to come from banks (96% of the total). The number of aggregate records transmitted and of the underlying transactions remained practically unchanged in 2013, while the value reported declined by 10%. The decline in value is due to the reports from banks. The other types of reporting institutions, except for "other financial intermediaries", all showed higher values: asset management companies and electronic money institutions reported increments of more than 20%. For banks, the number of transactions reported also diminished, while increasing for the other types of institution. The increase in transactions reported was especially sharp at electronic money institutions.

**Cash transactions** Within the aggregate records, one of the pieces of information most relevant to money laundering is transactions in cash. The reports aggregate not only the value of cash withdrawals and deposits on current accounts but also the amounts of transactions settled in cash involving other instruments (e.g. sales of securities and issues of CDs). The value of cash transactions continued its downward trend in 2013, falling by 5%. The total value of cash transactions came to €266 billion, with the usual large difference between inward movements (€219 billion) and outward (€47 billion). The latter are more fragmented and so fall beneath the reporting threshold.

Table 5.1

Aggregate anti-money-laundering reports  
Descriptive statistics - 2013

Type of intermediary	Number of entities submitting reports	Total number of aggregate data sent <sup>1</sup>	Total money amount of the aggregate data sent (billions of euros)	Total number of transactions underlying the aggregate data
Banks, Poste Italiane and CDP	732	96,875,112	21,035.0	296,258,019
Trust companies	290	82,776	52.2	204,773
Other financial intermediaries <sup>2</sup>	200	1,288,084	326.9	4,552,786
Asset management companies	185	1,280,842	208.1	4,610,845
Investment firms	149	168,700	89.0	5,401,883
Insurance companies	91	1,330,274	115.5	3,081,160
Electronic money institutions	3	12,666	1.2	221,659
<b>Total</b>	<b>1,650</b>	<b>101,038,454</b>	<b>21,827.9</b>	<b>314,331,125</b>

<sup>1</sup> The aggregate record is the basic item of the anti-money-laundering aggregate report. The entity submitting the report calculates it by grouping the individual transactions according to the different aggregation criteria envisaged (for example, type of transaction, location of the intermediary, etc.).

<sup>2</sup> Intermediaries entered in the special register referred to in Article 107 of the Consolidated Law on Banking under the legislation in force before the changes introduced by Legislative Decree 141/2010.

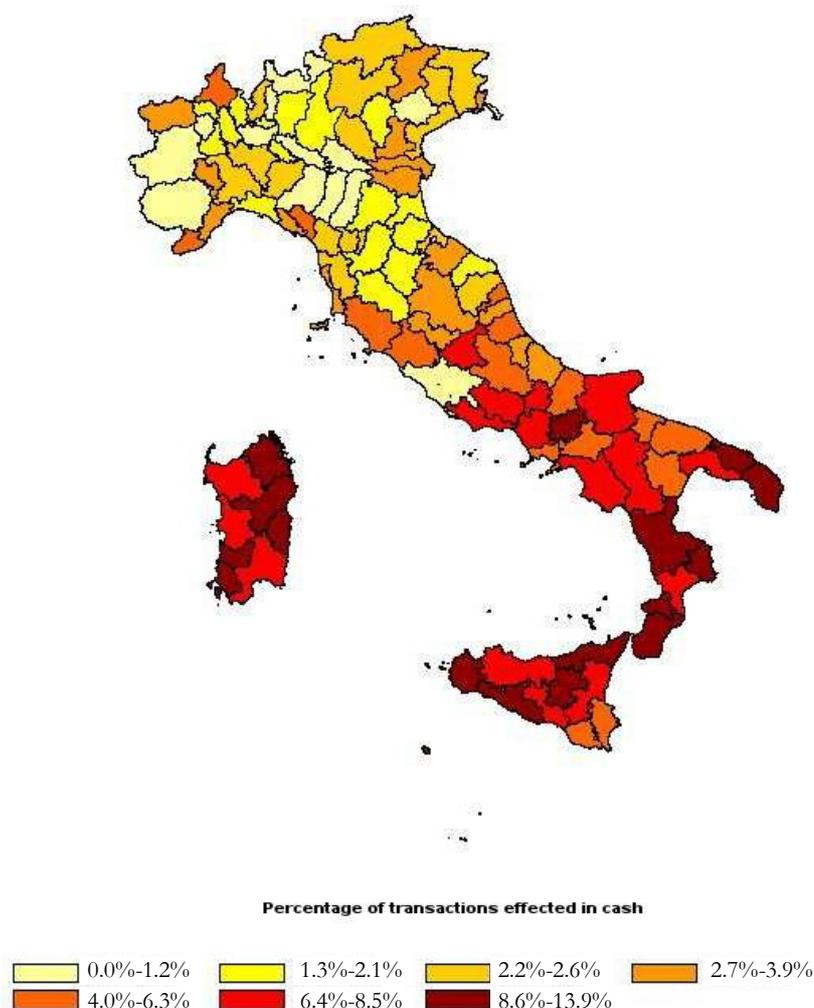
Geographically, the use of cash differs markedly. In the provinces of the South and Islands cash transactions account for between 4 and 14 per cent of the total, while in the Centre and North the proportion almost never exceeds 4 per cent (Figure 5.1). The Central and Northern provinces with the highest percentages are the border provinces, and in particular those bordering on reputed tax havens such as Switzerland, the Principality of Monaco, and the Republic of San Marino.

In any case, the relative importance of cash also reflects territorial differences in payment practices and the size of the financial sector. Studies have shown that when these factors are controlled for the incidence of cash is relatively heavy in some parts of Northern Italy as well.<sup>44</sup>

<sup>44</sup> See Ardizzi and Iachini, 2013, "Eterogeneità nelle abitudini di pagamento: confronto tra paesi europei e specificità italiane", Banca d'Italia, Occasional Papers, No. 144.

Figure 5.1

Use of cash by province  
2013



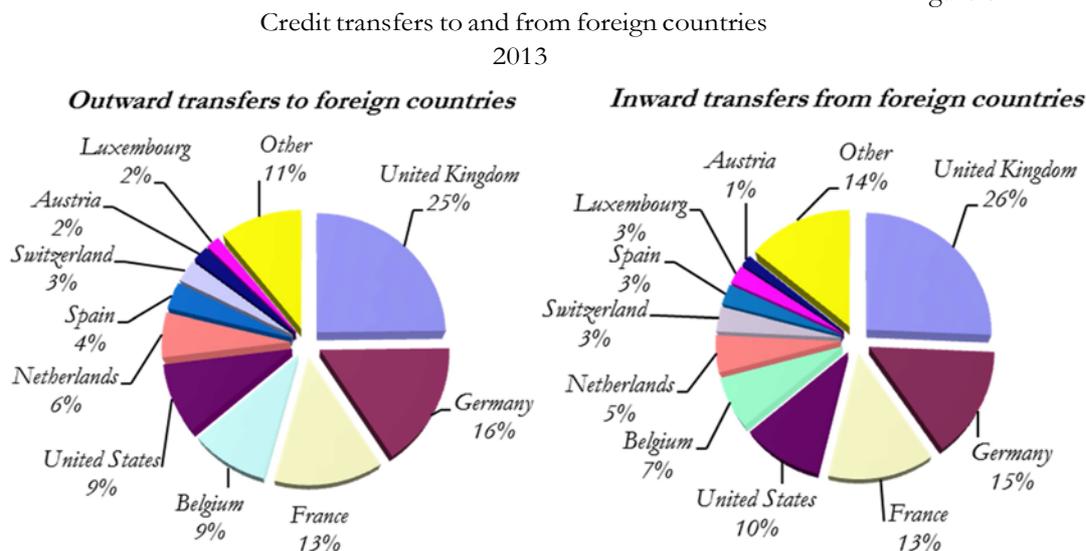
Note: Excludes transactions by general government entities and resident banking and financial institutions, whose transactions are exempt from the reporting requirement insofar as they are subject to simplified customer due diligence.

Information  
content of  
credit  
transfers

In addition to cash, special importance for combating financial crime attaches to credit transfers, which are also reported in the aggregate data records. Indeed, the reports on credit transfers are more highly detailed than those on other transactions, in that they comprise data on the municipality or country of residence of the counterparty and his intermediary. This permits analysis of both the provenance and the destination of the flows. A special focus is cases where the foreign intermediary is located in a tax haven or non-cooperative jurisdiction.

Both inward and outward credit transfers with counterparties using foreign intermediaries exceeded €1,200 billion in value in 2013, in both cases representing a decline of 8%. Figure 5.2 shows the shares of the main countries of origin and destination of the funds. Except for the United States, the top ten countries in this ranking, on both the inward and outward side, are all EU members. Overall, aside from the US the highest-ranked non-EU countries are major trading partners (Russia and Turkey for inward transfers, China for outward) or financial centres (Switzerland, Hong Kong).

Figure 5.2

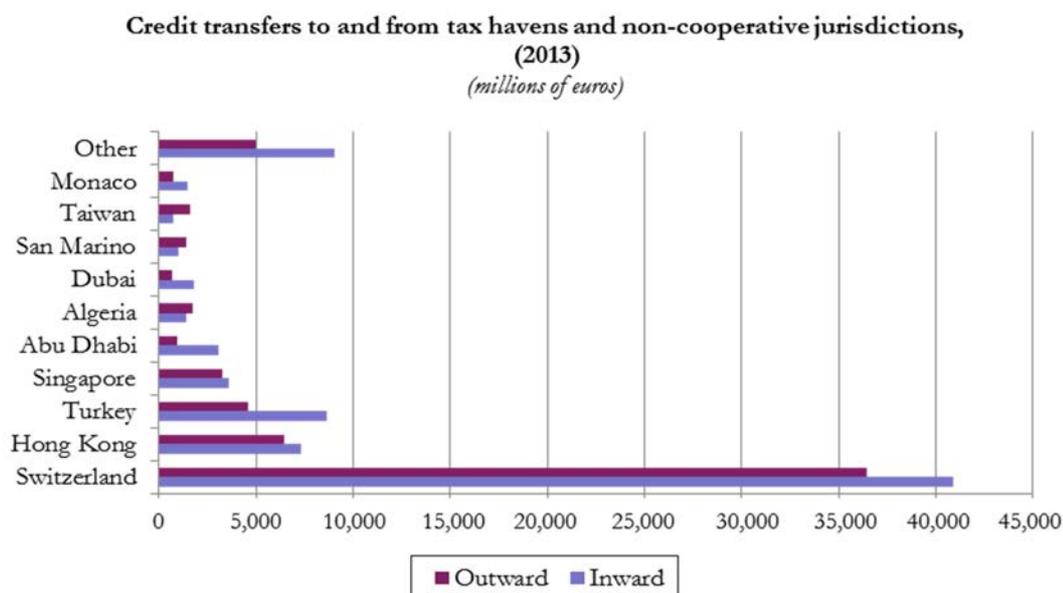


Note: Excludes transactions by general government entities and resident banking and financial institutions, whose transactions are exempt from the reporting requirement insofar as they are subject to simplified customer due diligence.

Special attention is paid to credit transfers involving financial intermediaries resident in states and jurisdictions considered significant from the standpoint of action against money laundering.<sup>45</sup> Figure 5.3 reports the flows with the main tax havens and non-cooperative jurisdictions. The degree of concentration of these flows diminished slightly by comparison with 2012: 90% of the flows were accounted for by ten countries, compared with eight the previous year. The relative importance of Switzerland slipped from 60% to 55% of total inward and outward credit transfers. The other high-ranked countries, but with much lower shares, continued to be in East Asia (Hong Kong above all, but also Singapore and Taiwan), the UAE (Abu Dhabi, Dubai), the Principality of Monaco and the Republic of San Marino. Flows involving Turkey are also substantial.

<sup>45</sup> The list of non-cooperative countries and tax havens is drawn from the ministerial implementing decrees for the consolidated income tax law and the FATF's list of high-risk and non-cooperative jurisdictions, February 2013.

Figure 5.3



Note: Excludes transactions by general government entities and resident banking and financial institutions, whose transactions are exempt from the reporting requirement insofar as they are subject to simplified customer due diligence.

.and by  
Italianregion

Table 5.2 shows the value amounts of credit transfers with tax havens and non-cooperative jurisdictions according to the Italian region of origin or destination of the funds.

As in the past, most of the flow of funds between Italy and tax havens or non-cooperative jurisdictions was again accounted for by regions in the North-West (67% of the national total for outward and 57% for inward credit transfers). The North-East and the Centre continue to account for between 15% and 20% each, while the incidence of regions in the South and Islands remains stable and much lower. In general the volume of these transfers tends to reflect each region's volume of economic activity and degree of international openness. Local anomalies (at municipal or provincial level) can be detected by econometric analysis comparing these flows with the economic "fundamentals" of the jurisdictions and Italian territories involved.<sup>46</sup>

<sup>46</sup> See § 5.3.

Table 5.2

Credit transfers to/from tax havens and non-cooperative jurisdictions, by Italian region - 2013

	Outward credit transfers (millions of euros)	% of total	Inward credit transfers (millions of euros)	% of total
North-West	41,873	66.6	45,189	57.2
Liguria	2,548	4.1	2,576	3.3
Lombardy	33,978	54.1	35,256	44.6
Piedmont	5,324	8.5	7,280	9.2
Valled'Aosta	24	0.0	77	0.1
North-East	9,310	14.8	16,384	20.7
Emilia Romagna	4,105	6.5	8,449	10.7
Friuli Venezia Giulia	713	1.1	918	1.2
Trentino Alto Adige	400	0.6	600	0.8
Veneto	4,092	6.5	6,416	8.1
Centre	9,715	15.5	13,389	16.9
Lazio	5,825	9.3	5,192	6.6
Marche	470	0.7	1,135	1.4
Tuscany	3,284	5.2	6,765	8.6
Umbria	136	0.2	297	0.4
South	1,679	2.7	3,335	4.2
Abruzzo	205	0.3	1,599	2.0
Basilicata	15	0.0	34	0.0
Calabria	45	0.1	127	0.2
Campania	1,027	1.6	1,122	1.4
Molise	51	0.1	28	0.0
Puglia	336	0.5	424	0.5
Islands	284	0.5	714	0.9
Sardinia	44	0.1	397	0.5
Sicily	240	0.4	318	0.4
Total Italy	62,862	100.0	79,011	100.0

Note: Excludes transactions by general government entities and resident banking and financial institutions, whose transactions are exempt from the reporting requirement insofar as they are subject to simplified customer due diligence.

### 5.3. Aggregate data analysis and research

Analysis of financial flows is fundamental to preventing and combating money laundering and terrorist financing. The Unit conducts both specific inquiries into any anomalies that emerge in the data and broader analyses, relating for instance to particular payment instruments, geographical areas or economic sectors.

The aggregate reports are the main source for this analysis. On reception the records are subjected to automatic statistical controls in order to improve data quality and analytical reliability. Quantitative control methods are used to pick up elements of anomaly warranting further investigation.

Statistical  
controls -

Outliers are identified by comparing data transmitted by each reporting institution with the entire set of data received from other intermediaries during the same period as well as by examining trends over time in the data supplied by a given reporter.

In 2013 the FIU transmitted observations on their statistics to 882 intermediaries, 629 of them banks. Overall, more than 12,000 statistically anomalous aggregate records were returned to the intermediaries for analysis. In most cases they confirmed the data transmitted (77% for banks and Poste Italiane, 93% for the other intermediaries). The rest were erroneous data, which the reporters then rectified. In 511 cases (5% of the observations confirmed by the intermediaries), a connection was indicated between the anomalous aggregate datum and one or more suspicious transaction reports already submitted to the FIU. In another 231 cases the observation prompted the intermediary to weigh the possibility of filing a suspicious transaction report.

Research activity based on econometrics and exploitation of cross-checking with the other databases of the Unit and the Bank of Italy continued last year. These studies, some of which are ongoing, not only deepen the FIU's knowledge and understanding of phenomena and transactions but serve operational purposes in combating money laundering, as in the development of indicators to assess the risk exposure of individual intermediaries or geographical areas.<sup>47</sup>

One area of analysis offered an econometric study of the flow of funds to jurisdictions at risk of money laundering (see the box below),<sup>48</sup> considering outward credit transfers from Italy between 2007 and 2010. Taking the main economic determinants into account, the study focused on detecting anomalous data. The flows so identified are significantly correlated with the jurisdictions' fiscal, corporate and financial opacity, which is what makes a country attractive both for funds deriving from tax evasion and for money laundering. The anomalous flows are also correlated with crime indicators in the Italian provinces of origin.

#### Financial flows to tax havens: determinants and anomalies

There is a strong international consensus that so-called "tax havens" – countries and jurisdictions with opaque financial systems and low taxation – can attract funds of suspect origin connected with illegal activities, in particular the laundering of the proceeds of crime and tax evasion.

Exploiting a rich database that includes the FIU's aggregate records, the study examines the determinants of flows of funds out of Italy between 2007 and 2010, considering the main social and economic variables. It uses an econometric model in which bilateral financial flows are proportional to the "economic mass" of the two countries involved and inversely proportional to the distance between them, applying it to outward credit transfers from the 110 Italian provinces to 142 foreign countries, both "at risk" and not. The jurisdictions at risk include both the tax havens listed by the Ministry for the Economy and Finance and other countries monitored by the FIU on the basis of evidence derived from transactions.

<sup>47</sup> See § 7.2.1.

<sup>48</sup> See A. Cassetta and C. Pauselli (UIF), L. Rizzica and M. Tonello (Banca d'Italia), "Financial flows to taxhavens: Determinants and anomalies", UIF Quaderni dell'antiriciclaggio, Collana Analisi e studi, No. 1, March 2014. Available also on the website <https://uif.bancaditalia.it/publicazioni/quaderni/2014/quaderni-analisi-studi-2014-1/index.html?com.dotmarketing.htmlpage.language=1>

The study shows that flows of funds abroad can be explained by a broad set of economic and socio-demographic variables in both the sending province and the receiving country. But in any case the jurisdictions at risk draw a greater volume of funds than can be accounted for by their economic and socio-demographic characteristics.

A second part of the study is given over to analysis of anomalies. The authors construct an “index of anomaly” that is higher, the greater the discrepancy between the actual volume of funds and the volume explained by the economic fundamentals. As expected, the index is higher for flows of funds to the jurisdictions at risk.

Further, the more highly anomalous flows tend to come from the Italian provinces registering greater numbers of crimes linked to drug trafficking and the like and from provinces transmitting the most STRs. As regards the destination countries, there is a positive correlation between the more highly anomalous flows of funds and a measure of fiscal, corporate and financial opacity.

Further study has produced a map of the incidence of anomalous flows on the total, province by province (Figure 5.4). Those with the highest incidence of anomaly (red in the map) are scattered around Italy: they comprise provinces located in regions registering large numbers of indictments for membership in mafia-style criminal organizations, wealthy Northern provinces, and border provinces.

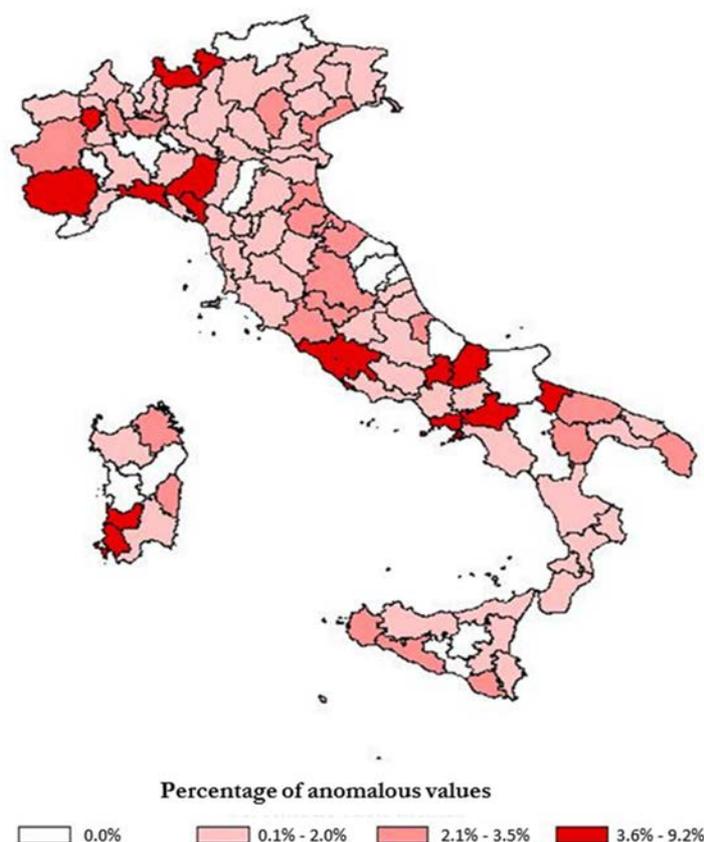
The interest in countries described as tax havens or offshore financial centres stems from the large share of international financial flows they account for. It is increasingly common knowledge that they attract substantial flows of money of illegal origin by making money laundering easy. Accordingly, a specific study has been conducted on the way in which low-tax and non-cooperative jurisdictions differ in degree of financial opacity. The study quantifies the international extent of the phenomenon.

The study of  
tax havens

The tax havens and non-cooperative countries are classified as low-, medium- or high-opacity. Each group has specific geographical and economic characteristics. The resulting indicator classifies countries according to their main type of opacity (corporate, financial, or fiscal). The flows of funds between those jurisdictions and Italy (data from the aggregate money laundering reports) are then analysed, and it is found that those with the high-opacity countries behave, over time, in a manner inconsistent with the flows with the rest of the world. Finally, the mass analysis of the STRs involving tax havens and non-cooperative jurisdictions highlighted some typological characteristics of the transactions reported.

Figure 5.4

Incidence of anomalous flows of funds, by province



Note: The provinces coloured red have an incidence of anomalous flows significantly higher than normal, by statistical standards.

Risk indicators -

In the framework of risk analysis, together with the financial supervision directorate general of the Bank of Italy the FIU is developing a set of indicators of money laundering risk. Among other things, the indicators can serve to produce information for assessing active cooperation. The FIU is refining econometric methods for estimating the correlation between an individual intermediary's suspicious transaction reports for a given geographical area and a set of possible "explanatory" variables. In addition to the risk measures already mentioned, these variables include socio-economic, financial, demographic and judicial indicators for each territory and the characteristics of the intermediary's business and transactions. The preliminary analyses conducted to date would appear to confirm the stable correlation between the number of an intermediary's STRs per province and the set of causal variables.

- and degree of active cooperation

Where there is an especially large discrepancy between the number of STRs actually transmitted and the number "expected" according to the model, this along with the other evidence available can help orient the Unit's action to stimulate more active cooperation on the part of intermediaries.

Lastly, the aggregate data are utilized for targeted inquiries in the framework of the Unit's cooperation with the supervisory authorities and other institutions (the Bureau of Antimafia Investigation, the Finance Police and the judicial authorities) in preventing and combating organized crime and terrorist financing.

#### 5.4. Gold trade declarations

The law governing the market in gold (Law 7/2000 as amended) provides that declarations of outward and inward transfers of gold and domestic trade in investment gold and mainly industrial gold materials (other than jewelry) for amounts of €12,500 or more must be made to the FIU. The Unit manages the resulting database. As the law provides, the data from these declarations are put at the disposal of the competent government units for uses relating to taxes, money laundering and public security. The FIU carries out special processing and data extraction at the request of the Finance Police.

Table 5.3 shows the categories of transactions in gold declared to the FIU in 2012 and 2013: number of declarations, number of single transactions, and total value declared.

Statistics on  
gold trade  
reports

Table 5.3

Declarations of transactions in gold						
Type of transaction	2012			2013		
	Number of declarations	Number of transactions	Declared value (millions of euros)	Number of declarations	Number of transactions	Declared value (millions of euros)
Sale	44,281	116,883	21,290	43,561	119,715	19,034
Gold loan (concession)	1,939	4,101	2,311	1,980	3,439	1,320
Gold loan (restitution)	1,700	2,102	368	920	1,155	144
Other non-financial transaction	167	566	1,026	114	318	339
Personal exports of gold	790	810	1,562	649	662	263
Personal imports of gold	20	20	16	15	15	2
Transfer as collateral	9	10	2	8	13	1
Delivery services for investment in gold	3	10	0	10	17	1
<b>Total</b>	<b>48,909</b>	<b>124,502</b>	<b>26,575</b>	<b>47,257</b>	<b>125,334</b>	<b>21,103</b>

Note: These statistics are adjusted for the market price of gold in cases in which the transaction value declared is manifestly out of line with that price.

The number of transactions was about the same in 2013 as in 2012, while the declared value fell by 20%, owing in part to the significant fall in the price of gold after a decade-long rise.

**Distribution by type of reporter**

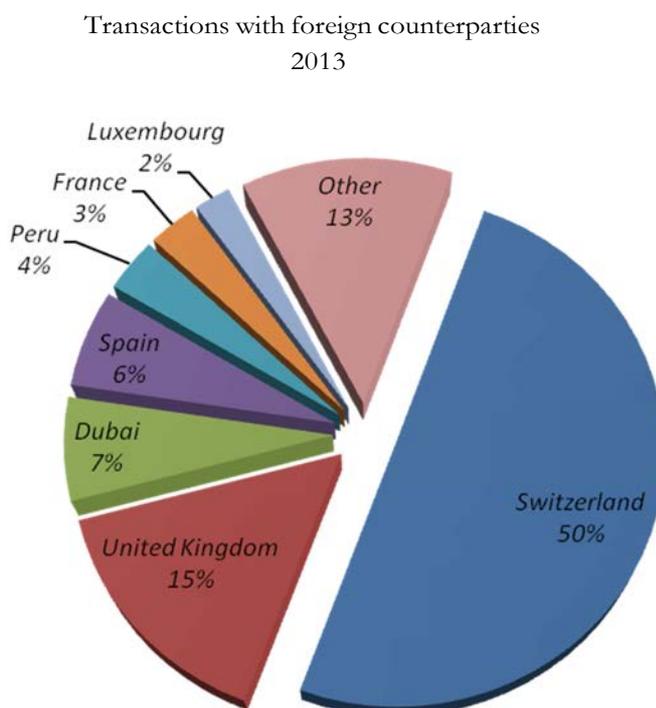
Professional gold dealers accounted for about 80% of the value of external gold transactions in 2013, more than in 2012; the share of banks declined to 20%. The amounts declared by other categories (non-professional traders and private individuals) remained marginal.

Purchases from individuals, largely by “cash for gold” buyers, dropped sharply in the second half of 2013, suggesting a possible regression after a long period of growth.<sup>49</sup>

**Distribution of counterparties by country**

Transactions with foreign counterparties amounted to some €7.5 billion or 36% of the total, about the same share as in 2012. The exchanges remained highly concentrated by country, the top five (Switzerland, UK, Dubai, Spain and Peru) accounting for 82% of the total (Figure 5.5).

Figure 5.5



Switzerland is the principal foreign market for gold shipped from Italy, resulting from industrial recovery of gold and the “cash for gold” business. Switzerland not only shares a border with Italy, it also has a highly favourable tax regime for commodities trading and is

<sup>49</sup> The exact number of “cash for gold” buyers in Italy is hard to estimate, as there is no such item in the sectoral classification of economic activities.

a major marketplace for gold. Sales to Swiss counterparties increased sharply in 2011 and 2012, then plummeted last year. Switzerland's share of sales of gold originating in Italy reached 83% in the second half of 2012 but fell to 50% in the second half of 2013.

As for the distribution of gold-purchasing counterparties resident in Italy, the leading provinces continue to be those traditionally specializing in gold-working (Vicenza, Arezzo, Alessandria), which by themselves account for around half the market, plus Milan, a key way station in the flow of gold to Switzerland.

Geographical  
concentration  
of Italian  
counterparties

## 6. CONTROLS

### 6.1. Inspections

In view of the extent of the obligations and the range of persons covered, Legislative Decree 231/2007 provides a detailed breakdown of how the control tasks are divided among the sectoral supervisory authorities, the FIU and the investigative bodies, in order to make preventive action cost-effective overall.

The FIU also conducts targeted and general inspections to gather data and the information necessary for the performance of its official duties and to check compliance with the obligations of active collaboration.

The selection of persons to be inspected is based on criteria related to risk, which in 2013 led the Unit to prioritize inspections of intermediaries for which some specific operating procedures or deviations from the expected levels of collaboration had been observed. The Unit's strategies include extending the scope of its controls to other types of operators and other potentially anomalous phenomena.

General inspections basically check the adequacy of the reporting procedures, compliance with the rules and fulfilment of the obligations of active cooperation on the part of the person being inspected.

Targeted inspections arise from the need for an in-depth analysis of reports received or possible failures to report; these inspections are also carried out under cooperation agreements, in particular with the judicial and law enforcement authorities.

In 2013 the Unit conducted 21 inspections (Table 6.1), of which 9 general and 12 targeted.

Table 6.1

	Inspections (2009 – 2013)				
	2009	2010	2011	2012	2013
Number of inspections	18	25	20	17	21

For the first time a general inspection was made of an insurance company. The inspection was conducted in cooperation with Ivass to benefit from the synergies developed thanks to the frequent exchanges of information between the two authorities.<sup>50</sup>

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<sup>50</sup> See § 7.3.

Once again in 2013, there was a lack of active collaboration in the asset management sector, in terms of inadequate customer due diligence, especially in relation to persons with whom the intermediary had only formal contacts, which were, in any case, not sufficient to correctly determine their risk profiles.

The online banking sector demonstrated a similar lack of adequate due diligence and consequent shortcomings in its ability to identify suspicious transactions.

Targeted inspections looked more closely into transactions between banks and particular categories of customers (bankruptcy trustees, “cash-for-gold” businesses) or those making significant use of high denomination banknotes. Special attention was also paid to anomalous securities transactions between foreign companies and Italian banks and financial intermediaries.

An inspection programme targeting the anomalous use of payment cards and their related information and financial flows began in 2012, continued in 2013 and led, in February 2014, to the dissemination by the FIU of specific anomaly guidelines.<sup>51</sup> There were also shortcomings in this sector regarding the arrangements made by the intermediaries, which could affect their capacity to fulfill their obligation to report suspicious transactions.

The 2012 Report illustrated some of the critical aspects that had emerged. These were confirmed by the many cases of payment cards being used by persons other than the cardholder – deduced from the fact that transactions were being made at the same time but in geographically distant locations. There were frequent cases of cardholders with a very high number of cards issued by the same bank, often prepaid cards, and with no upper limit for the number of cards per customer.

In order to detect the anomalous frequency of certain kinds of transaction, adequate automatic checking procedures must be adopted. Nevertheless the applications used by the banks do not always include the data present in their management systems which are essential to intercept any irregularities (exact transaction times, withdrawal or top-up points). These shortcomings prevent the detection of significant patterns of behaviour such as the serial use of several cards belonging to various persons at the same points of sale, ATMs or the POS machines installed at certain merchants’ premises.

Shortcomings were also identified in the procedures for checking the data provided by customers, the concentration of cash transactions at single external transaction points and links between withdrawal and credit transactions among several cards.

During its inspections, the FIU reported some cases of possible criminal activity to the judicial authorities. The Unit began its own enforcement procedures in relation to some administrative violations and notified its findings to the Ministry for the Economy and Finance for the subsequent preliminary proceedings.

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<sup>51</sup> See § 4.4.

## 6.2. Enforcement procedures

In 2013 there were 29 proceedings initiated (28 of which following inspections) for the application of pecuniary administrative sanctions for reporting failures (Table 6.2). Overall the FIU disputed unreported transactions for a total of about €67.8 million. Proceedings were also begun in relation to a violation of the provisions on cash deposits regarding obligatory reports to the Ministry for the Economy and Finance.

With reference to the law on gold,<sup>52</sup> the FIU managed the investigation of seven enforcement proceedings for violations of the reporting obligations concerning gold transfers or trade with a value of €12,500 and over. In 2013 investigations were also arranged for seven enforcement procedures for violations of the obligation to freeze the funds and economic resources of payees.<sup>53</sup> In the course of its investigations the FIU heard the interested parties and reported to the Ministry for the Economy and Finance, which is responsible for applying sanctions.

Table 6.2

Administrative irregularities (2009 – 2013)					
	2009	2010	2011	2012	2013
Non-reporting of a suspicious transaction	16	29	62	39	29
Violation in relation to a gold transaction	5	9	11	7	7
Violation in relation to terrorist financing			2	-	7

<sup>52</sup> See § 5.4.

<sup>53</sup> See § 7.2.2.

## 7. COOPERATION WITH OTHER AUTHORITIES

### 7.1. Cooperation with the judicial authorities

The Unit's cooperation and exchange of information with the judicial authorities increased further. In 2008 there were 53 enquiries from the judicial authorities, in 2013 there were 216 and 445 responses were sent, including those following up interlocutory proceedings in relation to additional information obtained by the Unit from Italian sources or its foreign counterparts.

The cooperation between the Unit and the magistracy provided for by Legislative Decree 231/2007 has different modalities and forms, by means of which penal action for the repression of money laundering and related crimes benefits from the Unit's large stock of information and analytical abilities.

In its dealings with the judicial authorities the Unit enhances its knowledge of criminal types and practices, which serves also to identify up-to-date anomaly indicators and representative models of anomalous conduct that, distributed among intermediaries and operators, increase their ability to cooperate actively.

The Unit's contribution has developed in the context of investigations of suspected money laundering involving Mafia or other organized crime. The Unit has also cooperated in investigations of financial transfers in suspected cases of misappropriation of funds, corruption, tax evasion, fraudulent bankruptcy and serious fraud against the State. Analyses have also been carried out in support of judicial investigations into more strictly financial crimes – such as the hindering of supervisory activity and the unauthorized gathering of savings and other financial activities – or tax fraud on a major scale or cross-border.

Table 7.1

Cooperation with the judicial authorities (2010 – 2013)				
	2010	2011	2012	2013
Enquiries received from the judicial authorities	118	170	247	216
Responses sent to the judicial authorities	240	172	217	445

To meet the magistracy's enquiries, the Unit uses the information it holds in its databases, which consists mainly of suspicious transaction reports, technical reports and information provided by foreign FIUs.

When necessary, the Unit uses its powers to obtain additional information from persons obliged to comply, including by means of inspections or via the network of foreign counterparts in order to obtain news and facilitate international judicial assistance procedures by means of enquiry letters.<sup>54</sup>

The documentation collected by the Unit is sent to the magistracy subject to legal confidentiality and the rules and practices of international cooperation.

<sup>54</sup> See § 8.1.1.

Where it is in possession of sufficient elements to identify a crime for which it can proceed on its own authority, the Unit sends reports to the judicial authorities under Art. 331 of the Code of Penal Procedure, including via the investigative bodies, by way of the technical reports on STRs. In 2013 the Unit made a total of 190 such reports.

The Unit also sent the judicial authorities 8 information documents serving to provide supplementary data for investigations under way (Table 7.2).

Table 7.2

Reports to the judicial authorities		
	2012	2013
Reports under Article 331 of the Code of Penal Procedure	158	190
of which:		
submitted to the judicial authorities	9	12
made in connection with the technical report sent to the investigative bodies	149	178
Information documents for investigative purposes	8	8

The growing recourse made to the different forms of cooperation has led to consultancy-type relationships being developed between the Unit and some of the public prosecutor's offices most deeply involved in fighting organized crime, corruption and tax evasion, with positive results in highly complex and delicate investigations. Important forms of cooperation have also been developed with the National Antimafia Bureau and, through this, with some public prosecutors' antimafia offices. The cooperation is carried out in accordance with the distinction between roles, obligations and methods laid down by law.

The increasingly close cooperation with some public prosecutor's offices has led to the creation of direct channels for the receipt of enquiries and the transmission of responses. In the same way as with the Milan public prosecutor's office, in October 2013 an electronic channel was created with the Naples public prosecutor's office, permitting the exchange of information with maximum timeliness and confidentiality. In future it will be possible to extend these methods to other public prosecutor's offices with which there is a high level of cooperation.

Members of the Unit participated in training courses for trainee magistrates organized by the Scuola Superiore della Magistratura (Higher Institute for Judicial Studies).<sup>55</sup> On 4 February 2014 the head of the Unit spoke at the conference on legality and the smooth working of the financial system held at the Bank of Italy with the participation of members of the Consiglio Superiore della Magistratura (Governing Council of the Judiciary).<sup>56</sup>

<sup>55</sup> See § 9.5.

<sup>56</sup> The speech is available on the Bank of Italy's website, <https://uif.bancaditalia.it/pubblicazioni/interventi/index.html>

## 7.2. Cooperation with the Ministry for the Economy and Finance and the Financial Security Committee

The Unit cooperates with the Ministry for the Economy and Finance, providing technical support for all the functions that anti-money-laundering law entrusts to the Ministry: the formulation of prevention policies, the drafting of legislation, the imposition of sanctions, and links with international bodies.

The Unit participates in the Financial Security Committee, located at the Ministry for the Economy and Finance, in which all the authorities involved in the system of prevention are represented; the Unit's contribution has become especially important in the national assessment of the risks of money laundering and terrorist financing, inter alia to comply with the indications of the Financial Action Task Force (FATF).

### 7.2.1. National risk assessment

At the initiative of the Financial Security Committee, early in 2013 a working group was set up at the Ministry for the Economy and Finance with the task of assessing, after developing a suitable methodology, the risks of money laundering and terrorist financing in Italy. All the authorities present in the Financial Security Committee are represented in the group.

The group's creation is intended to implement the FATF recommendations, which provide for the member states to assess the aforementioned risks within their national borders and prepare the defences needed to mitigate them effectively according to a risk-based approach.

#### The analytical methodology

The working group has developed a method of analysis based on the concepts of "inherent risk" and "residual risk". Inherent risk is given by the potential volumes of money laundering and terrorist financing present in the country, which are related to the "threats", i.e. the main crimes and criminal activities, that characterize the socio-economic context. The overall system of prevention and repression works to mitigate this risk. The residual risk is given by the share of inherent risk that is not adequately countered by the protective system owing to inefficiencies and vulnerabilities from which the latter may suffer.

The detection of threats, vulnerabilities and consequences draws on quantitative and qualitative methods of analysis.<sup>57</sup> The latter are also based on the opinions of experts in the field, which make it possible to take account of aspects that are less well known and observable owing to the lack of quantitative information.

One of the main risk indicators adopted is the use of cash, deemed to be the prevalent means of payment in transactions involving the informal and illegal economies. The preliminary results of analyses still under way confirm the existence of a positive correlation, at local level, between the use of cash and some criminality indicators: one such indicator provides a measure of the ability of the criminals operating on the territory to do business in illegal goods and services (e.g. drug dealing, exploitation of prostitution

<sup>57</sup> With a contribution from the aggregate data analyses and research referred to in § 5.3.

and fencing); a second indicator identifies the set of criminal activities most closely related to control of the territory (such as extortion, theft and robbery).

The determination of the effectiveness of the defences against money laundering assesses the adequacy of the national system with reference to prevention, investigation and repression. The methodology is based on a sectoral analysis referring to the various persons subject to anti-money-laundering regulation: financial intermediaries, professionals and non-financial operators.

For each category a preliminary assessment was made of the specific risk deriving from its structure and activity. Indicators were computed on the basis of the data regarding the business of financial intermediaries, in particular banks, that make it possible to estimate the risk of their being involved in money-laundering operations. The effectiveness of the defences against money laundering was then assessed, taking account of the general level of supervision and control on the persons subject to anti-money-laundering regulation and the results of the inspections carried out.

### 7.2.2. Lists of “designated” persons and freezing measures

The Unit verifies, for the matters for which it is responsible, intermediaries’ compliance with the freezing measures regarding funds and economic resources traceable back to persons involved in terrorist financing or to countries that threaten the peace and international security, and the related derogations authorized by the Financial Security Committee for the cases expressly specified by law.<sup>58</sup>

In this field the Unit collects information and financial data on the funds and economic resources subject to freezing measures and fosters the dissemination of the lists of “designated” persons<sup>59</sup> and their updates. In 2013 the Unit received 43 notifications of the freezing of funds of natural or legal persons included in the lists of persons subject to international sanctions. Most of the cases referred to updates of transactions on accounts in the names of designated Iranian and Syrian banks specifically authorized by the Financial Security Committee in compliance with EU law.

At the end of 2013 the resources frozen, belonging to 70 persons, amounted to about €35 million and \$3.6 billion (Table 7.3). The reduction in the funds in euros compared with the previous year was due to the delisting of numerous Libyan entities and the use of funds of Syrian banks to pay for supplies of food or to meet basic needs on the basis of the derogations expressly provided for in EU Regulation No. 36/2012. The substantial increase in the funds in dollars was almost entirely due to the maturity of securities deposited abroad by an Italian intermediary for an Iranian bank, since the net proceeds were simultaneously frozen.

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<sup>58</sup> Article 10 of Legislative Decree 109/2007.

<sup>59</sup> Pursuant to Article 1.1(g) of Legislative Decree 109/2007, “designated” persons means the natural and legal persons, the groups and the entities indicated as subject to freezes under EU regulations and ministerial decrees referred to in Article 4 of the above-mentioned legislative decree.

Table 7.3

	Freezes				
	Accounts and transactions subject to freezing measures	Persons subject to freezing measures	Amounts frozen		
			EUR	USD	CHF
Taliban and Al-Qaeda	55	39	102,969	11,707	50
Iran	57	17	8,591,076	3,561,933,562	37,593
Libya	8	6	125,830	132,357	
Tunisia	1	1	50,625		
Syria	31	6	24,392,948	241,063	152,878
Ivory Coast	3	1	1,700,214	34,816	
<b>TOTAL</b>	<b>155</b>	<b>70</b>	<b>34,963,662</b>	<b>3,562,353,505</b>	<b>190,521</b>

In 2013 the Financial Security Committee and the Network of Experts that supports it<sup>60</sup> examined about 4,300 requests for authorization to transfer funds to or from Iranian persons and entities, in accordance with EU law,<sup>61</sup> which requires all financial transactions involving Iranian persons and entities and worth more than €40,000 to be authorized by the competent national authority; authorization is not granted where there are good reasons for believing that a transfer is connected with forbidden activities related to the proliferation of arms of mass destruction.

A diplomatic agreement was reached with Iran in 2013 on a joint action plan to arrive at a long-term global solution to the Iranian nuclear question; accordingly provision was made for the thresholds for the notification and authorization of fund transfers to and from Iran to be increased. The changes came into force on 21 January 2014 under Council Regulation (EU) No. 42/2014 and increased the thresholds by a multiple of ten.

### 7.2.3. Other initiatives

The Unit has supported the activity of the Financial Security Committee in response to a request for cooperation received from the Panel of Experts set up by the United Nations in accordance with Security Council Resolution (1973/2011) on the situation in Libya.

Cooperation with the authorities participating in the “technical table” set up at the Ministry for the Economy and Finance continued with the aim of periodically examining questions raised by operators and, more generally, the interpretation of anti-money-laundering legislation.

<sup>60</sup> Under Article 4 of the Internal Regulation of the Financial Security Committee, the Network is made up of persons appointed by the various bodies making up the Committee.

<sup>61</sup> Article 30-bis of Council Regulation (EU) No. 267/2012.

The Financial Security Committee was informed on the new methods for the dismissal of STRs and the content of an agreement reached with the Finance Police for obtaining indicators of “investigative prejudice” linked to persons reported on.<sup>62</sup>

### 7.3. Cooperation with the supervisory authorities and other institutions

Bank of Italy  
supervision

Last year again saw a high level of activity in the exchange of information between the Unit and the Bank of Italy’s Banking and Financial Supervision Area on anti-money-laundering matters falling within their respective fields of competence. The Unit sent the Bank, mainly as a result of inspections, 20 reports on shortcomings in some intermediaries’ organizations, mainly regarding compliance with customer due diligence and data recording and retention obligations. In turn the Bank notified the Unit of 32 cases of shortcomings in intermediaries’ cooperation. On the basis of these notifications, the Unit undertook on- or off-site investigations and also used the information received for the analysis of suspicious transactions.

CONSOB

The exchange of information with Consob continued in 2013, as provided for in the Protocol signed in 2012. Consob notified the Unit of failures to submit reports that it found, as well as sending information on transactions possibly related to money laundering that emerged during its investigations of suspected market abuse.

A meeting was also organized with Consob officers to analyse the ways in which it carried out its investigations to repress market abuse and its inspections in the field of investment services.

IVASS

Cooperation with the Insurance Supervisory Authority (IVASS) was intensified in 2013. The exchange of information focused in particular on cases of regulatory arbitrage by Italian persons and entities that, not satisfying the requirements for operating on the Italian insurance market, acquire control of insurance companies located in other EU countries, so as to benefit from the less stringent controls in force there and operate in Italy under the freedom to provide services. Such persons and entities, some of which are being investigated by the judicial authorities, frequently provide surety insurance, including the issue of sureties to public entities.

Customs and  
Monopolies Agency

On 13 December 2013 the Customs and Monopolies Agency and the Unit signed a Memorandum of Understanding aimed at strengthening their cooperation. The agreement allows the Unit to access the Agency’s database, which contains the declarations concerning movements of cash in excess of €10,000.<sup>63</sup>

In addition, the Agency will send the Unit the data from which emerge facts that may be related to money laundering. The Unit will send the Agency information on facts that are relevant for the controls on cross-border movements. The agreement will allow the two authorities to exchange information on the results of analyses of financial flows and related research.

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<sup>62</sup> See § 3.5.

<sup>63</sup> Legislative Decree 195/2008.

## 8. INTERNATIONAL COOPERATION

### 8.1. Exchange of information with FIUs in other countries

In accordance with international standards and EU rules, the system of preventing and combating money laundering and terrorist financing is based on the essential role played by the financial intelligence units (FIUs). At the national level, they centralize information relating to suspicious transactions to conduct financial analysis and facilitate any subsequent investigations. At the international level, the FIUs form an extensive cooperation network, exchanging information for a more detailed analysis of cases in which there are links with foreign countries.

The FIUs have some common functions and reciprocal cooperation activities; at the same time, there is great variety in the institutional and organizational tasks assigned to the units of the different national systems.

#### Financial Intelligence Units: concept and models

The current definition of a Financial Intelligence Unit was approved by the Egmont Group in 1995. It was included in the FATF standards and transposed into European law with Council Decision 2000/642/JHA and Directive 2005/60/EC.

The new FATF Recommendations of 2012 consolidate and clarify the distinctive features of a financial intelligence unit – an authority that receives and analyses suspicious transaction reports and other relevant information, communicates the results of its analyses to the investigative and judicial bodies, acquires additional information from the parties obliged to provide it, and exchanges information within the global network of FIUs participating in the Egmont Group (currently 139).

The choice of the nature and organizational structure of each FIU is left to the individual national legal systems. A comparative study shows a variety of models based, to a greater or lesser degree, on the following types of units: judicial, law enforcement, administrative and hybrid.

Most of the European FIUs follow the administrative, law enforcement or judicial model. The law enforcement FIUs (such as those of the United Kingdom and Germany) are mostly specialized police departments; judicial FIUs (for example, the Luxembourg unit) are established at the offices of the judiciary. The judicial or law enforcement types of FIU focus on investigative activity and have broad access to domestic and international law enforcement information. These types of units may have limited access to financial information and analysis.

The administrative type of FIUs are sometimes located within government ministries (as in France and Belgium), whereas in other countries they have offices at the central bank (as in Italy and Spain). The advantages of administrative FIUs consist mainly of wide and seamless cooperation with reporting entities; they have special technical expertise in financial analysis, making this function independent of the investigative phase, thus maximizing the effectiveness of the overall process. To ensure the necessary efficiency of their work, appropriate mechanisms are required to coordinate the activities of the FIUs and the law enforcement and judicial authorities.

The hybrid FIUs are a less frequent choice, possibly the result of the merger of two previously separate authorities – the administrative side normally prevails in the governance structure, while the investigative side focuses on operations.

In Italy, Legislative Decree 231/2007 confirmed that Italy's FIU had chosen the administrative model, continuing from the previous structure set up in 1997. The FIU, established at the Bank of Italy, took over the anti-money laundering functions which had previously been the responsibility of the Italian Foreign Exchange Office (UIC).

Originally, the Italian legislature had placed these functions with the law enforcement agencies: Decree Law 143/1991, converted by Law 197/1991, indicated the local authorities (such as police stations) that could receive suspicious transaction reports. Subsequently, experience suggested centralizing these functions with UIC (under Legislative Decree 153/1997) since it was an administrative authority midway between the reporting entities and the investigating authorities, thereby emphasizing the distinction between suspicious transaction reports and crime reports, and that between tasks of financial analysis and those of investigation, while also protecting the privacy of the reporting entities and encouraging their active collaboration.

This line of policy was confirmed and strengthened by the establishment of the Financial Intelligence Unit, under Legislative Decree 231/2007. The Unit was placed in a position of managerial and operational autonomy at the Bank of Italy. The Unit has highly specific responsibility for financial analysis. The autonomy of the FIU, in line with international standards, is guaranteed not only by the particular governance structure of the Unit, but also by the Bank of Italy's position of independence as part of the European System of Central Banks.

The EU regulations in force, as confirmed in the draft of the Fourth Directive, set a mandatory standard of "multidisciplinary" according to which any FIU, regardless of its organizational nature, must have access "to the financial, administrative and investigative information necessary to carry out its tasks adequately". In this perspective, the FIU has repeatedly indicated, including in the light of observations made by the FATF Mutual Evaluation Report on Italy in 2006, the need to align the domestic regulations that currently will only allow it to access investigative information in the context of international cooperation, but not for conducting its own analysis tasks.

### 8.1.1. Requests sent to FIUs in other countries

The exchange of information with FIUs in other countries is an essential part of the Unit's work in analysing suspicious transaction reports. It also allows information to be gathered for investigations into cases of money laundering or terrorist financing.

Over the last five years, the total number of requests for information sent by the FIU to its counterparts abroad increased significantly, mainly due to the use of new cooperation procedures (Table 8.1).

Table 8.1

Requests sent to FIUs in other countries					
	2009	2010	2011	2012	2013
Information required for the judicial authority	60	89	128	137	124
Information required for internal analysis	19	37	44	80	56
Known/unknown <sup>(1)</sup>	-	-	-	-	270
Total	79	126	172	217	450

(1) This statistic was not surveyed independently prior to 2013.

In particular, to step up information exchange and increase its effectiveness, since the second half of 2013 systematic support has been given to “known/unknown” requests through which it is possible to establish if certain persons are known or unknown to foreign units (this is different from the usual motivation and description of the case required for inter-FIU cooperation). If there is positive feedback, the information exchange then moves forward by sending the reasoned request for information. The known/unknown enquiries enhance the potential of the FIU.NET platform, enabling immediate targeted information exchanges with the other European FIUs.<sup>64</sup>

Under the new known/unknown procedure, 270 enquiries were made concerning more than 300 persons (natural persons, entities or companies), based on a selection of cases with foreign connections that could be examined in more depth with the cooperation of the European FIUs. About 100 persons were found to be known to the foreign units.

#### Information sharing required by the judicial authority

As well as being a useful tool for analysing suspicious transaction reports, the exchange of information with foreign units is often a crucial part of the FIU’s cooperation with the Italian judicial bodies and investigations into cases of international money laundering.

The feedback from foreign counterparts, used on the basis of and within the limits imposed by them, has been extremely useful in several cases to orientate the investigations, implement precautionary and coercive measures (seizure, confiscation), and make detailed international requests for information (“rogatory letters”).

In 2013 the FIU made 124 requests for information to FIUs in other countries as part of its cooperation with the judicial and law enforcement authorities. The feedback received

<sup>64</sup> The FIU.NET Project, promoted by the European Commission to encourage cooperation between the FIUs of the member countries, was started in 2000. It involved the creation of an electronic data communications platform with high standards of security that could be integrated with the IT procedures of the participating FIUs. The FIU.NET infrastructure supports the Egmont Group’s global network (the Egmont Secure Web) which provides a broad range of functions.

made it possible to trace the origin or destination of cash flows relating to the proceeds of crime and to obtain information on the availability and location of resources subject to precautionary or coercive measures.

Requests were sent, among others, to the following main units: in the EU, the FIUs of Luxembourg, France, Germany, Malta and Cyprus, and outside the EU, the FIUs of Switzerland and the Republic of San Marino.

The vast majority of requests involved the further investigation of transactions made by Italian intermediaries with foreign counterparts. In such cases, the aim is primarily to trace the origin of the funds or verify their use. In many cases, the information is required in order to identify the beneficial ownership of companies or other entities established abroad.

The FIU shares information with FIUs in other countries according to the rules established by Article 9 of Legislative Decree 231/2007 and within the framework of the common European and international standards (as defined by the FATF and the Egmont Group). The legal systems of some countries make international cooperation on the part of their national FIU dependent on previously arranged Memoranda of Understanding. In these cases, the FATF Recommendations call for these agreements to be stipulated in a timely manner and with the greatest possible number of counterparties.

#### Relations with the Vatican's Financial Information Authority (AIF)

The anti-money laundering legislation of the Holy See/Vatican City State has recently been affected by changes in view of a progressive alignment with international standards. In December 2012 a provision was removed that had previously required any memorandum of understanding – a prerequisite for cooperation between the AIF and other FIUs – to be cleared by the Vatican Secretary of State. This regulation, in line with the international standards for the independence of the FIUs, facilitated the admission in 2013 of the AIF to the Egmont Group.

In this context, on 26 July 2013 a Memorandum of Understanding between the Italian FIU and the AIF was signed committing the two agencies to exchange complete and comprehensive information to facilitate their respective tasks for the financial analysis of suspicious transactions. The memorandum is particularly important in view of the close territorial, economic and financial relations between the two countries.

The FIU signed the agreement in the hope of starting effective and fruitful cooperation with the AIF, including in consideration of current stage of the review of the Vatican's legal and financial system and, in particular, of the process of due diligence on accounts held at the Institute for the Works of Religion (IOR).

Improvements in the Vatican's regulatory framework were recognized in the Progress Report of the Holy See/Vatican City State approved by Moneyval in December 2013, which, at the same time, emphasized the need to make rapid progress in terms of its range of operations and effectiveness.

Cooperation with FIUs in other countries is still an essential tool, but there are nevertheless some problems that limit its effectiveness.

In some countries, the FIU may limit its cooperation to requests for information on facts that constitute the predicate offence of money laundering under its own legal system. This constraint is particularly common with respect to tax offences, for which the exchange of information has significant limitations. The new FATF Recommendations, which explicitly include the category of tax offences as predicate offences, could help, especially following the fourth round of mutual evaluations, to resolve or at least to reduce this problem. This point is currently being discussed at EU level in preparation for the Fourth Directive.<sup>65</sup>

These aspects may also be subject to international standards and rules, which require the FIUs to have greater powers to acquire information and also to respond to requests for information from their foreign counterparts.

Many countries lack a centralized database with information on bank account holders, which further limits the effectiveness of cooperation.

Finally, there are some problems regarding the reporting of suspicious transactions by EU-based intermediaries operating under the freedom to provide services. Under EU law, these reports must be submitted to the FIU of the country in which the reporting intermediary is established. As a result the FIU of the country in which the potentially illegal activity is established may not receive the necessary information in time to start its own enquiries. This happens, in particular, in the field of payment institutions, which frequently do business abroad, working from their country of establishment, under the freedom to provide services. In the absence of uniform EU legislation, the European FIUs initiated cooperation practices based on the transmission of spontaneous communications to bring information to the attention of the FIUs of the countries where the suspicious transactions took place. The current text of the Fourth Directive recognizes this practice, framing it in specific provisions.

### 8.1.2. Requests and spontaneous communications from FIUs in other countries

The growing trend of requests for cooperation from foreign FIUs and of spontaneous communications sent by them continued in 2013, especially through the Egmont network.

Table 8.2

Requests and spontaneous communications of FIUs abroad (subdivided by channel)					
	2009	2010	2011	2012	2013
Egmont network	561	482	467	429	519
FIU.NET	136	143	229	294	274
Total	697	625	696	723	793

<sup>65</sup> See § 1.1.

The requests received by the FIU are subject to an initial analysis to assess the characteristics of the case in question and their possible importance in relation to the Unit's direct competencies.

These requests often relate to information not yet in the FIU's possession. In these cases, the Unit starts to obtain the necessary additional information from those subject to the anti-money laundering requirements (for example, information on the use of accounts or the use and source of funds) or from external archives (the archive of financial account holders is particularly useful). In the many cases where foreign units require investigative information (for example, regarding a criminal record or current investigations), the FIU provides the data after obtaining it from the competent law enforcement authorities under Article 9.3 of Legislative Decree 231/2007.

The content of spontaneous communications and requests received is, in general, shared with the law enforcement authorities for any further assessment activities within their competence, with the prior consent of the foreign FIU.

The majority of requests for cooperation sent to the Italian FIU come from units in other EU countries, the Republic of San Marino, and Switzerland. During 2013 bilateral conferences were organized with the FIUs of San Marino and Switzerland specifically focusing on the analysis of cases of common interest and on improving cooperation practices.

### 8.1.3. FIU-NET and automated matching

The availability of sophisticated, constantly updated, technical tools has led to the introduction of new forms of cooperation and information exchange. In particular, the advanced functions of the FIU.NET infrastructure mean that innovative forms of use can be developed to support international cooperation.

In addition to facilitating information exchange for the detailed analysis of specific situations, FIU.NET can search for matches across entire databases to find names reported in several countries, even if no international connections have previously been detected.

By means of the case-matching facility, FIUs making requests to one or more counterpart units for information on a single situation are able to discover all the other matches in the archives open to the participating units. This facility is the next step for requests of the "known/unknown" type, thanks to which the response is not limited to the archives of the individual FIU receiving the request but comes from the automated cross-matching of the archives made available by FIU participants.

Cross-matching does not start from a specific case or an individual position, but makes a complete search across entire databases to find matches between names that had not been previously connected with any of the persons being investigated. This is a feature that can be useful both for the detection of international connections of persons whose foreign activities were not known previously, and for strategic analysis by identifying elements of transnational importance.

The process is based on the encryption of the information made available for the cross-matching and only reveals the existence of matches at other FIUs. Subsequently, in order to acquire the full information, specific and reasoned requests must be submitted. Therefore cross-matching is in addition to the usual tools for information exchange to be

used as a preliminary step to broaden the scope of the cooperation through the identification of international connections that were previously unknown and, for this reason, potentially of great interest.

In 2013 the FIU began multilateral cross-matching, extending its field of interest to the archives already made available on FIU.NET by six other FIUs, and conducting bilateral cross-matching exercises under agreements with the FIUs with which it has close operational links.

## 8.2. Involvement in international organizations

The FIU is an active participant in the work of international organizations engaged in preventing and combating money laundering and terrorist financing, contributing in particular to the development and sharing of rules and practices.

### 8.2.1. FATF activities

The FIU participates in the work of the FATF on a regular basis as part of the Italian delegation headed by the Ministry for the Economy and Finance.

In 2013, the FATF adopted the new Methodology for Assessing Compliance and Effective Implementation of the FATF Recommendations, which is the main instrument for the fourth round of mutual evaluations for the member countries, based on standards approved in February 2012.

Fourth round  
of mutual  
evaluations

The methodology is divided into 1) criteria for the evaluation of the technical compliance of national anti-money laundering systems with FATF standards and 2) outcomes and core issues in order to evaluate the effectiveness of the concrete measures adopted by each country and the action taken by the competent authorities. The part relating to effectiveness is based on outcomes: the main objective to eliminate money laundering and the financing of terrorism is divided into three intermediate outcomes and eleven immediate outcomes, decided in reference to the standards through a grouping process.

The FIU has been involved in the preparation of the methodology as part of the Italian delegation to the FATF and through the Egmont Group. One of important points was to give specific importance to the evaluation of the effectiveness of the FIUs (with reference to their characteristics, functions and powers, as well as to international cooperation between them). Another essential point was the link between the evaluations of technical compliance and those of effectiveness, in order to ensure that national systems cannot be considered effective if there are shortcomings in their regulatory and institutional arrangements.

The FATF has also issued its Procedures for the FATF Fourth Round of AML/CFT Mutual Evaluations, indicating the various stages and dates of the evaluation process. Some initial training sessions were organized for the assessors. Four FIU experts attended the session held in 2013 at the Ministry for the Economy and Finance. There is also one FIU agent working on the Mutual Evaluation of Belgium.

Italy will be among the first member states to be examined in the fourth round of mutual evaluations. The first items on technical compliance must be sent to the FATF Secretariat in July 2014 followed, in September, by those relating to effectiveness. The on-site visit of the assessment team is scheduled for January 2015 with the discussion of the final report at the FATF Plenary in June 2015. The domestic process of preparation is coordinated by the Ministry for the Economy and Finance with the participation of all interested parties and authorities.

The national risk assessment is in its final stages<sup>66</sup> – an essential prerequisite for the anti-money laundering system as described in the new FATF standards and an important step in the evaluation process.

#### Organizational review

At the plenary meeting in June 2013, the FATF approved a revision of its organization, taking into account the experience gained and, above all, the update of its Recommendations. Under the new arrangements, the FATF divides its activities among five working groups, differentiated by thematic area and consisting of representatives of the competent national authorities (including the FIUs). The policies and proposals are then discussed in the plenary session, which adopts the final decisions and approves the documents prepared by the groups.

The reorganization is aimed, in particular, at ensuring the effective implementation of the new standards and to adequately support the activities related to the fourth round of mutual evaluations. One main point of the organizational review is a clearer separation between, on the one hand, tasks related to the development of standards and compliance assessments and, on the other, those relating to the formulation of policy and guidelines. The traditional recognition and analysis of money laundering and terrorist financing typologies will now be carried out alongside risk assessment, both in terms of methodology and through the direct identification of risk factors. Efforts continue to identify countries with “strategic shortcomings” in their anti-money laundering systems and the related countermeasures that could be applied.

When participating in the working groups, the FIU pays particular attention to developing the guidelines and best practices for the important aspects of the new Recommendations (beneficial ownership, the risk-based approach, implications of the data protection measures for defences against money laundering, enforcement and control activities). Analysing the typologies of money laundering and terrorist financing in greater detail, attention was paid above all to the physical transfer of cash, transactions in gold, and the abuse of non-profit organizations. Future projects of particular interest include focusing on the development and use of virtual money, which is also arousing interest in other international fora.

The in-depth analyses under way at the FATF demonstrate that non-profit organizations are attractive to terrorist groups in that the “altruistic” aims declared, can engender trust and facilitate access to sources of financing, often in cash or in non-traditional forms (for example, through small contributions from members of the reference communities). These organizations can be used as a cover or to provide logistical support for illegal activities, to develop political-ideological consensus, and to raise funds for

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<sup>66</sup> See § 7.2 and 7.2.1.

terrorist groups. FIUs have a crucial role to play in the detection of cases of interest. However, it should be noted that there have been very few suspicious transaction reports of possible cases of terrorist financing related to non-profit organizations. In these cases, cooperation is essential between the authorities involved in the controls, through the exchange of information.

The FATF will now support the complex process of work for the Fourth Round of Mutual Evaluations. The necessary activities will be carried out, in particular, by international assessment teams (composed in rotation of experts from the national delegations) and ad hoc working groups established to review the evaluation reports and to prepare for the related discussions. The Evaluation and Compliance Group will coordinate and supervise the process, ensuring the uniformity of assessments and the correct application of its methodology. The Plenary will host the discussion of the reports and, by adopting the decisions in relation to each report, will create a set of cases on which to base the application of the Recommendations. Of particular interest is the monitoring activity planned for the first assessment procedures to ensure uniform interpretation and application of the standards and the methodology.

### 8.2.2. Egmont Group activities

The Egmont Group approved new standards and operational guidance for FIUs in July 2013. The FIU participated actively this work; a representative of the FIU (Chair of Egmont's Legal Working Group) was appointed Vice-Chair of the Egmont Group.

The new standards concern the Egmont Group Charter, the "Principles for Information Exchange", and the "Operational Guidance for FIU Activities and the Exchange of Information". The Charter states the aims of the Egmont Group, gives the formal definition of an FIU and explains how the Organization works. The Principles concentrate on the basic rules to be applied to international cooperation for the detailed analysis of suspicious transactions. The Operational Guidance provides some details on how institutional activities and international cooperation are conducted.

The basic aims underlying the new standards include: full alignment with the FATF Recommendations; ensuring that only the essential rules of international cooperation contained in the Principles shall be binding; definition of details on implementation in guidelines that are not binding for the FIUs and, as a result, not enforceable under the compliance procedure.

The compliance procedure is under review to ensure greater effectiveness and objectiveness. The evaluation will also be based on the outcome of the Mutual Evaluations of the FATF and related regional authorities. Attention will be paid specifically to the number of international exchanges, the timeliness of the responses provided and the ability to transmit pertinent and full information.

At the same time as the review of standards for the FIUs, in 2013 the Egmont Group also modified its internal organization, with the decentralization of some activities on a regional basis, with the aim of 1) ensuring the greater effectiveness of the Group's

operations given the steady expansion of its membership, and 2) taking into consideration the similar characteristics of FIUs in the same geographical area. In 2013, eight FIUs joined the Egmont Group, bringing its numbers to 139 Units.

The FIU participates in the working groups relevant to its activities.

The Legal Working Group was responsible for the evaluation of candidate FIUs and verified cases of infringements by existing FIU members. It also issued opinions on the content of the standards and made analyses for the participation of the Egmont Group in the work of the FATF. This Working Group also updated the criteria and procedures for the admission of new Egmont Group members, developing a particular Methodology for this purpose, and it established a new model of the Memorandum of Understanding, to be used by the FIUs for future memoranda of understanding for international cooperation. Work also began on a survey to monitor any difficulties faced by FIUs in the application of the new standards, identifying specific questionnaire items to process and discuss in an Implementation Workshop scheduled for the Plenary of June 2014.

The Operational Working Group made an in-depth analysis of the “typologies” of money laundering or terrorist financing and operating activities of common interest to the FIUs. Projects were completed relating to Mass Marketing Fraud<sup>67</sup> and money laundering in the diamond trade (the latter in collaboration with the FATF). Work continued on the analysis of the FIUs’ powers in relation to access to information, domestic cooperation, and international exchanges. The project dedicated to the characteristics of the FIUs’ financial analysis activities and the necessary tools for this work also continued. In this context, in a specific workshop organized in November 2013, participating FIUs began to discuss their various different approaches, sharing their experiences.

The Information Technology Working Group continued its discussion of the project entitled “Securing an FIU” concerning the criteria for information security. It also continued work on the project entitled “FIU IT System Maturity Model” (FISMM), which aims to provide a guide for the development of the FIUs’ information systems. Considerable attention was also devoted to issues related to the integration of the Egmont and the FIU.NET systems.

The Training Working Group continued its commitment to defining and implementing training and technical assistance programmes for the FIUs. Of particular importance are the initiatives to support the transition to the new Egmont standards. Work is also continuing on training in operational and strategic analyses.

<sup>67</sup> Fraud effected via tools and channels of mass communication.

## 9. ORGANIZATION AND RESOURCES

### 9.1 Organization

The Unit's organizational structure, with six Divisions, was kept unchanged last year. The management – renewed with the appointment of the Director in January and the Deputy Director in August – is supported by two collegial bodies made up of FIU managers, the Advisory Committee for the Examination of Irregularities and the On-site Inspection Centre).

In accordance with the law, the Unit is assisted by a Committee of Experts, consisting of the Director and four members appointed for three years by a decree issued by the Minister for the Economy and Finance after consulting the Governor of the Bank of Italy. Aside from the Director, who chairs it, the membership of the Committee was unchanged. The Committee met a number of times during the year, constantly monitoring the Unit's activities and making a substantial contribution with regard to the main organizational choices, the development of patterns of anomalous behaviour, and the process of analysing suspicious transaction reports.

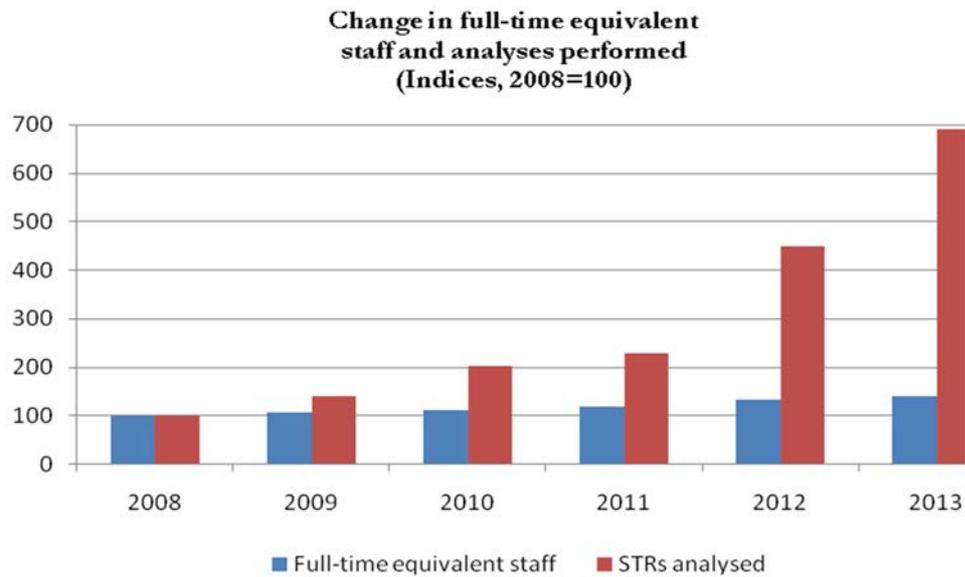
Committee of Experts

### 9.2. Performance indicators

The Unit has set ambitious productivity objectives in recent years, in the awareness that increasingly massive data flows could not be handled solely by expanding qualified staff but would also demand significant gains in efficiency. This involved a greater commitment to planning and the design of dedicated information instruments and systems, with the contribution of the relevant Bank of Italy function.

The results have been striking. Between 2008 and 2013, while the staff increased by 41% in terms of full-time equivalent workers, analytical capacity was expanded sevenfold, and the number of STRs processed per capita jumped from 134 to 657. An especially large gain in productivity was achieved last year, with the full phasing in of the innovations to the STRs handling and control processes.

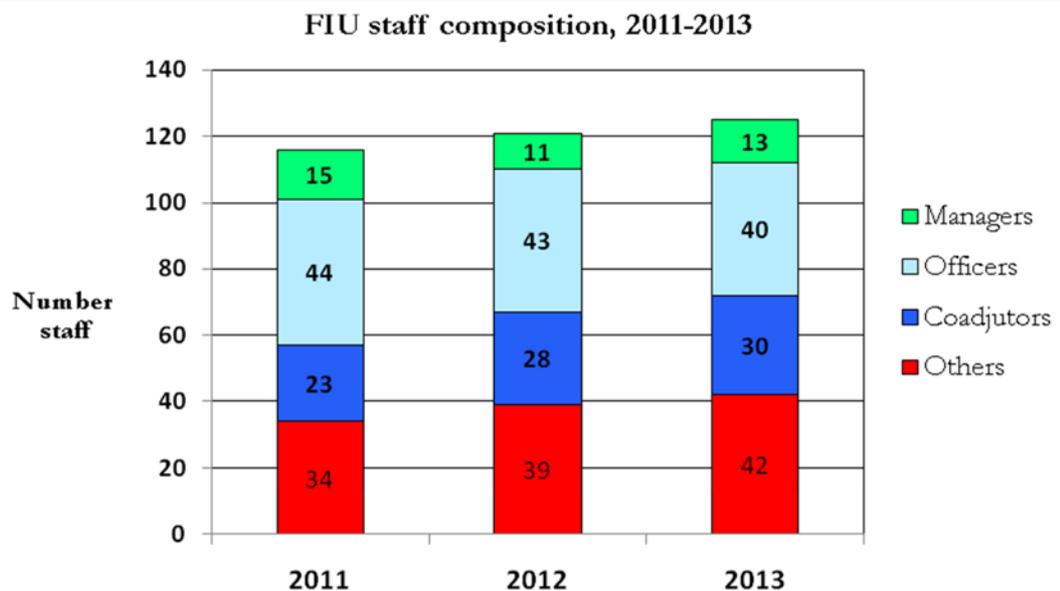
Figure 9.1



### 9.3. Human resources

The FIU’s staff increased from 121 to 125 last year, with the addition of 11 members, including 3 new hires, and the exit of 7. Two more staff members in the production worker career path were added in January 2014.

Figure 9.2



Training receives special attention. A number of training initiatives open to the entire staff were undertaken in 2013, in some cases in collaboration with the departments of the Bank of Italy and with other supervisory authorities, to describe and discuss rules changes, cases and methodologies. This was in addition to employees' participation in the training courses conducted together with the Supervision Directorate General and regular Bank of Italy training courses for all personnel. FIU staff also attended a good number of specialized, outside initiatives, some at international level.

#### 9.4. Information technology resources

In 2012 and 2013 the Unit's two main systems of STR filing (RADAR and the aggregate data record system S.A.R.A.) can be considered to have become fully operational. The Infostat platform to support them – with additional systems still under development – has demonstrated great stability. User services (accessible 24/7) have been available 99.3% of the time.

In the short-to-medium term, the revamping of the FIU's information system will be completed with the introduction of a datawarehouse integrating internal and external data.<sup>68</sup> Work has begun on a system for information exchange with the judicial authorities, other national authorities and foreign FIUs.

Data warehouse

The system for handling STRs, centering on the RADAR procedure, is fully operational. All its functions can now be exploited, among other things in connection with the progressive alignment of procedures of the information systems of the Finance Police and the Bureau of Antimafia Investigation.

STRs

A portal for data exchange with investigative bodies was created in 2013, making these exchanges even faster and more efficient. While maintaining the strictest security standards, the portal permits real-time transmission to the investigative bodies of the suspicious transaction reports submitted to the Unit and availability to the FIU of the investigative feedback from the Finance Police and the Bureau of Antimafia Investigation.<sup>69</sup>

Data exchange portal

Suspicious transaction reports

The new system for aggregate suspicious transaction report records (S.A.R.A.) continued to work with no particular problems.

Aggregate data reporting

Following the Circular of the Ministry for the Economy and Finance of 31 July 2013 and the FIU measure of 6 August on the obligations to refrain and return pursuant to Article 23 of Legislative Decree 231/2007,<sup>70</sup> the FIU prepared and posted on the website a data entry form for easy communication of returns. The form enables the reporter to enter all the data required and to make the requisite checks and produce an XML file for transmission to the FIU via the same channel (Infostat-UIF) currently used for STRs and aggregate data record submission. The reporters can also use the form to file and print the communications. The system collecting return communications went operational in 2014.

Communication of returns

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<sup>68</sup> For more detail, see § 3.4.

<sup>69</sup> See § 3.7.

<sup>70</sup> See § 1.2.2.

Reports  
on gold  
dealings

The Unit's new system for preparing, collecting and conserving reports of gold transactions will be operational by the end of 2014. This new integrated application will enhance the automation of the processes for managing gold transaction reports from financial intermediaries, professional gold dealers and others. The project will also facilitate data exchange and sharing with a variety of other institutions (banks, dealers, others) via rapid and secure channels of communication.

## 9.5. Information to the public

Publications

In the second half of 2013 the Unit began a series of publications under the title "Quaderni dell'antiriciclaggio" to make public statistics, research and documentation on the fight against money laundering and terrorist financing.<sup>71</sup> There are two sections: "Dati statistici," offering half-yearly statistics on the reports received and concise accounts of the Unit's operations, and "Analisi e studi," which comprises analytical papers on money laundering and terrorist financing.

Courses and  
conferences

The Italian FIU seeks to share its experience in combating money laundering through participation in conferences and meetings to sensitize the public and market operators and inform them on regulations. In response to mounting requests, FIU representatives have collaborated increasingly with many Italian and international bodies and associations. In 2013 there was a considerable increase in requests for speakers at conferences and seminars on money laundering from authorities, public and private universities, trade associations and training institutes.

FIU staff members took part in some 80 training initiatives last year. One of the most significant was the training course for active magistrates organized by the Scuola Superiore della Magistratura (Higher Institute for Judicial Studies): a series of seminars and meetings at eight Bank of Italy branches, conducted in cooperation with the Bank itself, to which the Unit contributed with a series of presentations on the fight against money laundering and terrorist financing.

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<sup>71</sup> In addition to the printed version, the publications are also available on the FIU website at <https://uif.bancaditalia.it/pubblicazioni/quaderni/index.html>

## ACTIVITIES IN BRIEF

### Information gathering

- 64,601 suspicious transaction reports
- 101,038,454 aggregate data received
- 48,909 declarations on gold transactions

### Analysis and dissemination

- 92,415 reports examined
- 84,921 reports transmitted to investigative bodies for further inquiry; 25,026 assessed as “high” or “very high” risk

### Cooperation with investigative bodies and national authorities

- 445 responses to requests from the judiciary
- 190 reports of crime
- 64 suspicious transactions postponed
- 155 cases of “freezing of funds” monitored in relation to terrorist financing or threats to peace and international security
- 20 communications to the Bank of Italy supervisory directorate general

### Other cooperation initiatives

- Participation in Italian risk assessment working group formed at the Ministry for the Economy and Finance at the initiative of the Financial Security Committee (FSC)
- Memorandum of understanding with the Finance Police for acquisition of indicators of a person’s having an investigation record
- Memorandum of understanding with the customs and state monopoly agency
- Cooperation, within FSC, with a panel of experts formed by the UN on the situation in Libya

### Cooperation with other FIUs

- 793 requests from foreign FIUs
- 180 requests to foreign FIUs
- 270 “known/unknown” requests transmitted via FIU.NET platform

### Spreading knowledge on money laundering and terrorist financing

- Speakers at 80 conferences and seminars on money laundering at universities and other institutions
- Speakers at eight seminars with magistrates in training, organized by the Scuola Superiore della Magistratura

### Regulations

- Measures for transmission of aggregate money laundering records
- Instructions on procedures for communicating returns owing to impossibility of performing customer due diligence
- Measures giving representative patterns of anomalous behaviour involving transactions in gaming and wagering and the use of trusts

- Participation in the self-money-laundering study group at the Ministry of Justice

#### Upgrading of information technology infrastructure

- Portal for data exchange with investigative bodies
- Data entry application for communications on returns owing to impossibility of performing customer due diligence
- Development of a system for reception and management of data flows on gold transactions (scheduled to go operational by the end of 2014)

## GLOSSARY

### Beneficial owner

Pursuant to Legislative Decree 231/2007, Article 1.2(u), the beneficial owner of an asset is the natural person on whose behalf a transaction or activity is being conducted or, in the case of a legal entity, the natural person or persons who ultimately own or control the entity or are its beneficiaries, identified on the basis of the criteria laid down in the technical annex referred to in Article 2 of the Decree.

### Bureau of Antimafia Investigation (Direzione Investigativa Antimafia, DIA)

A specialized interforce investigation bureau drawn from various police forces and having jurisdiction over the entire national territory. Created under the Interior Ministry's Public Security Department by Law 410/1991, the Bureau has the exclusive task of coordinating investigations into organized crime, in all forms and all its connections, and also carrying out police inquiries into crimes of mafia-style criminal association or crimes related thereto.

### Egmont Group

An informal organization formed in 1995 by a group of FIUs to further international cooperation and enhance its benefits. The number of member FIUs has grown steadily (now 139). In 2010 the Group became a formal international organization; its secretariat is in Toronto (Canada).

### Equivalent countries, list

The list of non-EU states and territories that have enacted requirements equivalent to those set forth in Directive 2005/60/EC of the European Parliament and the Council on the prevention of the use of the financial system for laundering the proceeds of criminal activity and the financing of terrorism and that provide for compliance controls.

The list, pursuant to a decree of the Ministry for the Economy and Finance dated 1 February 2013 (*Gazzetta Ufficiale*, No. 37, 13 Feb. 2013), names the following countries: Australia, Brazil, Canada, Hong Kong, India, Japan, South Korea, Mexico, Singapore, United States, South Africa, and Switzerland.

In addition, with the same effects, the list names the following territories: Mayotte, New Caledonia, French Polynesia, Saint-Pierre et Miquelon, Wallis and Futuna, Aruba, Curaçao, Sint Maarten, Bonaire, Sint Eustatius, and Saba.

### European Union countries

These comprise the 15 countries that were Member States of the European Union prior to May 2004 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom) and the 13 new Member States admitted since then (Bulgaria, Cyprus, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia).

### Financial Action Task Force (FATF)

An intergovernmental organization within the OECD whose purpose is to develop and promote strategies for countering money laundering at national and international level. Its decisions are approved by the OECD. During its initial mandate, beginning in 1989, the Task Force issued Forty Recommendations on monitoring money laundering; during subsequent mandates, 9 Special Recommendations on international terrorist financing were added. The matter was thoroughly reviewed in 2012 with the issue of the revised Forty Recommendations. The FATF also promotes the extension of anti-money-laundering measures beyond the OECD's membership, cooperating with other international organizations and conducting inquiries into emerging tendencies and money laundering typologies.

In Italian, the FATF is known as Gruppo di azione finanziaria internazionale (GAFI).

### Financial Intelligence Unit (FIU)

A central, national unit assigned, for the purpose of combating money laundering and the financing of terrorism, to receive and analyse suspicious transaction reports and other information relevant to money

laundering, terrorist financing and their predicate crimes, as well as with disseminating the results of such analysis.

Depending on the choices of national legislatures, the FIU may be an administrative authority, a specialized structure within a police force, or part of the judicial authority. In some countries a mix of these models has been adopted.

#### Financial Security Committee (FSC) (Comitato di Sicurezza Finanziaria, CSF)

Under Legislative Decree 109/2007, Article 3, this is the committee formed at the Ministry for the Economy and Finance, chaired by the Director General of the Treasury (or the latter's delegate) and composed of 12 members, appointed by decree of the Minister upon designation by the Minister of the Interior, the Minister of Justice, the Minister of Foreign Affairs, the Bank of Italy, CONSOB, ISVAP (now IVASS), and the Financial Intelligence Unit. The other members are a manager from the Ministry for the Economy and Finance, a Finance Police officer, an officer or functionary of the Bureau of Antimafia Investigation, an officer of the Carabinieri, and a representative of the National Antimafia Bureau. For asset freezes the committee is supplemented by a representative of the state property agency, and for tasks regarding non-proliferation of weapons of mass destruction it is supplemented by two additional members designated by the Ministry for Economic Development and the Customs and monopolies agency. The entities represented on the FSC shall communicate to the Committee, even derogating from official secrecy, the information in their possession relevant to the matters within the Committee's competence. In addition, the judicial authorities shall transmit all information deemed useful in combating international terrorist financing. Legislative Decree 231/2007, Article 5.3, extends the Committee's competences, originally limited to coordination of action against terrorist financing, to money laundering as well.

#### FIU.NET

A communication infrastructure among the Financial Intelligence Units of the European Union permitting structured, multilateral interchange of data and information, with standardized applications and immediate and secure data exchange.

#### Freezing of funds

Under Legislative Decree 109/2007, Article 1.1(e), this is a prohibition on the movement, transfer, modification, utilization or management of funds or access to funds such as to modify their volume, amount, location, ownership, possession, nature or destination, or any other change that permits the use of the funds, including portfolio management.

#### Means of payment

Pursuant to Legislative Decree 231/2007, Article 1.2(i), means of payment are cash, bank and postal cheques, banker's drafts and the like, postal money orders, credit transfers and payment orders, credit cards and other payment cards, transferable insurance policies, pawn tickets and every other instrument available making it possible to transfer, move or acquire, including by electronic means, funds, valuables or financial balances.

#### Money laundering

Article 648-bis of the Penal Code makes punishable for the crime of money laundering anyone who, aside from cases of complicity in the predicate crime, "substitutes or transfers money, assets or other benefits deriving from a crime not of negligence, or who carries out in relation to them other transactions in such a way as to hamper the detection of their criminal provenance." Article 648-ter makes punishable for illegal investment anyone who, aside from the cases of complicity in the predicate crime and the cases specified in Article 648 and 648-bis, "invests in economic or financial assets moneys, goods, or other assets deriving from crime".

Pursuant to Legislative Decree 231/2007, Article 2.1, the following actions, if performed intentionally, constitute money laundering: "(a) the conversion or transfer of property, carried out knowing that it constitutes the proceeds of criminal activity or of participation therein with the aim of hiding or dissimulating the illicit origin of the property or of helping any individual involved in such activity to avoid the legal consequences of his or her actions; (b) hiding or dissimulating the real nature, origin, location, arrangement, transfer or ownership of property or rights thereto, carried out knowing that they constitute the proceeds of criminal activity or of participation therein; (c) the acquisition, detention or use of property, knowing at the

time of receiving it that it constitutes the proceeds of criminal activity or of participation therein; and (d) participation in one of the actions referred to in the preceding subparagraphs, association with others to perform such actions, attempts to perform them, the act of helping, instigating or advising someone to perform them or the fact of facilitating their performance”.

#### Moneyval (Select Committee of experts on the evaluation of anti-money-laundering measures)

A sub-committee of the European Committee on Crime Problems (CDPC), formed by the Council of Europe in September 1997; it serves as the Council's unit on money laundering, taking account also of the FATF's measures, making specific recommendations to the member states. It evaluates the measures on money laundering taken by the Council members that are not FATF members. As a regional grouping, it has the status of an Associate Member of FATF.

Under a thoroughly revised statute, since January 2011 Moneyval has served as an independent monitoring body of the Council of Europe on the fight against money laundering and terrorist financing; it answers directly to the Committee of Ministers, to which it submits an annual report.

#### Office of Foreign Assets Control (OFAC)

Under the US Treasury Department, the Office is constituted under the auspices of the Undersecretary of the Treasury for terrorism and financial intelligence. OFAC governs and applies economic and trade sanctions ordered against foreign nations, organizations and individuals as part of US foreign and security policy.

#### Sectoral supervisory authorities

Pursuant to Legislative Decree 231/2007, Article 1.2(c), these are the authorities charged under current legislation with the supervision or control of persons specified in Articles 10.2(a), 10.2(b), 10.2(c), 10.2(d) – respectively central securities depositories, companies operating regulated markets in financial instruments and persons that operate structures for trading in financial instruments and interbank funds, companies operating settlement services for transactions in financial instruments, and companies operating clearing and guarantee services for transactions in financial instruments – Article 11 (banks, other financial intermediaries and other persons engaged in financial activities) and Article 13.1(a) – persons entered in the register of auditors and auditing firms charged with auditing entities of public interest.

#### Single electronic archive (Archivio unico informatico, AUI)

Pursuant to Legislative Decree 231/2007, Article 1.2(b), the single electronic archive is an archive created and run using IT systems that provides for the centralized retention of all the information acquired in fulfilling the identification and regulation obligations in accordance with the principles laid down in the Decree and measures issued by the Bank of Italy.

#### Special Foreign Exchange Unit (Nucleo Speciale di Polizia Valutaria, NSPV)

Formed within the Finance Police, the unit is in the front line against money laundering, both as an investigative police body and as the administrative body responsible, together with the Bank of Italy and the Bureau of Antimafia Investigation, for monitoring the financial intermediation sector. The law confers special powers relating to foreign exchange regulations on the Unit's members, as well as those concerning fiscal powers.

#### Tax havens and/or non-cooperative countries and territories

The black list of jurisdictions named in the decree of the Minister of Finance of 4 May 1999 (Gazzetta Ufficiale No. 107, 10 May 1999), in the decrees of the Minister for the Economy and Finance of 21 November 2001 (Gazzetta Ufficiale No. 273, 23 Nov. 2001) and 23 January 2002 (Gazzetta Ufficiale No. 29, 4 Feb. 2002), most recently amended by ministerial decree of 27 July 2010 (Gazzetta Ufficiale No. 180, 4 Aug. 2010). The black list comprises the following jurisdictions: Abu Dhabi, Ajman, Andorra, Anguilla, Antigua, Dutch Antilles (Sint Maarten – Dutch part – Bonaire, Sint Eustatius, Saba and Curaçao), Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, Brunei, Costa Rica, Dominica, Dubai, Ecuador, the Philippines, Fujairah, Gibraltar, Djibouti (Ex Afar and Issas), Grenada, Guatemala, Guernsey, Hong Kong, Cayman Islands, Cook Islands, Isle of Man, Marshall Islands, Turks and Caicos, British Virgin Islands, US Virgin Islands, Jersey, Kiribati, Lebanon, Liberia, Liechtenstein, Macao, Maldives, Malaysia, Mauritius, Monaco, Monserrat, Nauru, Niue, New

Caledonia, Oman, Panama, French Polynesia, Ras El Khaimah, Republic of San Marino, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Solomon Islands, Samoa, St. Helena, Seychelles, Sharjah, Singapore, Switzerland, Taiwan, Tonga, Tuvalu, Umm Al Quwain, Uruguay, and Vanuatu.

In addition, the black list includes the countries that are not compliant with the rules against money laundering and terrorist financing, according to the FATF's "Public Statement 14 February 2014" and "Improving Global AML/CFT compliance: On-going process 14 February 2014": Afghanistan, Albania, Algeria, Angola, Argentina, Cambodia, North Korea, Cuba, Ecuador, Ethiopia, Indonesia, Iran, Iraq, Kenya, Kuwait, Kyrgyzstan, Lao PDR, Mongolia, Myanmar, Namibia, Nepal, Nicaragua, Pakistan, Papua New Guinea, Sudan, Syria, Tajikistan, Tanzania, Turkey, Uganda, Yemen, and Zimbabwe.

#### **Terrorist financing**

Under Legislative Decree 109/2007, Article 1, terrorist financing is any activity directed, by whatever means, to the supply, collection, intermediation, deposit, custody or disbursement of funds or economic resources, however effected, that are destined, in whole or in part, to the commission of one or more crimes for purposes of terrorism or, in any case, to favour the commission of one or more crimes for purposes of terrorism specified in the penal code, regardless of the actual utilization of the funds or economic resources for the commission of such crimes.