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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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CONTENTS

INTRODUCTION	7
1. THE LEGISLATIVE FRAMEWORK	9
1.1. The fourth AML Directive.....	9
1.2. National legislation.....	12
1.2.1. Legislation	12
1.2.2. Secondary legislation.....	16
2. ACTIVE COOPERATION.....	20
2.1. Suspicious transaction reports received by the FIU	20
2.2. Suspicious Transactions.....	24
2.3. The quality of active cooperation	30
2.4. Returned funds for ‘impracticable’ due diligence	33
3. OPERATIONAL ANALYSIS	35
3.1. The numbers	35
3.2. The process of analysis.....	37
3.3. Risk assessment	41
3.4. The methodology	43
3.5. Dismissals	44
3.6. Postponements of transactions.....	46
3.7. Information flows on investigative interest	47
4. TYPOLOGIES OF SUSPICIOUS TRANSACTION REPORTS, INDICATORS AND PATTERNS OF ANOMALY.....	49
4.1. Classification and typing of STRs	49
4.2. Profile characteristics.....	50
4.3. The typologies	54
4.3.1. Fiscal types	54
4.3.2. Unlawful appropriation	55
4.3.3. Corruption and misappropriation of public funds	55
4.4. Indicators of anomaly, patterns and models of anomalous behaviour.....	56
5. STRATEGIC ANALYSIS.....	58
5.1. Characteristics and purposes.....	58
5.2. The aggregate data	59
5.3. Aggregate data analysis and research	65

5.4. Gold trade declarations	69
6. CONTROLS	72
6.1. Inspections	72
6.2. Sanction procedures.....	74
7. COOPERATION WITH OTHER AUTHORITIES	75
7.1. Cooperation with judicial authorities	75
7.2. Cooperation with the Ministry of Economy and Finance and the Financial Security Committee	76
7.2.1. The AML/CFT National Risk Assessment.....	77
7.2.2. List of “designated” persons and freezing measures.....	78
7.3. Cooperation with the supervisory authorities and other institutions	80
8. INTERNATIONAL COOPERATION	82
8.1. Exchange of information with foreign FIUs.....	82
8.1.1. Requests sent to FIUs in other countries	82
8.1.2. Requests and spontaneous communications from FIUs in other countries	84
8.1.3. FIU-NET. Innovative functions and organizational developments.....	86
8.2. Reporting suspicious cross-border transactions.....	87
8.3. Technical assistance.....	87
8.4. Participation in international organizations	88
8.4.1. The FATF’s activities.....	88
8.4.2. The fourth cycle of mutual evaluation.....	89
8.4.3. The Egmont Group’s activities.....	91
9. ORGANIZATION AND RESOURCES	93
9.1. Organization	93
9.2. Performance indicators	94
9.3. Human resources	95
9.4. Information technology resources	96
9.5. Information to the public	97
ACTIVITIES IN BRIEF	99
GLOSSARY	101
ACRONYMS AND ABBREVIATIONS	105

INTRODUCTION

This Report describes the work of Italy's Financial Intelligence Unit in 2014 in its various fields of competence and in relation to the year's relevant events. The various functions are discussed separately, but their connections and synergies are also illustrated and the contribution of each to the FIU's overall activity set out.

In 2014, during the six-month Italian Presidency, the decisive phase in the adoption of the Fourth EU Anti-Money-Laundering Directive was completed. The FIU took part in the work at the EU level, particularly in the search for ways to keep the minimum harmonization model chosen for the legislation from impinging on the effectiveness of the FIU's actions and on the overall prevention system. The transposition of the Directive will provide an opportunity to address a number of problems in the Italian legal system and to strengthen it further, following the recent introduction of the crime of self-laundering (Chapter 1).

The data on the analysis of suspicious transaction reports (Chapters 2 and 3) confirm the FIU's ability to handle the increased flow of information from the system effectively (more than 75,000 reports analysed and nearly 72,000 received), with a significant improvement in the quality of the analysis conducted, thanks in part to the wider availability of information sources. Despite obvious lingering issues with some of the reporting institutions, there has been an overall improvement in active cooperation, with a reduction in transmission times for reports and an improvement in the quality of the data filed.

The FIU has performed its official duties, with heavy emphasis on strategic analysis and research (Chapters 4 and 5), an extended range of inspections (Chapter 6), and stepped-up cooperation with domestic (the magistracy, the Bureau of Anti-mafia Investigation and other authorities) and foreign (other FIUs) counterparts and with international organizations, such as the FATF and the Egmont Group (Chapters 7 and 8). The Unit's activities constituted a fundamental contribution to the first National Risk Assessment, coordinated by the Financial Security Committee in accordance with international standards.

Through its participation in the FATF, which carried out an assessment of Italy in 2014 as part of the fourth cycle of mutual evaluations, the Unit contributes to the development and sharing of uniform rules and practices for combating money laundering and terrorist financing and their application internationally.

The Unit, whose staffing has remained essentially unchanged, has successfully handled a steadily increasing workload thanks to the introduction of effective operating procedures, the development of new technological solutions, the honing of professional expertise and a reorganization to achieve more efficient structures and process integration. The need for broad and transparent accountability has led the FIU to increase its communications with institutional counterparties and more generally with society at large, which is the ultimate beneficiary of the Unit's services (Chapter 9).

In this spirit, Italy's Financial Intelligence Unit will continue to perform its duties

in full, resolutely meeting the challenges that a constantly changing domestic and international situation poses for the prevention and combating of money laundering and the financing of terrorism.

The Director

Claudio Clemente

1. THE LEGISLATIVE FRAMEWORK

1.1. The fourth AML Directive

In December 2014, during the Italian Presidency, the EU Council reached an agreement with the Parliament and the European Commission on the text of the fourth Anti-Money-Laundering (AML) Directive. This text was then submitted for formal adoption by the Council and the European Parliament.

The measure, which has led to intense negotiations, aligns EU legislation with the most recent international standards, by transposing the Financial Action Task Force (FATF) Recommendations from 2012 and further strengthens the European rules regarding the prevention and combating of money laundering and financing of terrorism. The fourth Directive is not, however, founded on achieving high levels of harmonization. As the experience of the third Directive has shown, this may lead to the use of discretionary choices in its transposition and significant differences in the solutions adopted by member states.

In the final ‘co-decisional’ phase of the Community procedure, the mediation between the Council, Parliament and European Commission took place in the form of ‘Trialogues’, or rather meetings between representatives of the three institutions held in order to reach compromise agreements. The commitment of the Italian Presidency, together with the contributions of the Italian Permanent Representation to the EU, the Ministry of Economy and Finance (MEF), the Bank of Italy and the Italian FIU, made it possible to finalize the measure before the end of Italy’s six-month Presidency.

The Italian Financial Intelligence Unit (FIU) was actively involved in drawing up further details and proposals for modifying and integrating the text of the Directive and also fostered coordination among the European FIUs in order to find common solutions. These initiatives contributed to the introduction of important modifications to the initial proposal: the FIU framework has been extended and improved, including its degree of harmonization.

The fourth Directive extends and reinforces FIUs’ activities and any cooperation between them: it provides for carrying out risk assessments at supranational, national and individual level and for tailoring preventive measures and controls for risk, introduces innovative provisions on transparency and access to information relating to the beneficial ownership of companies and trust companies and refers to the application of rules on the treatment of personal data, thus regulating their relations with the needs of anti-money- laundering action.

This Directive confirms the role of FIUs as ‘central national’ authorities in the system of prevention. The mandate to ‘prevent, detect and effectively combat money laundering and terrorist financing’ has been broadened by the extension of their tasks to include offences predicate to money laundering, among which the Directive now explicitly includes fiscal offences.

Role of the FIUs

The definition of an FIU has been reviewed with regard to the description of its functions: ‘reception’, which includes not only suspicious transaction reports (STRs) but also other communications that may be useful for in-depth investigations, ‘analysis’, which focuses on cases of real interest and the selective ‘dissemination’ of

the results of the analyses. The Directive specifies that FIUs must be autonomous and independent, clarifies that their functions must be carried out with no external constraints and emphasizes the need for adequate financial, human and technical resources.

Powers and tasks of the FIUs

FIUs must have the power to obtain information from any entity subject to the reporting requirement. They need to develop strategic analyses on general trends in money laundering and financing of terrorism in addition to operational analyses of individual cases. They retain their power to suspend the carrying out of reported suspicious transactions in order to proceed with analysis and dissemination. Suspension may also be ordered at the request of FIUs of other member states, for the time period and under the conditions established in the country of the FIU that receives the request.

The scope of dissemination has been enlarged: in addition to ‘spontaneous’ dissemination, which is carried out based on analysis, the FIU now engages in dissemination ‘upon request’, which it can perform on behalf of competent authorities. In both cases feedback on the use of information is envisaged.

International cooperation

The rules for international cooperation have also been extended. The FIU is expected to provide the information required by exercising the same powers it has for domestic analysis. No right of refusal is allowed; the Directive provides that requests must be satisfied, activating the necessary information powers, even if the predicate offence is not known, thus acting on one of the main problems of cooperation, including within the European Union.

The current differences between member state legislations in the definition of the predicate crimes of money laundering will not, in principle, limit the ability of European FIUs to exchange information. This is a particularly significant rule with regard to fiscal offences, traditionally one of the most problematic areas of data exchange. However, some limiting clauses, which refer to the need to ensure that domestic rules are respected, might restrict the scope of the principle.

At the same time it should be made clear that requests for cooperation must be sufficiently substantiated and should include the details of the case, the reasons for suspicion, and the intended use of the information. This allows the FIU receiving the request to understand the context to which the cooperation refers, identify the connections with its territory and consider carrying out analyses of its own.

The Directive also specifies the rules for use and for further disclosure of the information exchanged, subject to the prior consent of the FIU which is the source of such information and is required to give its consent ‘promptly and to the greatest possible extent’. Consent may be refused in limited circumstances as provided by the Directive and must be justified.

The EU FIUs’ Platform

The Directive formally recognizes the EU FIUs’ Platform, active since 2006, as an informal comparison and coordination group for member state FIUs.

A specific legal basis is defined, which recognizes the important role played by the Platform in drawing up common policies and clarifies its mandate. This mandate will

be pursued by formulating opinions for implementing measures applicable to FIUs and to reporting agents and for coordinating the development of international cooperation.

Article 48 of the Directive sets out the Platform's competencies for developing an effective collaboration among FIUs, coordinating issues regarding the implementation of rules applicable to FIUs and to reporting agents, identifying suspicious cross-border transactions, standardizing reporting formats through the European network FIU.NET, carrying out joint analyses on cases of mutual importance and sharing information about trends and risk factors in the EU internal market.

The Platform has launched a discussion on the content and scope of its mandate under the fourth Directive, so as to identify priorities and plan future work. Work has already begun on many of these topics, such as the development of systems for sharing information on cross-border transactions and in-depth analysis for Supranational Risk Assessment. The Platform is active as a governance body for the FIU.NET system, also in the current transition phase towards the organization of Europol.

The Italian FIU, which proposed and supported the Directive's recognition of a formalized role for the Platform, actively participates in its work in the belief that it can be a fundamental tool for cooperation in order to mitigate the effects of potentially different applications of money laundering laws in individual countries.

The Directive entrusts the European Commission with the task of developing a 'supranational' assessment of the risks of money laundering and financing terrorism within the internal market, bearing in mind the opinions of the European supervisory authorities,¹ as well as those of the FIU Platform. The Commission will then make recommendations to member states on the measures to be adopted in view of the risks identified. Member States are entrusted with risk assessment at national level and developing appropriate mitigation policies. In turn, those entities subject to anti-money-laundering obligations are called upon to assess the risks to which they are exposed and adopt measures commensurate with their particular characteristics.

**Risk
assessment**

The new European legislation contains specific provisions for the transparency of information about the beneficial ownership of companies and trust companies and for the application of the rules on the processing of personal data. For the former, each member country is required to institute central public registers containing information about beneficial ownership of companies, bodies and trust companies, accessible to the competent authorities, including FIUs, and to whomever is able to demonstrate a legitimate interest. Such generalized widespread access has been strongly supported by the European Parliament with the aim of broadening public scrutiny as a deterrent to crime.

**Transparency of
beneficial
ownership**

The European Parliament has also promoted provisions which recall the safeguards for processing personal data with the enforcement of anti-money laundering measures. For this reason, the text of the Directive, in line with the current framework and with international standards, confirms the confidentiality of

**Protection of
personal data**

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

information on suspicious transactions, whose treatment is expressly defined as being of public interest, thus limiting the possibility of access to the data possessed by the FIU.

Regulation on the transfer of funds

Along with the fourth Directive, a regulation ‘on information accompanying transfers of funds’ has been approved which, in replacing the previous one,² extends the range of information that must accompany money transfers, with reference to both the payer and the payee. It confirms that the traceability of funds to the parties involved must not be interrupted should there be onward transfers, and highlights the need to ensure the enforcement of freezing measures and the reporting of STRs.

‘Declarations’

The political approval of the Directive and of the Regulation by the ECOFIN Council of Ministers on 27 January 2015 was accompanied by important declarations made by some member states, by the Commission and by the European Council. In view of the threats from Islamic terrorism, these declarations underline the need for an effective and rapid application of the new provisions of the Directive and the Regulation and highlight the need to strengthen FIU powers and collaboration, also by means of the European Platform, to identify terrorism risks at supranational level and to enforce financial sanctions such as the freezing of assets.

1.2. National legislation

1.2.1. Legislation

There were some significant changes in the primary legislation in 2014 with regard to the prevention and combating of money laundering.

Self-laundering

After years of debate, Law 186/2014 on the emergence and repatriation of capital held abroad introduced the crime of self-laundering with the insertion of Article 648-*ter*.1 into the Italian Penal Code.

This legislation punishes ‘whoever, having committed or attempted to commit a crime with criminal intent, uses, replaces or transfers money, assets or other utilities deriving from the commission of such a crime to economic, financial, entrepreneurial or speculative activities, in such a way as to actively hinder the detection of their criminal origin’.

With the introduction of the new article, Parliament chose to keep this new crime separate from those of money laundering and use of proceeds set out in Articles 648-*bis* and 648-*ter* of the Penal Code, relating to acts by persons who have neither committed nor attempted to commit the predicate offence, which are punished more severely³. The crime of self-laundering occurs when the act is carried out in such a way as to actively hinder the detection of the criminal origin of the proceeds of the predicate offence: the use of such proceeds for an offender’s personal use or enjoyment is not punishable. There may be increases in penalties in connection with crimes committed while carrying out banking, financial or professional activities and

² Regulation 2006/1781/EC.

³ While the crimes of money laundering and use of proceeds are punishable with prison sentences of 4 to 12 years and fines from €5,000 to €25,000, self-laundering incurs less severe punishments, decided in relation to the predicate crime. If the predicate crime is punishable with a sentence of less than five years, the penalty for self-laundering is a prison sentence of one to four years, together with a fine from €2,500 to €12,500; in other cases the sentence may be from two to eight years and the fine from €5,000 to €25,000. The different sanctions are justified by the fact that the punishment for self-laundering is cumulative with that provided for the predicate crime.

reductions for having avoided further consequences of the criminal conduct or provided evidence of the crime and the identification of the proceeds of the predicate crime.

The legislator included self-laundering among crimes that may give rise to corporate administrative liability in accordance with Legislative Decree 231/2001.

The enforcement system and self-laundering

The need to prevent the crime of self-laundering, with the subsequent liability of an individual committing self-laundering who has committed or attempted to commit the predicate crime, has been the subject of widespread debates, studies and various legislative proposals (see the Annual Report for 2013).

The FIU has repeatedly noted that the introduction of this new crime serves the interrelated purposes of adapting the Italian legislation to the FATF's rules and standards, of increasing the overall efficiency of the enforcement system and of overcoming the misalignment between the system of suppression and that of prevention.⁴

The administrative notion of money laundering for the purposes of prevention, contained in Legislative Decree 231/2007, already covers self-laundering. This has made it easier for operators to identify suspicious transactions and has also enabled the authorities to intercept the predicate crimes connected with instances of self-laundering. On the other hand the fact that self-laundering was not punishable under criminal law and the resultant formal and substantial asymmetry between preventing and suppressing this phenomenon had hindered the prosecution of persons who channelled funds of illicit origin into legitimate economic activities, and made operators feel that the duties imposed on them by the prevention system were disproportionate to the results achieved.

With respect to these problems, it seemed that the objections raised with regard to the introduction of the crime of self-laundering, though leading to balanced reform choices, could be overcome. Money laundering threatens a great number of legal interests, such as the correct functioning of economic and financial activities and effective administration of justice; in this sense self-laundering is not simply a fraction or a mere post factum of the predicate crime, but implies serious criminal conduct that is socially harmful and, as such, is punishable as a separate crime. Even the fears of excessively severe penalties stemming from the introduction of this new crime, on one level, seemed not to consider them as shortfalls in the sanctions regime for economic crimes in Italy, and on another level, could be remedied by means of a fair system of penalties in proportion to the gravity of the conduct in question and of the predicate crime.

The new Article 648-ter.1 of the Penal Code is an appreciable compromise between the various points of view and instances that emerged during the debate on self-laundering. However, the wording of the legislation does not always appear to be straightforward. Practical experience will make it possible to determine the effectiveness of the reform, its capacity to suppress serious criminal behaviour and to achieve the institutional objectives of the anti-money-laundering system, in order to

⁴ These considerations were made recently by the Director of the FIU during the hearing held on 25 November 2014 before the Joint Second Judiciary and Sixth Finance and Treasury Committees of the Italian Senate.

maintain the rule of law and the integrity of the economy.

Voluntary disclosure

In order to combat tax evasion and facilitate the emergence of funds held abroad in violation of the regulations on fiscal monitoring, Law 186/2014 introduced a procedure designed to regularize pre-existing situations, known as voluntary disclosure. The law is part of a radically modified context of transparency and international cooperation based on broad information exchanges on fiscal and anti-money laundering matters, including in countries that did not previously collaborate. These factors, together with the introduction of the crime of self-laundering, contribute to increasing the penal risks of failing to follow the procedure.

One effect of voluntary disclosure is that by 30 September 2015, anyone who has violated the fiscal declaration obligations provided for by Article 4(1) of Legislative Decree 167/1990⁵ may use the voluntary disclosure procedure to regularize their position, provided that the violations date back to before 30 September 2014. Voluntary disclosure must include details for the Revenue Agency of all financial assets constituted or held abroad, also indirectly or via third parties, accompanied by the relative documents and supporting information. The sums owed for the non-payment of taxes will also have to be paid.

With regard to sanctions, should the voluntary disclosure procedure be followed, the relevant tax penalties will be reduced and penal liability will be excluded for some fiscal offences,⁶ as well as for the connected offences of money laundering, use of proceeds and self-laundering.

Recourse to this procedure does not alter the application of anti-money-laundering obligations for customer due diligence, data recording and suspicious transaction reporting provided for by Legislative Decree 231/2007. The Ministry of Economy and Finance also commented on this in its circular no. 109560 of 9 January 2015.⁷ This regulatory approach complies with international principles regarding fiscal regularization programmes, as the FATF explicitly acknowledged in its plenary session in February 2015.

Other prospects for reforming the prevention system

As part of its institutional mandate, the FIU has been an active collaborator and proponent in the legislative process. The FIU has drawn up proposals for modifying the legislative framework that are aimed at adapting national legislation to the FATF recommendations by overcoming the problems highlighted by the Mutual Evaluation on the Italian anti-money laundering system in 2005.

In this connection, in June 2014 the FIU submitted proposals to the MEF and the Ministry of Justice for interventions aimed at reinforcing the FIU's financial intelligence activities through access to investigative information, ensuring wider feedback to reporting entities, with reference both to financial analysis and to in-depth investigations and enhancing the Unit's filtering of STRs, and reshaping the current

⁵ Converted into Law 227/1990.

⁶ These are offences set out in Articles 2, 3, 4, 5, 10-bis and 10-ter of Legislative Decree 74/2000.

⁷ The MEF has also published a FAQ on this topic on their website.

provisions for dismissal and analysis.

Other proposals for urgent revision of the anti-money-laundering legislation deal with the current system of sanctions, characterized both by deficiencies and by punitive excesses for minor criminal conduct. The FIU has drawn up a revision proposal for introducing clear and coherent offences, efficient procedures and effective sanctions. The proposal was submitted during the hearing of the FIU Director before the Parliamentary Anti-mafia Commission in June 2014.

The Unit has also collaborated on the proposed revision of the system of sanctions, drawn up by a technical working group set up in the second half of 2014 at the MEF. This group will review the entire system of penal and administrative sanctions provided for by Legislative Decree 231/2007, decriminalizing minor crimes and punishing more serious ones more severely. According to the revision proposal, administrative sanctions would be distinguished according to the person who commits the violation and applied, depending on the case, from a preset minimum to maximum. Finally this proposal intends to simplify the registration obligations currently imposed on professionals.

The transposition of the fourth Directive is an opportunity to review Italy's anti-money-laundering legislation which, without modifying the structure which has proved its validity in practice, will allow it to fully align with international standards, in the light of the FATF's Mutual Evaluation results, and thus to increase the effectiveness of prevention.

Decree Law 7/2015⁸ introduced urgent measures designed to perfect the tools for combating and preventing terrorism. This government initiative takes into account Italy's active participation in the international coalition against the terrorist threat of the Islamic State in Iraq and the Levant (ISIL) and the need to suppress the activities of foreign terrorist fighters, to implement Resolution No. 2178 of 24 September 2014 adopted by the United Nations Security Council.

**Urgent measures
regarding terrorism**

This decree law, as well as consolidating the presence of Italian armed forces abroad, has extended the list of crimes connected with acts of terrorism and has reinforced the powers of the police forces, intelligence agencies and the judiciary. Certain provisions of the Penal Code, of the Criminal Procedure Code and of Legislative Decree 159/2011 (the Anti-Mafia Code), have been amended, also in relation to the new anti-terrorism competencies of the National Anti-Mafia Directorate and Public Prosecutor.

As far as anti-money-laundering legislation is concerned, two important amendments have been made to Legislative Decree 231/2007. Firstly, Article 9(9), states that the FIU shall provide the results of analyses and studies on specific anomalies to the Anti-terrorism Strategic Analysis Committee⁹ too, as well as to the

⁸ Converted into Law 43/2015.

⁹ The Anti-terrorism Strategic Analysis Committee (CASA) was instituted by a Ministry of the Interior decree on 6 May 2004 to exploit the synergy between police and intelligence institutions. It assesses information flows relating to internal and international terrorist threats and analyses important intelligence concerning terrorist plans that may be against Italian interests abroad so as to allow any preventive measures deemed necessary to be activated. The Committee acts in support of the Crisis Unit of the Ministry of the Interior, whose function is to manage emergencies following 'events that involve various aspects of security'.

Bureau of Anti-mafia Investigation and the Special Foreign Exchange Unit of the Finance Police. Secondly, Article 47(1)(d) now requires the Special Foreign Exchange Unit and the Bureau to inform the National Anti-mafia Public Prosecutor not only when STRs relate to organized crime but also when they relate to terrorism.

The assisted
negotiation
procedure

Another intervention with regard to the primary legislation which has affected the anti-money-laundering system introduced the ‘assisted negotiation procedure’ for the amicable settlement of disputes between private parties.¹⁰ The law establishes that the obligation to report suspicious transactions does not apply to lawyers carrying out activities as part of this procedure, although the other anti-money-laundering safeguards remain active, particularly the obligation of customer due diligence.

ANAC

Decree Law 90/2014,¹¹ containing urgent measures for administrative transparency and simplification and for judicial efficiency, abolished the supervisory authority for contracts for public works, services and supplies, reassigning its functions to the newly-instituted Italian National Anti-Corruption Authority (ANAC). This decree enables ANAC to receive information on irregularities and ‘whistleblowing’ reports, as also specified in Article 54-*bis* of Legislative Decree 165/2001.

The Chairperson of ANAC has extensive powers and in some cases can ask the Prefect with jurisdiction to order the replacement of the corporate bodies of a company that has made a successful bid for a contract for public works, services or supplies, or of a concessionaire of public works or of a general contractor. Alternatively, or should a company not comply with the above-mentioned order by the set deadline, the Chairperson of ANAC may provide for the extraordinary and temporary management of the contractor for the time it takes to complete the public works contract or the concession.

This decree¹² also bans general government entities from entering into transactions with foreign companies or bodies for which, under the law of their home country, it is not possible to identify the individuals who hold shares in a company’s stock or in any case have powers of control.

1.2.2. Secondary legislation

Communication of
operations for
returning funds

On 10 March 2014 the FIU issued instructions for reporting operations for the restitution of funds to a customer in the case of either missing or incomplete due diligence procedures, according to Article 23, paragraph 1-*bis* of Legislative Decree 231/2007. This provision implements the MEF circular of 30 July 2013 and the FIU provision of 6 August 2013 on the content and characteristics of the information to be acquired and retained on operations for returning funds.

The provision of 10 March 2014 requires that every transaction for returning funds of more than €5,000 must be reported to the FIU, without prejudice to the obligation of reporting entities to acquire and retain information relating to restitutions of lesser sums too. It is specified that reporting entities must report operations for returning funds as being suspicious only in the presence of the elements specified in

¹⁰ The procedure was inserted into the Italian legislation by Decree Law 132/2014, converted into Law 162/2014.

¹¹ Converted into Law 114/2014.

¹² Article 35.

Article 41 of Legislative Decree 231/2007. The sending of STRs does not discharge the obligation to notify the FIU of operations for returning funds.

Communications must include the details of the recipient bank account and the amount to be returned. A recipient account must have as a holder at least one of the individuals indicated as a holder of the original account and must be opened with an Italian or EU intermediary or one that is subject to an equivalent regime in a third country. Communications are sent to the FIU through the Infostat-FIU portal within fifteen days of the funds being returned. To this end the Unit has put a module called ‘Communicating operations for returning funds’ and an Operational Manual¹³ on its website.

Two acts were issued in 2014 with regard to due diligence and recording data, one for insurance companies and one for notaries.

Regulation no. 5, adopted by the insurance supervisory authority IVASS on 21 July 2014, called upon insurance companies and brokers to implement the new regulations in accordance with their nature, size, organizational structure and legal form.

Due diligence: the IVASS Regulation...

In line with the FATF Recommendations, insurance companies and brokers identify beneficiaries who, based on the designation made by the customer, will receive a payment from an insurance company. The Regulation establishes provisions for risk assessment and for ordinary, simplified and enhanced due diligence, as well as for the performance of these tasks by third parties. Specific provisions are introduced for the case of a contract on behalf of third parties and for the payment of insurance premiums by a third party without specific powers of proxy.

In May 2014 the National Council of Notaries drew up guidelines for customer due diligence.¹⁴ This provision gives indications for assessing customer risk profiles and describes the obligations upon notaries.

Guidelines for notaries

These guidelines were issued in order to foster compliance and monitor notaries’ fulfilment of their anti-money-laundering obligations. The content of the provisions was discussed by the authorities concerned, including the MEF, the Ministry of Justice, the Finance Police and the Italian FIU, and was examined by the Financial Security Committee (FSC) at its meeting of 22 May 2014.

Due diligence by professionals and non-financial operators

The authorities have complained for some time about the difficulties and delays in the fulfilment of the anti-money-laundering obligations in Articles 12 and 14 of Legislative Decree 231/2007 by professionals and non-financial operators specified therein.

There remain uncertainties in the legislative framework regarding customer due diligence and the recording of data, stemming from the law’s failure to assign the power to adopt provisions for the implementation of laws for some categories of addressee.

¹³ For data on the communications received by the Unit see Section 2.4.

¹⁴ On this point see Section 2.1.

The situation is characterized by the presence of both primary legislation that is difficult to interpret and the implementation of implementing provisions issued in 2006 by the MEF and the Italian Foreign Exchange Office¹⁵ in compliance with the legislative framework in effect at that time. These provisions are now superseded in that they lack references to the determination of the beneficial owner, to a constant monitoring over the entire length of the relationship with the customer and to the risk-based approach, and also because they paid insufficient attention to the particularities of the professions and to the size of the reporting entities.

Filling this regulatory vacuum was the reason behind the initiatives for self-regulation by the relevant professional organizations, which provide for the issuing of provisions drawn up with a contribution of the authorities and submitted to the Financial Security Committee for review.

The notaries' initiative is the first of its kind in this sense and the provisions adopted make the best use of a risk-based approach to customer profiling and identify the obligations in the case of ordinary, simplified and enhanced due diligence.

Self-regulatory associations for lawyers, certified public accountants and accounting experts, together with some associations for operators working in the custody and transport of money, bonds or securities, have also recently committed to drawing up guidelines on due diligence. The FIU will make its usual technical contribution to facilitate the self-regulatory initiatives.

Instructions for
declaring
transactions in gold

On 1 August 2014 the FIU published new instructions for the preparation and transmission of declarations regarding transactions in gold of sums greater than €12,500, according to Article 1, paragraph 2 of Law 7/2000, which supersede the circular issued 28 March 2001 by the Italian Foreign Exchange Office.¹⁶ These instructions establish that the declarations must only be transmitted to the Italian FIU electronically, using the Infostat-FIU portal. The new system came into effect on 1 December 2014 for preliminary declarations and on 1 January 2015 for final monthly declarations.

There were some interesting legislative developments in the first months of 2015 as well.

Financial
intermediaries
(Article 106 of
Consolidated Law on
Banking)

On 2 and 3 April 2015 respectively, the MEF issued a Regulation and the Bank of Italy issued supervisory provisions concerning measures on financial intermediaries. Thereby the reform of Title V of the Consolidated Law on Banking has been implemented, introduced by Legislative Decree 141/2010. Non-bank financial intermediaries are now to be entered in the single register referred to in Article 106 of the Consolidated Law on Banking and are subject to supervision 'equivalent' to that applied to banks, according to a principle of proportionality which takes into account the specific characteristics of these institutions. The new provisions will come into effect 60 days after their publication on the Bank of Italy website.

The newly listed financial intermediaries, like those that were previously included

¹⁵ At the time the Italian Foreign Exchange Office (*Ufficio Italiano dei Cambi*) was responsible for anti-money laundering functions. These functions were transferred to the FIU within the Bank of Italy by Legislative Decree 231/2007.

¹⁶ See Sections 5.4 and 9.4.

in the lists referred to in the previous Article 106 (general register) and Article 107 (special register) of the Consolidated Law on Banking, are included among those subject to anti-money-laundering obligations according to Article 11(1)(m) of Legislative Decree 231/2007, already aligned with the reform of the financial sector.

Pursuant to Legislative Decree 231/2007,¹⁷ the MEF's decree of 10 April 2015 published an updated list, known as the white list, of non-EU countries whose legal systems impose obligations equivalent to those provided for by the third anti-money-laundering Directive. The Republic of San Marino was included in the list following the improvements made to its legal system.

The list of equivalent countries

¹⁷ Article 25(2).

2. ACTIVE COOPERATION

The key element in the legislation on money laundering is the requirement of active cooperation by financial intermediaries, professionals and other qualified operators to detect potential money laundering or financing of terrorism and promptly notify the FIU.

The Unit performs financial analysis of this flow of information, selecting cases that warrant further inquiry and informing the competent law enforcement bodies (the Special Foreign Exchange Unit of the Finance Police and the Bureau of Antimafia Investigation) for further investigation.

The Italian system has displayed increasingly satisfactory active cooperation, reflected in the up-trend in the flow of reports to the FIU; however, there is still room for improvement in the quality of the information for prevention purposes as well as significant problems with some categories of reporting entities, such as professionals and non-financial operators.

2.1. Suspicious transaction reports received by the FIU

Data and trends

In 2014 the FIU received 71,758 reports,¹⁸ an increase of 11.1% or about 7,000 reports over 2013 (Table 2.1).

Table 2.1

	Reports received				
	2010	2011	2012	2013	2014
Number	37,321	49,075	67,047	64,601	71,758
Percentage Change	77.2	31.5	36.6	-3.6	11.1

This result confirms the long-term upward trend since the reform of the anti-money-laundering law in 2007, a new high in the number of reports received by the FIU. A breakdown of STRs by type of reporting entity shows that the rise in 2014 was mainly due to an increase in the number of reports transmitted by banks and Poste Italiane SpA, (5,300 more than the previous year), which account for the great majority of reports (82.3% of the total; see Table 2.2).

There was also an increase in the number of reports sent to the FIU by other categories of reporting entities, such as non-bank intermediaries, which showed an increase of 14 per cent over the previous year and accounted for 12.8 per cent of the total (Table 2.2).

¹⁸ Detailed information on STRs can be found in *Quaderni dell'antiriciclaggio*, in the series *Dati statistici* published on the FIU website.

Table 2.2

STRs by type of reporting entity					
	2013		2014		<i>(% change on 2013)</i>
	<i>(number)</i>	<i>(% share)</i>	<i>(number)</i>	<i>(% share)</i>	
Total	64,601	100.0	71,758	100.0	11.1
Banks and Poste Italiane SpA	53,745	83.2	59,048	82.3	9.9
Financial intermediaries excl. banks and Poste Italiane S.p.A ¹	8,020	12.4	9,172	12.8	14.4
Professionals	1,985	3.1	2,390	3.3	20.4
Non-financial intermediaries	851	1.3	1,148	1.6	34.9

¹ 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.

This increase is attributable to payment institutions and financial intermediaries entered in the lists under Articles 106 and 107 of the Consolidated Law on Banking¹⁹ and e-money institutions (Table 2.3). As in 2013, 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.

Table 2.3

STRs by category of banking and financial intermediary					
	2013		2014		<i>(% change on 2013)</i>
	<i>(number)</i>	<i>(% share)</i>	<i>(number)</i>	<i>(% share)</i>	
Banking and financial intermediaries	61,765	100.0	68,220	100.0	10.5
Banks and Poste Italiane SpA	53,745	87.0	59,048	86.6	9.9
Financial intermediaries per Arts. 106 & 107 of the 1993 Banking Law, payment institutions	5,645	9.2	6,041	8.9	7.0
Insurance companies	602	1.0	723	1.0	20.1
Electronic money institutions	1,304	2.1	1,822	2.7	39.7
Trust companies – Law 1966/1939	263	0.4	310	0.4	17.9
Asset management companies & SICAVs	134	0.2	127	0.2	-5.2
EU and non-EU investment firms	45	0.1	64	0.1	42.2
Other financial intermediaries ¹	27	0.0	85	0.1	214.8

¹ This 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.

¹⁹ Articles 106 and 107 of Legislative Decree 385/1993 in the version predating the amendments enacted by Legislative Decree 141/2010.

The number of reports sent by professionals and non-financial operators remains very small both in absolute terms and in relation to the potential: the reports submitted, excluding those from notaries, constituted only 1.9 per cent of all reports in 2014; even so this represented an improvement over 1.6 per cent on 2013.

Professionals

The number of reports filed by professionals increased by 20 per cent over the previous year (Table 2.4).²⁰ As in the past, the majority of reports were filed by notaries (91.5 per cent).

The National Council of Notaries played a major role as liaison for the transmission – in accordance with the money-laundering legislation – of virtually all the reports filed by notaries and the FIU’s follow-up requests for further inquiry. The Council facilitates the fulfilment of the reporting requirements, establishing guidelines and operational manuals to assist notaries in the evaluation of suspicious transactions and the consequent compilation of reports, thereby improving quality and informative content. With regard to the guidelines, the FIU has provided technical support as part of an ad hoc working group established by the Ministry of Economy and Finance.²¹

The FIU continued to cooperate with the Council through participation in meetings aimed at improving the quality of reporting and encouraging more effective cooperation by notaries.

Despite a slight increase compared to 2013, the number of reports transmitted by chartered accountants and auditing companies remains marginal, while the extremely low number of reports from lawyers and other professionals declined further (Table 2.4).

Non-financial operators

The number of reports submitted by non-financial²² operators increased again in 2014, from 851 to 1,148; 90 per cent came from gaming and betting companies.

General government

Non-financial operators include governmental agencies, but their contribution remains extremely modest: just 18 reports in 2014, down from 23 reports the previous year. The FIU has increased its efforts to sensitize the public sector on active cooperation: in 2014, memoranda of understanding were signed with the National Anticorruption Authority and the city of Milan and, together with the competent Ministries, the FIU has begun to draw up anomaly indicators for general government bodies.²³

²⁰This category comprises persons and entities listed in Articles 12.1 and 13.1 of Legislative Decree 231/2007.

²¹For more information on the National Council of Notaries’ guidelines see the box in Section 1.2.2.

²²The persons specified in Article 10.2(e), (f), (g) and 14.1 of Legislative Decree 231/2007.

²³See Section 7.3 and the box in Section 4.4.

Table 2.4

Reports received from professionals and non-financial operators					
	2013		2014		<i>(% change on 2013)</i>
	<i>(number)</i>	<i>(% share)</i>	<i>(number)</i>	<i>(% share)</i>	
Professionals	1,985	100.0	2,390	100.0	20.4
Notaries and National Council of Notaries	1,824	91.9	2,186	91.5	19.8
Accountants, bookkeepers, employment consultants	98	4.9	148	6.2	51.0
Law firms, law and accounting firms and law practices	21	1.1	20	0.8	-4.8
Lawyers	14	0.7	7	0.3	-50.0
Auditing firms, registered auditors	10	0.5	16	0.7	60.0
Other professional service providers ¹	18	0.9	13	0.5	-27.8
Non-financial operators	851	100.0	1,148	100.0	34.9
Gaming and betting firms	774	91.0	1,053	91.7	36.0
Gold traders and manufacturers and retailers of precious stones and metals	26	3.0	47	4.1	80.8
Other non-financial operators ²	51	6.0	48	4.2	-5.9

¹ Comprises persons and entities listed at Articles 12.1 and 13.1 of Legislative Decree 231/2007.

² Comprises persons and entities listed at Articles 10.2(e), (f), (g) and 14.1 of Legislative Decree 231/2007.

The number of entities registered to file reports via the RADAR system increased to approximately 3,600 in 2014. As in 2013, new registrants included a large number of professionals (338), of which 234 chartered accountants, bookkeepers or accounting experts. Notwithstanding the increase in registrants, only 118 of the newly registered entities submitted reports, for a total of 165 STRs.

New reporting entities

The increase in STRs in 2014 was maintained in the first quarter of 2015, when the number was substantially in line with the year-earlier quarter (19,609 compared to 19,421). There was a slight decrease in the number of reports sent by banking and financial intermediaries (from 95.4 per cent to 92.8 per cent of the total) and an increase in those by professionals and non-financial operators (from 4.6 per cent to 7.2 per cent).

Trend 2015

2.2. Suspicious Transactions

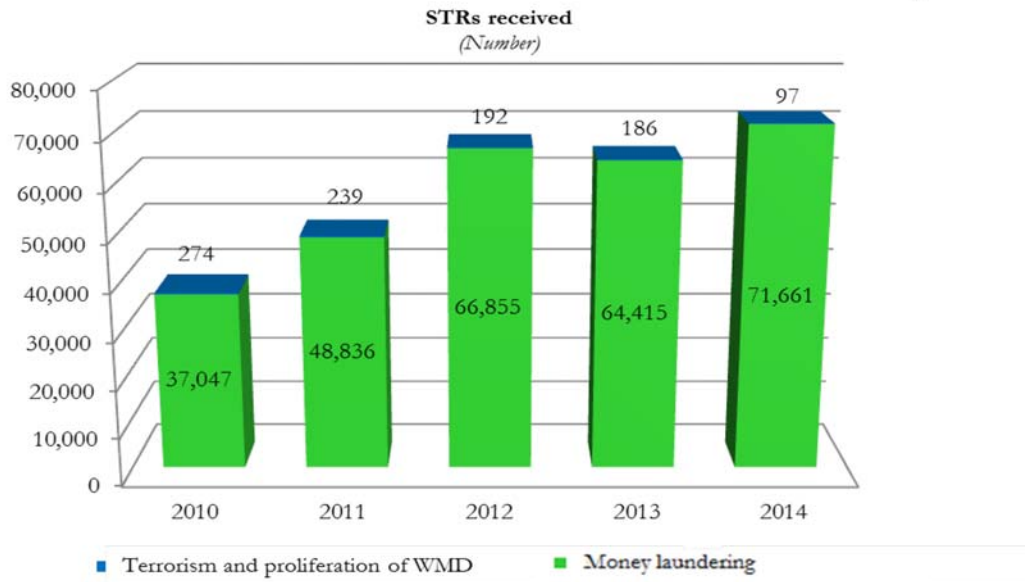
As in previous years, almost all the reports received in 2014 involved suspected money laundering (99.9 per cent); those relating to financing of terrorism or weapons of mass destruction (WMD) proliferation decreased further to a practically negligible share (Table 2.5 and Figure 2.1). However, since the operational patterns used for financing terrorism may be the same as those for money laundering, activities involving terrorist financing may be perceived and reported by the obliged entities as money laundering. Recent empirical evidence seems to confirm this point. A closer look at this issue may bring to light a higher number of cases worth examining.

Confirmation would appear to come from the data for the first few months of 2015, which show a significant turnaround, likely due to increased risk perceptions on the part of obliged entities in response to recent acts of terrorism around the world. In the first quarter of the year, there were 74 reports of suspected financing of terrorism and 3 reports of suspected WMD proliferation.

Table 2.5

Distribution of STRs by category					
	2010	2011	2012	2013	2014
	<i>(number)</i>				
Total	37,321	49,075	67,047	64,601	71,758
Money Laundering	37,047	48,836	66,855	64,415	71,661
Financing of terrorism	222	205	171	131	93
Financing of proliferation of WMD	52	34	21	55	4

Figure 2.1



As in previous years, Lombardy was the region that sent the most reports of suspected money laundering and terrorist financing (13,021, or 18.1 per cent of the total), followed by Lazio (8,948, 12.5 per cent) and Campania (8,786, 12.2 per cent); see Table 2.6 and Figure 2.2.²⁴ The three regions account for approximately 43 per cent of all reports. However, the number of reports from Lazio decreased by 2.6 per cent compared with 2013 while there was a significant increase in those from other regions; notably, Campania, Tuscany, Piedmont, Sicily, Calabria, Liguria, Trentino Alto Adige, Umbria and Valle D'Aosta.

Geographical location

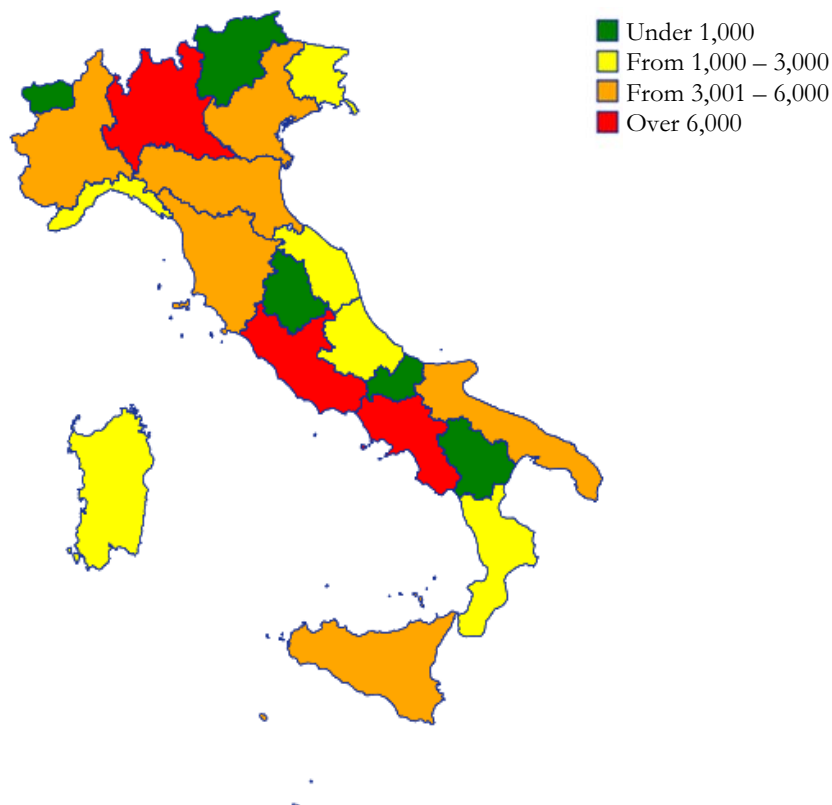
²⁴ Because reporting entities can indicate more than one suspicious transaction in each report, the source of the report is conventionally assumed to be the same as the place of the request/execution of the first transaction.

Table 2.6

Distribution of STRs by region where transaction occurred					
	2013		2014		
	<i>(number)</i>	<i>(% share)</i>	<i>(number)</i>	<i>(% share)</i>	<i>(% change over 2013)</i>
Lombardy	11,575	17.9	13,021	18.1	12.5
Lazio	9,188	14.2	8,948	12.5	-2.6
Campania	7,174	11.1	8,786	12.2	22.5
Veneto	4,959	7.7	5,623	7.8	13.4
Tuscany	3,956	6.1	4,874	6.8	23.2
Emilia-Romagna	4,947	7.7	4,760	6.6	-3.8
Piedmont	3,577	5.5	4,667	6.5	30.5
Puglia	3,800	5.9	4,128	5.8	8.6
Sicily	3,215	5.0	4,122	5.7	28.2
Calabria	1,969	3.0	2,368	3.3	20.3
Liguria	1,761	2.7	2,195	3.1	24.6
Marche	2,348	3.6	1,728	2.4	-26.4
Sardinia	1,182	1.8	1,241	1.7	5.0
Abruzzo	1,085	1.7	1,086	1.5	0.1
Friuli-Venezia Giulia	1,020	1.6	1,082	1.5	6.1
Trentino-Alto Adige	613	0.9	809	1.1	32.0
Umbria	514	0.8	650	0.9	26.5
Basilicata	626	1.0	503	0.7	-19.6
Molise	350	0.5	331	0.5	-5.4
Valle D'Aosta	112	0.2	155	0.2	38.4
Abroad	630	1.0	681	0.9	8.1
Total	64,601	100.0	71,758	100.0	11.1

Figure 2.2

Distribution of STRs by region where transaction occurred



In appraising the data on amounts reported, it must be noted that the obligation to report covers both transactions actually executed and those only attempted; the latter may be characterized by particularly large amounts insofar as they refer to mere projections made by customers and as such are hard to distinguish from attempts at fraud or false claims of economic capacity.

Amounts reported

In addition, in the last few years, following the FIU's initiatives to raise awareness of the need to improve the quality of information in the STRs, reporting entities have devised self-correction mechanisms, improving their procedures for assessing and quantifying suspicious transactions.

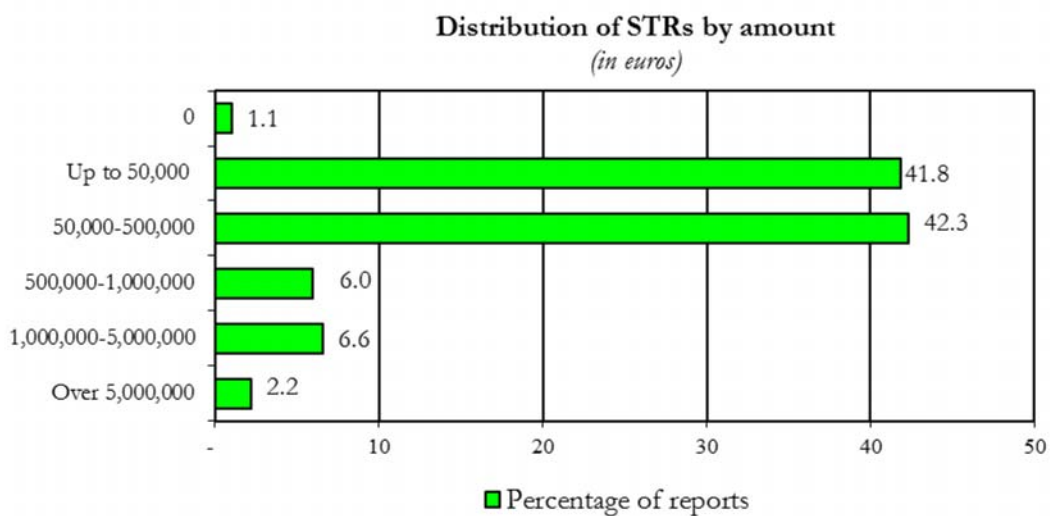
In 2014, the total value of suspicious transactions actually executed and reported to the FIU was €55.9 billion, down from €62 billion in 2013. This reduction reflected the factors mentioned above, and the FIU's use of statistical methods of data refinement, eliminating erroneous outliers.

Taking attempted transactions into account, the total value of suspicious

transactions reported jumps to €164 billion, compared with €84 billion the previous year; the increase being mainly due to a single attempted transaction whose value was equal to more than 60 per cent of the aggregate amount.

More than 30,000 STRs concerned amounts of less than €50,000 (about 42.9 per cent). Reports for amounts over €500,000 accounted for 14.8 per cent of the total (Figure 2.3). These shares are in line with the data from 2013, where 43.3 per cent concerned transactions smaller than €50,000 and 14.1 per cent amounts over €500,000.

Figure 2.3



Type and average amount of transactions reported

With regard to the type of transactions reported, as in previous years the majority were cash transactions or credit transfers. Of the over 149,000 STRs received in 2014,²⁵ about 44,500 referred to cash transactions (29.9 per cent) and over 46,000 to credit transfers (31 per cent; see Figure 2.4).

By amount, credit transfers abroad were particularly large, averaging €47,239, compared to domestic credit transfers at an average of €7,859.²⁶

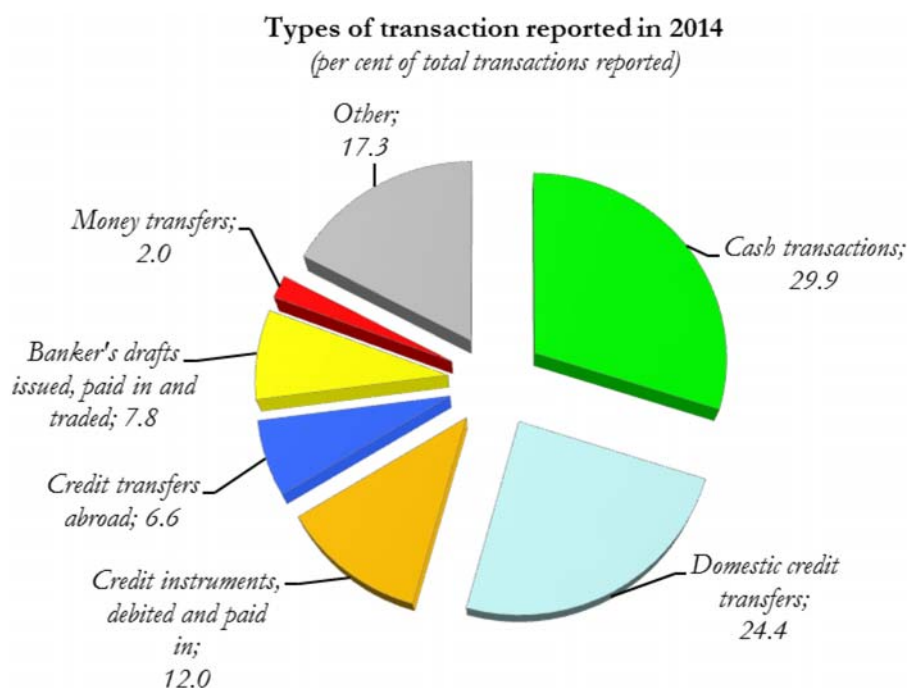
With regards to credit instruments, Banker's drafts averaged €16,277, higher than the average for bank cheques, at €6,365.

The average amounts of money transfers were small, around €1,000, consistent with the characteristics of this type of transaction. Cash transactions averaged €2,751.

²⁵ There is no limit on the number of suspicious transactions that can be reported on the reporting form, but the reporting entity may simplify the task by indicating only the most important transactions.

²⁶ The average amount is based on all the suspicious transaction reports submitted to the FIU, including those for transactions only attempted.

Figure 2.4



As in previous years, most of the reports submitted by notaries involve the drafting of real estate sales contracts and corporate acts.

The real estate transactions reported primarily relate to transactions involving parties with a criminal record or located in countries considered tax havens. The anomalies detected usually relate to funds of a suspect origin or atypical methods of payment or determination of the amount. With regard to corporate matters, in addition to the source of the funds, activities that are often reported as suspicious include the mode of acquisition or sale of a company, the possible interposition of a nominee and the inclusion in corporate entities of individuals under investigation.

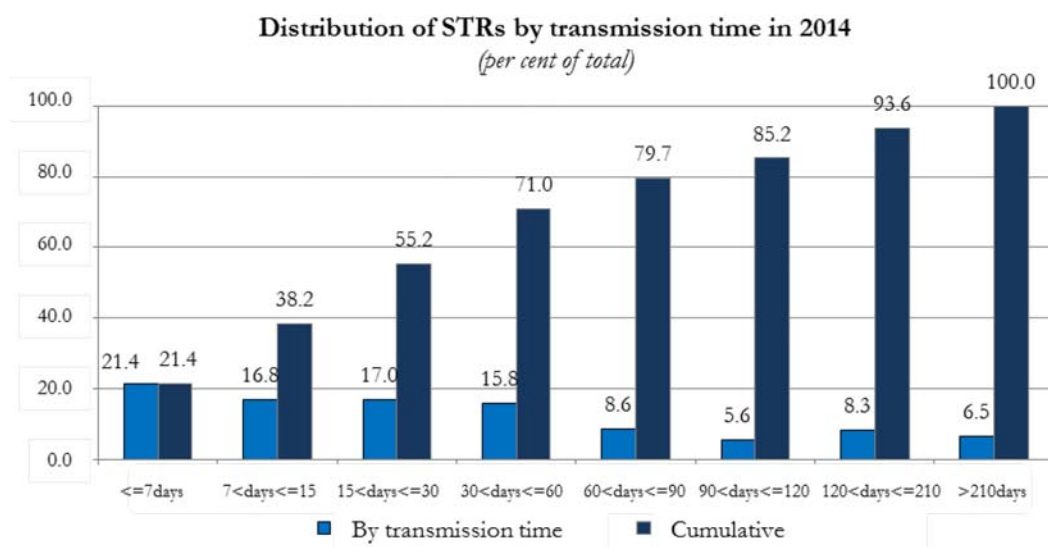
The transmission time for STRs improved in 2014: 55 per cent of the reports were submitted within one month of the transaction (44 per cent in 2013) and 71 per cent within two months (65 per cent in 2013; see Figure 2.5). The number of reports submitted more than 7 months after the transaction date fell to 6.5 per cent from 9 per cent the previous year.

Transmission times

Banks submitted 60 per cent of their reports within one month of the suspicious transaction, while professionals submitted 70 per cent within that timeframe.

There is still room for improvement for the other categories of reporting entity in the time it takes to detect and report suspicious transactions. Financial intermediaries excluding banks and Poste Italiane submitted 41% of their reports two months after the date of execution; non-financial intermediaries excluding professionals, 43%. For some categories of reporting entity, the type of activity involved may mean that it takes longer for the grounds for suspicion to mature, to emerge during the course of the relationship.

Figure 2.5



2.3. The quality of active cooperation

Effective active cooperation requires not only timely communication but also good quality, complete information. In order to improve the system, the FIU offers constant support in using the Infostat-FIU portal and in compiling and filing reports. In addition, in 2012 the FIU initiated a series of meetings with the main reporting entities to discuss common irregularities and inefficiencies in reporting. As the 2013 Annual Report notes, these meetings have produced a noticeable improvement in active cooperation.

As a result, the FIU decided to reach out to a larger number of reporting entities by providing special feedback report forms, prepared with the same methods used in calling the meetings. In 2014, the FIU began distributing these feedback report forms on an experimental basis to Poste Italiane and the banks that have submitted a large number of STRs, to inform them on the outcomes of their reporting activities the previous year.

This initiative, as a complement to the disclosure requirements under Article 48 of Legislative Decree 231/2007 on archived reports, serves to improve the quality and efficiency of the system by encouraging the use of self-assessments on the part of reporting entities, which can then compare their situation with those of other entities and take measures to improve their reporting.

The feedback report contains indicators that the entities must consider, based on their experience and operations, to assess their own conduct relative to their reporting category. These indicators relate to four important factors: the extent of the entity's cooperation, the timeliness in submitting reports, the ability to detect transactions that are effectively at risk of money laundering, and the ability to explain their suspicions

adequately and effectively.

Feedback

The information provided in the feedback report is not an assessment of the reporting itself, but when related to the specifics of each reporting entity it can offer indications for improving active cooperation. The indicators on the feedback form are divided into four sections:

The first section (Section A – *Quantity indicators*) shows the number of reports submitted by the reporting entity in the relevant time period and its share of total reports sent by the reference group. This is aimed at providing the intermediary with the parameters for gauging the dimensions of its reporting activity in relation to its category.

The second section (Section B – *Timeliness indicators*) shows the distribution of reports according to time elapsed,²⁷ in per cent, and average time to transmission. These indicator measures a factor that is essential to active cooperation, namely how quickly the reporting entity reacts to the emergence of suspicious elements.

The third (Section C – *Risk indicators*) aims to determine the relevance of the reports according to the following elements: the risk level²⁸ assigned by the reporting entity, the rating class²⁹ assigned by the FIU following its financial analysis, and whether a law enforcement investigation is under way.

The last (Section D – *Structural indicators*) indicates the degree of complexity of the reports based on the number of persons and transactions cited in the STR.³⁰ This measure indicates the extent of the intermediary's use of the range of descriptive possibilities offered by the reporting regime: a report containing more information is often the product of careful, more thorough investigation by the intermediary.

Following the good results of the experiment, the 2014 feedback forms will be sent to a larger number of addresses.

The indicators developed for the reporting entities, in particular those related to diagnostic and representative capability, when taken together, also permit concise description of the state of active cooperation in terms of the “quality” and “complexity” of the STRs.

A report's “quality” level is its composite relevance/risk indicator, based on the final rating assigned by the FIU's analysts and by law enforcement investigators. Complexity is directly related to the structuring of the report, where a higher indicator generally corresponds to a more detailed report, one with better potential utility for analytical and investigative purposes. This factor is crucial because a poor description of the behaviour will not even allow identifying the relevant items for analysis.

Both indices are expressed in relation to the average values of the reporting

²⁷ There are five time periods: 30 days or less, between 30 and 60 days, between 60 and 90 days, between 90 and 120 days, more than 120 days.

²⁸ There are three risk levels: “high/medium-high”, “medium”, “low/medium-low”.

²⁹ The FIU rating classes are “high/medium-high”, “medium”, “low/medium-low”, “nil”. See Section 3.3.

³⁰ There are three classes: only 1 person or structured transaction; 2 to 5; more than 5.

entity's category.

The methodology, applied on an experimental basis to the reporting data from banks and Poste Italiane for 2013 and 2014, has allowed the subdivision of the category into four classes according to the levels of quality/complexity of the reports (Figure 2.6).

Figure 2.6

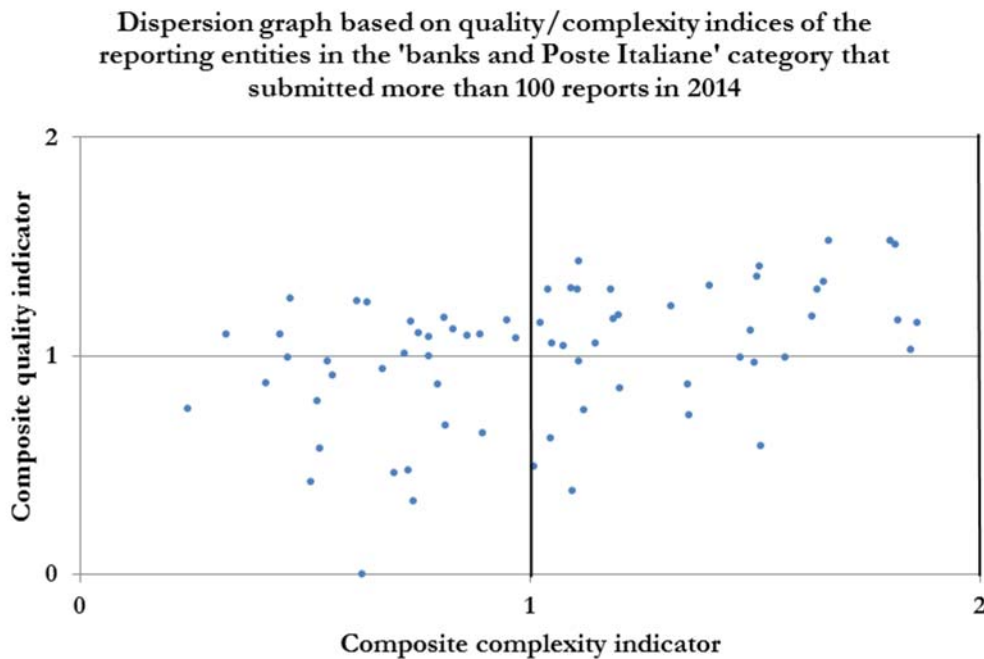


Figure 2.6 shows the quality/complexity positions of the active cooperation of banks and Poste Italiane that submitted more than 100 reports in 2014 (69 entities). Twenty-five, or 36.2 per cent, sent reports of high standards for both quality and complexity; the reports of 15 (21.7 per cent) were less well-structured but of good quality; 12 entities (17.4 per cent) sent reports that rated as well-structured but of low quality. Finally, 17 entities (24.6 per cent) sent reports that were deemed poorer in both quality and structure. Their position will be subjected to special analyses with a view to designing corrective measures.

Compared with the 2013 results, some of the major reporting banks improved their position, refining the quality and/or the complexity of their reports, thanks in part to dialogue and monitoring from the FIU.

**New checks on
RADAR**

Another initiative to make active cooperation more adequate was the increase in the already numerous checks for consistency and accuracy carried out when the report is received via the RADAR system. To this end, additional procedures for verifying the overall report are being finalized, while some specific checks will be carried out, together with the relevant trade associations, on reports transmitted by professionals.

2.4. Returned funds for ‘impracticable’ due diligence

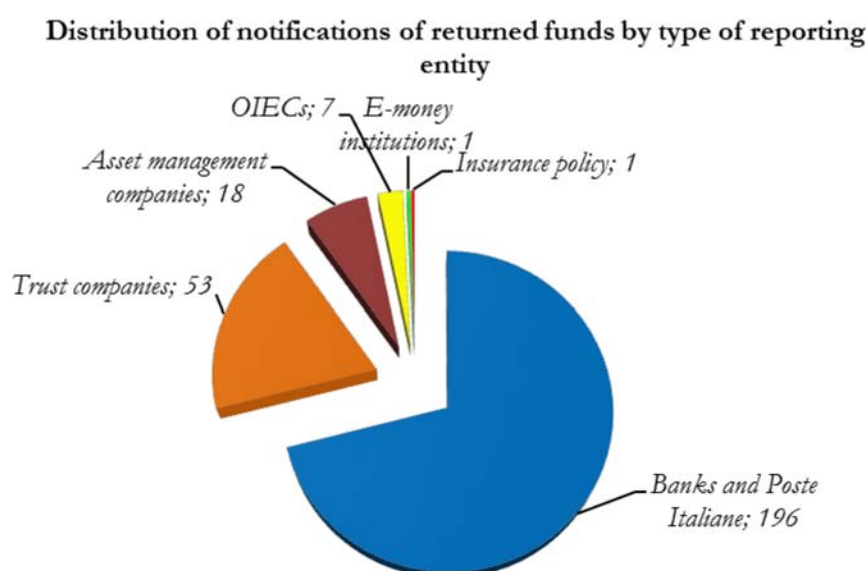
As of March 2014, the FIU receives notifications regarding transactions involving the return of funds by intermediaries owing to the impossibility of adequately carrying out customer due diligence in accordance with Article 23(1-*bis*) of Legislative Decree 231/2007 and its implementing provisions.³¹

In 2014, the FIU received 276 notifications of returned funds, for approximately €19 million.³² Of these notifications, the majority were transmitted by banks and Poste Italiane (about 71 per cent), followed by trust companies established under Law 1966/1939 (19.2 per cent) and asset management companies (6.5 per cent; Figure 2.7).

Data on returned funds

As for the financial relationships reported, 171 notifications (62 per cent) concerned current accounts, 53 referred to trusts, 12 to securities accounts, 1 to a life insurance policy and 1 to electronic money. The remaining 38 notifications related to relationships classified as ‘other’.

Figure 2.7



The high number of notifications made by trust companies is due to the re-registration of shares in limited liability companies, made through a formal notary’s act or following a voluntary process undertaken as a result of the impossibility of due diligence on the settler who had conferred the mandate for the original transfer.

In 256 transactions the funds were returned to operators located in Italian municipalities (prevalently in Milan, Rome and Trento) and in 20 to banks with branches in foreign countries (of which 6 in Switzerland).

The notifications of impossibility of carrying out due diligence and subsequent

³¹ See Section 1.2.2 for more information on the legislative aspects.

³² The amount corresponds to the sum of the amounts relating to the transactions subject to the return of funds.

return of funds expand the knowledge available to the FIU for its institutional purposes and may be the subject of further study in considering future initiatives.

3. OPERATIONAL ANALYSIS

The FIU performs financial analysis of suspicious transaction reports submitted by obliged entities and forwards them to the Special Foreign Exchange Unit of the Finance Police and to the Bureau of Antimafia Investigation, along with a technical report containing the results of the analysis. Financial analysis consists of information gathering to gain a better understanding of the context of the original transaction, identify persons and objective connections, reconstruct the cash flows underlying the operations, and thereby identify transactions and situations linked to money laundering or the financing of terrorism.

The body of information developed through the screening and financial analysis of the reports also enables the Unit to categorize suspicious transactions and to identify and classify typologies and patterns of anomalous behaviour to be shared with the obliged entities.³³

The FIU's on-going work to refine the analysis process and to progressively expand the sources of information available enhances the selectiveness of the Unit's action, in keeping with international standards, with the benefit of improving the efficacy of transmission of the findings to the investigative bodies.

3.1. The numbers

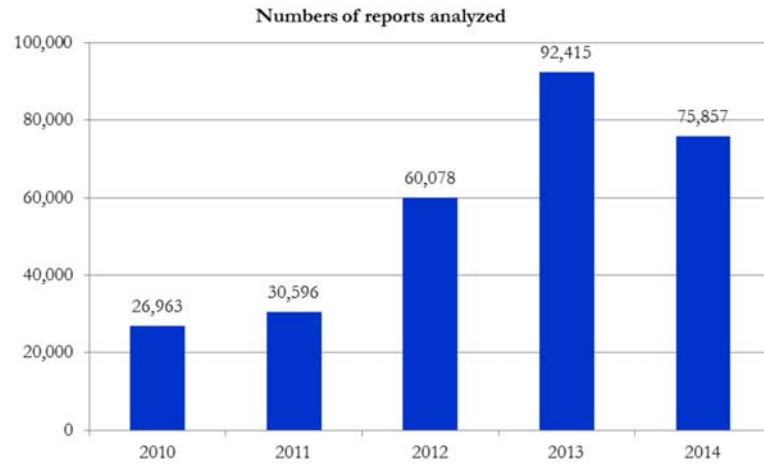
In 2014 the Unit analysed and transmitted 75,857 STRs to investigative bodies (Table 3.1 and Figure 3.1), down 18 per cent from the 92,400 STRs analysed in 2013, when extraordinary effort was made to significantly reduce the backlog.

Table 3.1

Reports analysed by the FIU					
	2010	2011	2012	2013	2014
Number	26,963	30,596	60,078	92,415	75,857
<i>Percentage change on previous year</i>	<i>43.1</i>	<i>13.5</i>	<i>96.4</i>	<i>53.8</i>	<i>-17.9</i>

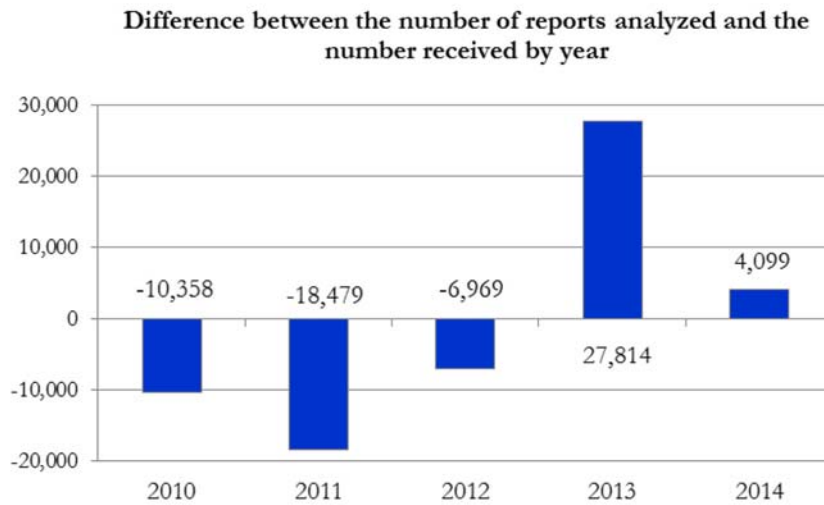
³³ See Section 4.4.

Figure 3.1



The drive to speed up data processing continued in 2014. During the year, the number of reports analysed by the FIU continued to outnumber the number received (71,758), in this case by 4,000 STRs (Figure 3.2).

Figure 3.2



At the end of 2014 there was a backlog of roughly 9,800 STRs, which given a monthly inflow of about 6,000 reports can be considered the norm. This result was achieved by continuous fine-tuning of work processes, which benefited from greater access to information sources on the one hand, and a more rational organization of resources and more effective use of the technological supports developed and adapted in previous years on the other (see Section 3.2).

3.2. The process of analysis

In accordance with international standards, the financial analysis process is divided into a series of activities designed to identify those STRs deemed to be well-founded and warranting further investigation, to assess the actual degree of risk involved and to decide how they should be handled by drawing upon a variety of information sources.

The analysis process uses the RADAR information technology system to gather and manage reports. The RADAR system also provides support for, among other things, classifying reports, identifying those deemed to be of highest risk and therefore to be given priority treatment, and making the information needed to perform the financial analysis immediately available.

Once the report is received via the electronic portal, the first phase of automatic data enrichment begins, which entails crosschecking the structured data in the report against the information in the FIU's existing database. The information so obtained is used by the RADAR system to assign a risk rating produced by an algorithm that uses mainly quantitative variables, such as the number of reports already received on the same subject, any pending legal proceedings, the value of the suspicious transactions, and the level of risk indicated by the reporting institution.

The system's assignment of an automatic rating of 1 to 5 to each report reinforces the selective nature of the FIU's analysis. The automatic rating is used alongside the reporting entity's own risk assessment, which also employs a 5-point scale, and can be adjusted in the course of the financial analysis.³⁴

In October 2014, a pre-screening mechanism was added for cases involving connections with foreign countries for rapid, targeted activation of international cooperation under FIU.NET ("known/unknown" requests).³⁵ Systematic information requests to the FIUs of the participating European countries are a steady and invaluable source of information, procuring additional data from the very start of the process, with significant benefits as to the selectiveness and speed of the analysis and the quality of the output for the investigative bodies. Consistent with the risk-based approach and with a view to limiting the number of requests at this stage, only persons and situations that are potentially engaged in appreciable money laundering or financing of terrorism are selected. In order to further exploit the potential of international cooperation, in March 2015 the FIU joined the FIU.NET Mat3ch multilateral data exchange programme.

In the second half of 2014, the Unit's work to enhance work processes by enriching data sources, optimizing technology and achieving analytical specialization led to a reorganization of the FIU to strengthen its institutional activities by adapting its internal structure to its present functions.³⁶ As to the analysis process, the reorganization provided for functional specialization, not just according to the types of reporting institutions, but also to the type of risk inherent to specific categories of reports. A new basic operational structure, the Information Management Division, was therefore formed to analyse reports of transactions suspected of being used to finance

Reorganization

³⁴ See Section 3.3 for more details.

³⁵ See Section 8.1.3 for more details.

³⁶ For a more detailed explanation of the organizational reform of the FIU, see Section 9.1.

terrorism or the proliferation of weapons of mass destruction, as well as reports regarding money transfers.

The more efficient allocation of financial analysis functions has been combined with improved methods for aggregate analysis of STRs. These methods are used extensively in complex situations to detect geographically localized, recurrent operational patterns and phenomena and a substantial network of connections among parties. They enable the Unit to examine reports that exhibit financial complementarity no longer as isolated events, but in an integrated manner, provided that it is possible to identify the common denominator for aggregating them.

This approach capitalizes on the FIU's central role both in collecting data and in analysing STRs and the aggregate data in domestic anti-money-laundering activities and, where appropriate, exploits the dialogue with the international network, which the Unit progressively strengthened in the course of 2014. The analysis criteria developed during the year are intended to reveal hidden connections between different situations and to describe more clearly, not just the perimeter of transactions for further investigation, but also all those persons that are connected through common operations, therefore leading to more effective analysis and the spotlighting of phenomena that would otherwise remain hidden or underestimated. The improved effectiveness is accompanied by greater speed in processing the reports, more substantial and integrated inquiries, and ever shorter transmission times to investigative bodies.

Analysis of terrorist financing

In 2014 the FIU received 93 reports of suspected terrorist financing transactions (down from 131 in 2013), more than 90 per cent of which came from banks and other financial intermediaries.³⁷

The inflow has fallen for five straight years, essentially due to the gradual decline in reports originating from the international terrorism blacklist,³⁸ which is sometimes in error due to cases of homonymy. In the first quarter of 2015, however, there was a significant reversal in the trend (74 reports, more than triple the amount for the same period of 2014) as a result of a growing awareness of the phenomenon prompted by the deterioration in the international scenario.

Over the five years from 2010 to 2014, the Unit received a total of 822 reports of suspected terrorist financing. During the same period, it analysed 854 reports,³⁹ dismissing around 30 per cent of them.

The classification of a transaction as suspected of terrorist financing is left to the independent judgment of the obliged entities, indicated in a specific field in the report.

The small number of reports of terrorist financing (0.1 per cent of all STRs) derives in part from the difficulty in identifying and distinguishing it from money laundering, with which it may overlap. Furthermore, obliged entities tend to opt for the more general category of money laundering, even where there are risk factors that

³⁷ See Table 2.5 in Section 2.2.

³⁸ See Section 7.2.2.

³⁹ The number of STRs analysed also includes reports received in prior periods.

could point to terrorist financing, where they have no clear and definite suspicion. In a number of cases, subjects who are later found to have ties with terrorist networks were first reported as being involved in suspected money laundering transactions.

The FIU pays considerable attention to reports of terrorist financing, particularly in the current climate in which the threat has become more serious and is the focus of various forums for international cooperation. As part of the international coalition to combat the Islamic State in Iraq and the Levant (ISIL), the Unit is a member of the working group charged with devising financial measures to be taken.

Since the analysis of the reports combines financial, subjective and geographical factors, they may be of particular interest and complexity from an operational standpoint. Even where no significant anomalies are found, it may be possible to discover ties between individuals and operational centres that can potentially be linked to criminal organizations or in any case to hubs for the collection and transmission of funds to be used to further terrorism. In certain cases, the findings of the analysis have led to the detection of single situations to be brought to the attention of other FIUs in the competent international forums.

The analysis of individual reports is now supplemented by periodic analysis, including in aggregate form, of all the reports received that are potentially linked to acts of terrorist financing based on the geographical, operational and subjective characteristics of the facts presented. The FIU reclassifies the reports in light of the results and re-examines the relative situations.

As to foreign cooperation, the Unit works to intensify the exchange of information with national authorities and with the network of foreign FIUs, an effort that is of the utmost strategic importance given the significance of subjective factors and the obvious international reach of the phenomenon.

There are three main types of terrorist financing reports, each based on the “anomaly indicators” proposed by the FIU and published by the Bank of Italy in 2010.

The first type of report, which accounts for more than one third of the total, covers STRs springing from transactions or attempted transactions or opening of accounts by persons or entities named on public international terrorist lists (EU, UN, OFAC), or found to be involved with terrorism, for example, through press reports. In these cases, the report generally derives from automatic checks performed by intermediaries while carrying out transactions or opening accounts for potential customers or through periodic monitoring of customers and their financial counterparties. If such parties are found to be on the lists, the obliged entities submit an STR even when the financial movements are not particularly sizable or have a reasonable explanation. Often such cases are attributable to homonymy.

The second type, which occurs much less often than the first (just under 10 per cent), consists of reports triggered by financial anomalies associated with accounts held in the name of non-profit, religious and/or charitable organizations (Islamic cultural centres, associations, foundations, NPOs, etc.). The most common situations are those involving cash deposits deemed anomalous in amount and/or frequency, but the category also encompasses transactions with foreign counterparties (incoming/outgoing wire transfers from/to countries at risk) that are not consistent with the ordinary pattern of transactions on the account or with the association’s

stated purpose.

The third category is residual and includes all the other reports arising from various kinds of financial anomalies associated with specific risk factors, generally the place of origin of the customer and/or the counterparties being a country at risk of terrorism. Among the most recurrent situations are the anomalous use of cash, the splitting up of one transaction into several transactions, and unexpected transfers of funds through countries other than that of origin, including through the use of triangulation.

Reports on money transfers

Suspicious transaction reports on money transfers feature recurring themes and patterns, in part reflecting the distinctive characteristics of this sector in terms of business operations and distribution structure.

The relationship with customers is occasional, unlike those of other financial operators with their customers. In money transfer, due diligence merely involves requesting the customer's identity document at the time of the transaction. Therefore the reporting entity does not have any special knowledge about the nature and economic profile of the customer.

Money transfer intermediaries generally consist of a central office, which manages the circuit and all of the support, control and back office activities (including compliance with anti-money-laundering regulations), and a vast and extremely fragmented distribution network of operators (sub-agents) spread around the territory.

Given these distinct organizational and product features, reports on money transfers are made almost exclusively by the operators' central offices following periodic analysis or checks of transactions or based on 'objective statistical' benchmarks using predetermined parameters.

These parameters, consistent with the relevant indicators of anomaly, are designed to catch certain types of cases, such as: the recurrence of the same senders or receivers, possibly assessed by internal materiality thresholds (number and value of the transactions over a given period of time); the splitting of transactions among several parties, calculated so as to avoid legal reporting limits; the triangulation of transactions between customers; the unexpected destinations of the transfers, for example in relation to the sender's place of origin or residence, or the short distance between the branch location used by the sender and that of the receiver of the funds.

The individual reports may be of marginal informational value due to the amount or the individual facts involved, or may be lacking the information needed to reconstruct the total cash flows between the different countries. For these reasons, possible connections between the subjective and objective factors of single reports (e.g., the same senders/receivers, sub-agents, even those on different circuits, connections between cash flows with the same geographical origin or destination) can be identified solely through aggregate analysis of the anomalies reported.

The Unit is developing a new analysis method to this end since it is aware that the particular operational and organizational characteristics of the money transfer business make it vulnerable not only to use as a tool in money laundering, but also in the financing of terrorism.

3.3. Risk assessment

Assessing the risk of each report involves synthesizing a number of factors. One of the most important of these is the obliged entities' own evaluation of the risk of money laundering or the financing of terrorism associated with the reported transaction. This evaluation, expressed on a scale of 1 to 5, represents the entity's prudent assessment, taking into account the criteria set out in Article 20 of Legislative Decree 231/2007.

Reporting
entity's rating

The risk level assigned by the reporting institution, along with other internal and external factors, contributes to determining the automatic rating assigned by the RADAR system to the report, even though the two ratings are shown separately on the report form.

The automatic rating is an initial assessment of the risk level of the transaction and can obviously differ from the risk profile assigned by the reporting institution.

Automatic
rating

Calculation of the rating depends on the complete and correct compilation of the report by the obliged entity. Sophisticated though this rating is, it cannot take account of other possible risk factors, usually qualitative, that may be crucial to the analyst's judgment.

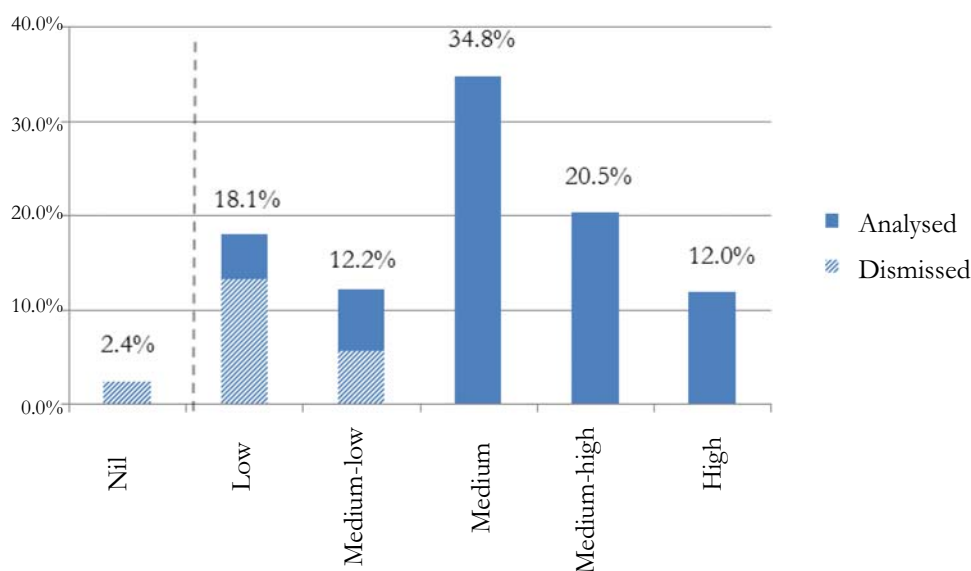
For this reason, the automatic rating is an intermediate indicator that, upon the completion of the financial analysis, may be confirmed or modified by the analyst based on the totality of information received. This yields the final rating, which is assigned to the report and is transmitted to the investigative bodies.

Final FIU
rating

Proper STR risk assessment is useful not only for the FIU, but also for the investigative bodies, which in weighing the investigative relevance of the reports can consider both the risk rating of the reporting institution and the final rating resulting from the Unit's analysis.

Figure 3.3

Reports analysed in 2014: distribution by final rating
(percentages)



In 2014, 32.5 per cent of the fully processed STRs analysed by the FIU were considered high-risk (high and medium-high rating), 34.8 per cent medium risk (medium rating) and 32.7 per cent minor risk (nil, low and medium-low rating;⁴⁰ see Figure 3.3).

The original ratings made by the reporting entities and the final ratings assigned by the FIU after financial analysis coincide for more than 70 per cent of the reports analysed in 2014 (see Table 3.3).⁴¹ More specifically, the final ratings confirming the initial assessments of moderate risk accounted for about 20 per cent of the STRs and those of medium or high risk accounted for 51.4 per cent.

As compared with the figures for 2013, there has been a considerable improvement in the convergence between the risk assessments of the FIU and those of the obliged entities. The percentage of reports deemed by the reporting institution to be of medium, medium-high and high risk and subsequently given a low or medium-low rating by the FIU was reduced by half in 2014, from 25.5 per cent to 12.7 per cent. By contrast, the percentage of reports assessed as low and medium-low risk by the reporting institution and then given a medium, medium-high or high rating by the FIU rose, albeit only from 10.3 per cent to 15.9 per cent.

These differences reflect the different factors considered in making the respective risk assessments, which in the case of the reporting institutions may be due to their

⁴⁰ Reports rated low risk are usually dismissed by the FIU, as described in more detail in Section 3.5. The existence of a small percentage of reports considered to pose nil level risk derives from the previous dismissal system.

⁴¹ In 2013 the coincidence was 64.2 per cent.

individual characteristics (size, organization and internal procedures, diagnostic capabilities, control systems, staff training, etc.).

Table 3.3

Comparison of STR risk ratings of reporting entities and FIU's final ratings
(percentage composition)

		Risk indicated by the reporting entity		Total
		Low and medium-low	Medium, medium-high and high	
FIU rating	Low and medium-low	20.0 (25.1)	12.7 (25.5)	32.7
	Medium, medium-high and high	15.9 (10.3)	51.4 (39.1)	67.3
Total		35.9	64.1	100.0

Note 1: 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.

Note 2: the numbers in parentheses indicate the corresponding percentages in 2013.

3.4. The methodology

The financial analysis process begins with a first-level analysis to assess the actual level of risk of each STR and to determine the most appropriate treatment.

During this phase of the process, based on the information received through automatic data enrichment and from other, mainly online sources, the FIU determines whether the suspicion of money laundering appears to be founded and whether further investigation is warranted. Furthermore, it evaluates whether the automatic rating assigned by the system, which can be either confirmed or modified, is appropriate.

The STR is accompanied by a simplified report where a series of conditions are met: the description of the transactions and the reasons for the suspicions are exhaustive, the suspicion of money laundering or of the financing of terrorism is well grounded and relates to a phenomenon that is already known based on the information available, and further investigation is not possible. At the end of this first-level analysis, the analyst can confirm, lower or raise the automatic rating, thus generating the final rating that will be transmitted to the investigative bodies together with the STR.

Otherwise, if further investigation is warranted due to the complexity of the transaction or to obtain information required to complete the assessment, the STR undergoes second-level analysis, which produces a detailed report on the findings of the additional investigation. In conducting this second-level analysis, the analyst may contact the reporting institution and other obliged entities to obtain information needed to retrace the movement of the funds; the analyst may also consult the national database of financial account holders in order to identify the intermediaries with which the reported persons maintain accounts; as from January 2015, the analyst may access the national tax database; and the analyst may get foreign FIUs involved if the

transaction involves cross-border connections. At the completion of this phase, the analyst assigns the final rating to the STR based upon the information obtained and then transmits it to the investigative bodies.

Given these characteristics, second-level analysis is generally reserved to reports involving high levels of risk or those referring to complex operations that are not immediately ascribable to types of activity or patterns already identified by the FIU.

Strategies for developing transaction analysis capacity

The planned creation of an FIU data warehouse that is capable of accessing all the internal and external data used by the FIU will refine and streamline work processes through more effective and integrated utilization of the information held, benefitting all phases of the STR financial analysis process.

The data warehouse will also facilitate the processing of massive quantities of information and therefore will support the identifying and the analysing of phenomena of interest. Reprocessing can be designed around predetermined objectives and requirements, or used in support of the entire range of the FIU's official duties (inspections, strategic analysis, determination of patterns and models of conduct, and information exchange with judicial authorities, foreign FIUs and sectoral supervisory authorities).

Visual analysis tools and techniques for mapping non-obvious relationships and text mining methodologies will be used to handle the more complex and distributed data gathered through the data warehouse. The system will then be supplemented by procedures for visualizing the information in the form of network "graphs" that are based on social network models (link analysis or social network analysis).

3.5. Dismissals

The FIU dismisses reports that it deems groundless, but keeps the reports on file for 10 years, with procedures in place to allow the investigative bodies to consult such files. The FIU notifies the reporting entity directly or through a professional association of the dismissal of a report.

Dismissal is very important in the handling of suspicious transaction reports because, along with the rating, it is the main instrument for selecting the information to seek through further investigation. International bodies have repeatedly stressed the need for greater selectivity in handling STRs.

In 2014 the FIU dismissed 16,263 reports, or 21.4 per cent of the total analysed (see Table 3.4), more than double the figure for the previous year.

Table 3.4

Reports dismissed by the FIU					
	2010	2011	2012	2013	2014
Total number analysed	26,963	30,596	60,078	92,415	75,857
Reports dismissed	3,560	1,271	3,271	7,494	16,263
<i>Reports dismissed as a percentage of</i>	<i>13.2</i>	<i>4.2</i>	<i>5.4</i>	<i>8.1</i>	<i>21.4</i>

This increase is mainly attributable to the introduction of new criteria by the FIU in early 2014. These criteria, endorsed by the Financial Security Committee, were developed in cooperation with the Finance Police Top Command and Special Foreign Exchange Unit, with which the FIU conducted testing and analysis of the results. The procedure at least somewhat mitigates the problem of the FIU's lack of access to investigative data. Under the procedure, the Unit promptly provides the Special Foreign Exchange Unit with the identifying particulars set out in the reports. Based on this information, the Special Foreign Exchange Unit prepares and sends to the FIU, in summary and non-individual form, the investigative interest levels for each report (based on prior criminal and police records of the persons involved).

**New dismissal
criteria**

This exchange of information allows the FIU to supplement the financial analysis with a "risk" factor deriving from investigation of the parties involved. These data make it possible to increase the STR rate of dismissal significantly since this treatment can now be extended to reports that while lacking obvious grounds for suspicion of financial transgressions, could nevertheless not be disregarded in the past, owing to the possible involvement of persons under investigation, for example.

The indicators of investigative interest are now an integral part of the RADAR system. They augment the informational framework used to determine the most appropriate handling for each report.

In accordance with international provisions and the best interpretations of Legislative Decree 231/2007, the new procedure makes it possible to dismiss reports not only in the few cases where money laundering is "impossible" on the face of it, but also where the information available to the FIU, including the investigative interest demonstrated by the Special Foreign Exchange Unit, reveals no evidence of money laundering or terrorist financing.

Dismissal does not mean that the reports are deleted, but rather they remain on file and can be retrieved if pertinent new financial or investigative information comes to light.

Each of the obliged entities was informed of the adoption of the new criteria in the first notice of dismissal issued pursuant to Article 48 of Legislative Decree 231/2007. The reporting institutions were obviously encouraged, even more strongly than in the past, to review the dismissed STRs carefully both in order to refine their reporting capabilities and to make sure that their reports did not have informational shortcomings such as to keep the FIU from seeing the actual reasons for their suspicion.

As in 2013, around 70 per cent of the reports dismissed in 2014 had been rated as low or medium-low risk by the obliged entities, while only some 5 per cent of the reports were deemed of high or medium-high risk (Table 3.5).

Table 3.5

Comparison of STR risk ratings by reporting entities and final ratings assigned by the FIU <i>(percentage composition)</i>					
		Reporting entity risk rating			Total
		Low and medium-low	Medium	High and medium-high	
FIU rating	Nil	8.3	2.2	0.7	11.2
	Low	56.8	4.7	1.0	62.5
	Medium-low	3.7	19.5	3.1	26.3
Total		68.8	26.4	4.8	100.0

In most cases reports are dismissed because the reason for the suspicion, rather than arising from an effective and weighted assessment process, seems to be based on a generic anomaly, lacking in information that could be used to prevent money laundering or the financing of terrorism. With regard to typology, the dismissed reports mainly refer to transactions that, in the absence of specific subjective risk factors, feature the accessing of cash, including on an occasional basis, frequently for limited unit amounts (the reports often refer to withdrawals, without setting forth facts supporting a suspicion as to the source of the funding).

3.6. Postponements of transactions

The FIU, on its own initiative or at the request of the Special Foreign Exchange Unit, the Bureau of Antimafia Investigation and judicial authorities, may postpone transactions that are suspected of involving money laundering or terrorist financing for up to five working days,⁴² provided that this does not jeopardize the investigation.

In 2014 the FIU handled 228 cases of transactions to be considered for possible postponement. As a result of its analysis and after consultation with the investigative bodies and judicial authorities, the FIU postponed 41 transactions amounting to more than €45 million (Table 3.6).

Postponements are usually ordered in response to unsolicited communications from intermediaries that provide advance information on the contents of the suspicious transaction reports. This is an incisive power, particularly effective in delaying, for a limited period, the execution of suspicious transactions (usually cash withdrawals or foreign credit transfers) until precautionary measures can be taken by the magistracy.

⁴² Article 6(7)(c), Legislative Decree 231/2007.

Table 3.6

	Postponements				
	2010	2011	2012	2013	2014
Number of transactions	34	45	40	64	41
Total value of transactions (<i>millions of euros</i>)	64.9	90.3	21.6	61.9	45.5

3.7. Information flows on investigative interest

The FIU receives feedback from the investigative bodies on their investigative interest in the STRs transmitted. This communication, unlike the indicators of investigative interest level described above,⁴³ concerns the overall results of the assessment made by the investigative bodies as to the reports and the financial analysis received from the FIU.

In 2014 the Special Foreign Exchange Unit, like the FIU, accentuated the selective nature of its procedures for classifying STRs warranting further investigation. It now gives preference to reported transactions that are more characteristic of suspected cases of money laundering or the financing of terrorism, featuring high objective and subjective risk profiles.

The more selective criteria adopted by the FIU and the Finance Police, while leading to a reduction in the reports categorized generically as being of investigative interest, permit focusing investigations more closely on higher risk activities, which has had a positive impact on the number and outcomes of the investigations actually conducted and, ultimately, on the effectiveness of the overall effort to combat these crimes.

Information on matters of investigative interest is made available on the RADAR platform through the electronic portal, with clear gains in speed and security. The use of the portal for sending feedback means that individual reports can be updated in real time, further enhancing the FIU's information framework.

The feedback indicates that there was agreement for 73 per cent of the reports examined, either positive or negative, between the FIU's final risk rating⁴⁴ and the investigative feedback. Out of the total reports given high final ratings by the FIU, the investigative bodies expressed interest in about 42 per cent of the cases. Conversely, 98 per cent of those with lower final risk ratings were judged by the investigative bodies as not of interest.

The information exchange with the investigative bodies, both the investigative interest levels (see Section 3.5) and the feedback, expand the Unit's database and enhance its ability to select cases warranting further analysis, in accordance with the multi-disciplinary approach required by international standards.⁴⁵

⁴³ See Section 3.5.

⁴⁴ See Section 3.3.

⁴⁵ See Section 8.1.

In any event, the FIU continues to need investigative data to be more available, with direct and full access to information not just on the opening of investigations, but also on the results of any judicial actions.

4. TYPOLOGIES OF SUSPICIOUS TRANSACTION REPORTS, INDICATORS AND PATTERNS OF ANOMALY

Under the Italian legal system, the FIU is the hub of the system for preventing money laundering, a role that includes informing the obliged entities and pertinent authorities of the operating methods for money laundering and terrorist financing, drawing on its in-depth analyses to disseminate and update models, current practices and behaviour patterns.

To this end the Unit uses its wealth of information, starting with the financial analysis of each individual report, to develop strategic studies to bring to light developments, trends and operational models at risk of money laundering and terrorist financing.

Some of the cases that have emerged during the course of the FIU's activities in recent years are included in the second issue of the *Quaderni dell'Antiriciclaggio* series, published in April 2015, in Italian only, as *Casistiche di riciclaggio*. This work collects several typical cases, differing considerably in complexity and economic importance, with the aim of providing a practical, easy to use tool that obliged entities may use in detecting cases of money laundering. This publication comes in the wake of other dissemination initiatives by the Unit. Each case description contains a graphic representation and is set out in simple language to make it accessible to readers who are not experts in this sector.

4.1. Classification and typing of STRs

The basic element of the typological analysis is the classification of reports according to the profile characteristics of the transactions reported, or rather to the recurring elements relevant to assessing the threats of money laundering and terrorist financing. Various aspects are considered, such as the financial instruments that best lend themselves to being used as money laundering channels or for financing terrorism, the economic sectors at greatest risk, the subjective profile of the persons reported and the complex and opaque company structures designed to disguise ownership.

Where possible, the definition of profile characteristics is followed by an outline of the types of behaviour at risk of money laundering. These typologies do not usually focus on the predicate crimes but on the recurring characteristics of established operational models that appear to be clearly directed to money laundering. In some cases, however, the financial profiles are closely interlinked with predicate crimes, such as usury and fiscal carousels fraud, and the relative type accordingly identifies a specific criminal offense.

Typologies are tools for classifying behaviours at risk of money laundering that might also involve the actual execution of various crimes. For example, financial conduct that may qualify as invoice fraud, while having an immediate unlawful fiscal intent, may also be a tool for creating slush funds to be used for corrupt purposes, or a mechanism for repaying a usurious loan in a context of organized crime.

Defining the characteristics of a profile and typology has a dual purpose. On one level it aims to qualify the financial analysis strategically, defining not only the contexts, recurring instruments and categories of subjects most exposed to the risk of money

laundering, but also the combinations of these individual elements in outlining specific behavioural profiles and established operational models. On another level it forms the knowledge base that the FIU can use to provide the financial system with updated indications for detecting and reporting suspicious transactions, through patterns and models of anomalous behaviour.

4.2. Profile characteristics

The profile characteristics of transactions are based on the recurrence of elements, such as the financial instruments and channels used, the legal and corporate vehicles, the specific economic sector, geographical location of transactions and the direction of flows, which may all be lawful in themselves but in the FIU's experience nevertheless carry a high potential risk of money laundering.

Profiling tends to create a 'catalogue' that is constantly monitored and updated by the FIU.

Cash transactions

Reports concerning the use of cash, showing a further increase in 2014, may be indicative of money laundering linked to certain types of crime.

Although there has been a natural contraction linked to advances in technology and cultural changes, cash continues to be used more extensively in Italy than in other advanced economies, despite the rules that have drastically limited its use. The constant increase over the last few years in the number of STRs on the use of cash seems to be the result of a precautionary approach on the part of the reporting entities, attributable to the red-flagging of transactions, introduced by the legislation that reduced the amount of cash that can be transferred between private parties and required assessment of large cash transactions for possible reporting.⁴⁶ The thesis of a precautionary approach is corroborated by both the fact that about a third of the reports indicating anomalous uses of cash are classified by obliged entities as having a low risk level, and by the fact that the FIU dismissed some 9,000 of these cases in 2014.

The most commonly reported anomalies involve the frequent use of significant sums of cash as compared to a customer's overall operations, for which there are more than 25,000 STRs, together with anomalies involving the use of large-denomination notes, for which there are more than 2,000 STRs.

Geographically, analysis reveals that the cash transactions reported are mostly found in Lombardy, Campania, Lazio and Veneto, which is consistent with an econometric study by the FIU on anomalies involving the use of cash.⁴⁷

As a general principle, cash is the chosen means of payment for some types of transaction in the informal or illegal economy, since it is untraceable and anonymous. Italy's National Risk Assessment of Money Laundering and Financing of Terrorism (NRA)⁴⁸ notes that the use of cash is typical of the crimes of usury, illegal waste

⁴⁶ The reference is to the modification of Article 41, paragraph 1, established by Decree Law 78/2010 converted into Law 122/2010, which added the following sentence: 'the frequent or unjustified use of cash transactions constitutes grounds for suspicion, even if they do not violate the limits set out in Article 49, as is the withdrawal or deposit of cash with financial intermediaries of sums of €15,000 or more'. On this see also the MEF's explanatory Circular of 11 October 2010.

⁴⁷ See the box in Section 5.3.

⁴⁸ On the National Risk Assessment, see Section 7.2.1 below.

disposal, arms trafficking and fraud. The massive use of cash characterizes most crimes connected with sexual exploitation, and trafficking in illegal substances, and is frequently associated with extortion, corruption and some types of tax fraud.

The very nature of cash makes it difficult to trace both its origin and destination. The information contained in STRs is fundamental for identifying money laundering crimes, especially when the discovery of transactions occurs by means of monitoring systems unrelated to the registration thresholds of the Single Electronic Database, with which persons intending to carry out illegal actions appear to be familiar. From this point of view the data conveyed by STRs can supplement the information provided by the aggregate AML reports (SARA).⁴⁹ In fact, the average amount observed in these reports⁵⁰ is estimated – admittedly with a certain margin of error – at €3,500, which is much lower than the Single Electronic Database registration threshold.

Among the reports on the use of cash, those of entities active in the custody and transport of cash, bonds and securities, while limited in number, were of particular informational value. The privileged vantage point of these operators offers a wider vision of the anomalies linked to the use of cash, in some cases further qualifying the STRs of banks and describing their context and in others highlighting possible omissions. Broader and closer cooperation with these operators could give the FIU a better understanding of the anomalies linked to the use of cash at national level.

In 2014 the Unit analysed reports regarding the purchase or sale of virtual currencies which, like cash, pose significant problems of traceability.

Virtual currencies

The EBA⁵¹ defines a virtual currency as a digital representation of value that is neither issued by a central bank or a public authority, nor necessarily attached to a fiat currency. They are used as a means of payment and can be transferred, stored and traded electronically; in practice they are also held and traded for investment purposes.

Virtual currencies are not legal tender and should not be confused with electronic currency since they are not a digital representation of ordinary legal tender currencies. They are also different from ‘scrip’, i.e. complementary or local currency schemes in which producers and consumers of goods and services who all belong to the same community agree to use a ‘currency’ alternative to the official one for the settlement of reciprocal claims and liabilities, creating a system that is essentially a form of barter among those taking part.

Virtual currencies are becoming more widespread, with over 500 known types worldwide, the most common of which is Bitcoin. Transactions in virtual currencies are usually online, between persons or parties who can operate in different States, often in countries or territories at risk of money laundering. It is not easy to identify these parties and those who operate online and the real beneficiaries of transactions

⁴⁹ For a study on the use of cash based on SARA data, see Section 5.2: cash withdrawals are often just below the reporting threshold.

⁵⁰ This is calculated by considering the total sum of suspicious transactions indicated in each STR relating to the type in question.

⁵¹ See European Banking Authority, “Opinion on virtual currencies”, 4 July 2014.

can easily remain anonymous. International and European authorities have identified several risks associated with the use of virtual currencies.⁵²

Furthermore, the providers of services for the use, exchange, conversion and storage of virtual currencies are not among the addressees of the legislation on money laundering and are not therefore subject to the requirements of customer due diligence, data registration, and the reporting of suspicious transactions. This may hinder AML/CFT activity and make this virtual instrument attractive to persons who intend to carry out criminal acts.

The AML/CFT risk linked to the use of virtual currencies may materialize when the instrument comes into contact with the real economy and the financial system, or rather when legal tender is converted into the virtual currency or vice versa. Conversion is also the time when the institutions subject to money laundering reporting obligations identify transactions and assess any suspicious elements, taking into account the user's individual profile, the origin or final destination of the converted legal tender and the involvement of countries at risk.

In order to help reporting entities correctly identify the risks inherent in the use of virtual currencies, the FIU issued a Communication on 30 January 2015.⁵³

In 2014 some suspicious transaction reports of this kind were received, almost all relating to purchases or sales of virtual currencies deemed to be opaque due to the customer's individual profile, the nature of the counterparties (often foreign), or the methods used for the transactions, for example cash or payment cards.

The Unit regularly monitors the risk of money laundering linked to the use of virtual currencies, also by participating in the Egmont Operational Working Group's project on virtual currencies and money laundering to foster the sharing of knowledge and experience among FIUs, encourage international cooperation and define appropriate 'red flags' to help reporting entities detect suspicious transactions.

Prepaid cards and credit cards

The figure for reports concerning the anomalous use of prepaid cards and credit cards remains high at more than 6,000. It has often been pointed out that anomalies involving the misuse of these instruments, originally conceived to facilitate payments alternative to cash, commonly involve split transactions and transfers of substantial funds of unknown origin throughout the territory followed then by their reconversion into cash. Widespread use of this technique by organized crime has been reported on several occasions.

STRs involving this type of transaction generally report the use of these cards for ATM withdrawals; the average amount reported is low, at €600. Monetization or reconversion into cash is often carried out by people who appear to be third parties with regard to the circuit that creates the funding, often operating as 'front men'.

Economic sectors at risk

With regard to the economic context, some sectors of the economy continue to be particularly exposed to the risk of infiltration by organized crime, such as gaming

⁵² See 'Virtual currencies, key definitions and potential AML/CFT risks', Financial Action Task Force, June 2014; 'Opinion on virtual currencies', European Banking Authority; 'Virtual currency schemes', European Central Bank, October 2012; 'Virtual currency schemes – a further analysis', European Central Bank, February 2015.

⁵³ See Section 4.4.

and gambling, waste disposal, construction, healthcare and the earth-moving sector, together with the sectors concerned with public tenders. It should be pointed out how the persistence of the economic crisis has given organized crime ample opportunity to consolidate its presence in the Italian economic fabric.

In 2014 the number of reports concerning the gaming and gambling sector almost doubled to about 2,200; they came both from banks and the other categories specified in Article 14 of Legislative Decree 231/2007.

The importance of the reports involving traditional and online gaming is demonstrated by the fact that, in 2014, the FIU assigned a high level of risk to most of these reports, dismissing only 3 per cent of them.

According to the NRA, gaming has often been an important tool for organized crime, which buys gambling halls and registers them in the names of front men. The objective is to collect substantial earnings by altering the rules of the games to reduce the odds of winning and adopting expedients for lowering taxes, or else to channel the proceeds of crime into the legitimate economy, hiding them behind apparent winnings and creating operational schemes that may also disguise illegal predatory lending and usury.

The FIU has received several reports concerning cash deposits made by gaming operators for amounts considered higher than the business turnover that the data of the Customs Agency and state monopolies make it possible to estimate, with a massive presence of top-denomination banknotes. There are also many cases of deposits of cheques written by third parties that are apparently not justified by gaming relationships.

Among the forms of gaming with a physical presence there has been an increase in reports of anomalies linked to the use of Video Lottery Terminals (VLT). Most reports involve recurrent winners at the same gambling hall: the frequency of wins by the same individuals could imply a black market in winning tickets, in which money launderers buy the tickets from the real winners in exchange for a larger sum. Other cases may involve the misuse of VLTs that issue winning tickets after the insertion of banknotes, without any game actually being played, facilitating the laundering of funds of dubious origin.

In the online gaming sector, as seen in the NRA notes, the gaming platforms of other EU countries operating under the freedom to provide services may cause significant vulnerabilities, since the financial flows elude the monitoring of the Italian authorities. The reports analysed by the FIU bring to light top-ups of game accounts either paid for with cards that have presumably been stolen or cloned or with means of payment obtained from third parties.

There has been a considerable increase in reports referring to individuals belonging to specific foreign communities. Some of them make systematic use of peculiar operations such as massive use of cash to fill up their bank accounts, which is then followed by transfers abroad. Others show evidence of real estate investments, often involving considerable sums.

The number of reports based on enquiries and investigations by law enforcement bodies continues to remain constant and significant, as does that of reports regarding 'politically exposed persons' (PEPs), both in the acceptance of the applicable internal

**Subjective
characteristics**

regulations,⁵⁴ and in the broader acceptance of the new European AML Directive, which also includes domestic PEPs.

Company structures

The Unit continues to scrutinize the corporate structures or instruments that are theoretically appropriate for concealing ownership, such as trusts and fiduciary mandates, or legal entities with particularly complex corporate structures and connections with foreign entities, especially if the latter are in countries that are at risk or uncooperative.

The use of instruments able to block the transparency of corporate structures in Italy is confirmed by the analysis of a significant number of cases in which the suspicion derives from the reporting agent's declared difficulty or impossibility of identifying the final beneficiary and performing customer due diligence.

4.3. The typologies

The FIU groups the typologies of behaviour at risk most commonly found in STRs into three main categories: fiscal offences, unlawful appropriation and corruption.

4.3.1. Fiscal types

This typology covers STRs that describe conduct involving tax evasion or fraud.

Tax violations may also serve as an instrument that can be used to stockpile funds for recirculation within the economy; they may also represent more complex criminal behaviour aimed at channelling funds deriving from other crimes into seemingly legitimate business activities (such as through the over-invoicing of commercial transactions).

Globalization has favoured the evolution and consolidation of patterns of tax evasion and avoidance via apparently commercial transactions that give rise to international tax fraud through the transfer abroad of funds of dubious origin or through indirect banking or business transaction exchanges. The most well-known and common is the scheme known as carousel fraud.

As noted by the National Risk Assessment, the risks of money laundering in Italy stemming from tax evasion and tax crimes are very significant. The STRs received by the Unit in 2014 involving fiscal types confirm their marked importance. Common money laundering methods found in this typology are invoicing frauds, with over 1,500 reports, transfers of funds between connected natural and legal persons, with about 3,000 reports, the use of personal accounts for movements concerning business activities, with about 3,500 reports, and the repeated withdrawal of cash aimed at eliminating the funds on company bank accounts, with over 2,000 reports. The frequent use of dummy companies and of nominees or front men or opaque company structures has also been noted. The same reports of suspicious cash transactions may involve activities linked to fiscal crimes.

An observation of these fiscal typologies shows they are concentrated in the regions of Lombardy, Campania and Lazio. There was also a high number of reports in Emilia Romagna, many of them involving apparent invoicing fraud.

⁵⁴ According to Legislative Decree 231/2007, Article 1(2)(o) 'natural persons of other EU or non-EU countries who are or have been entrusted with prominent public functions'.

4.3.2. Unlawful appropriation

This type includes suspicious transactions involving the unlawful appropriation of funds either through deception, such as computer fraud or phishing, reported in over 1,200 STRs in 2014, or the exploitation of economic hardship, such as usury, ‘cash-for-gold’ operations, pawn shops and fraud in general.

STRs involving this typology are characterized by high average amounts, depending in particular on instances of fraud or attempted fraud, in which the average amount is over €160,000. Conversely, anomalous transactions involving pawn shops, ‘cash-for-gold’ shops and computer fraud are for much smaller amounts.

By region, the highest numbers of reports of this kind come from Lombardy with about 900, Campania with about 800, Lazio with about 600, 400 of which in the Municipality of Rome, and Veneto with about 300.

Cases involving unlawful appropriation belong on average to a high risk class, which is confirmed by the FIU ratings and by the small number of dismissals.

The persistence of the recession and the ensuing increase in difficulties in obtaining bank loans have presented organized crime with further opportunities to infiltrate the economy. Financial problems, especially liquidity constraints, have led to an increase in usurious loans and abusive finance, making companies and individuals more vulnerable to attempts by organized crime to extend its control over the legal and formal economy.

The FIU often receives reports of suspicious transactions that are likely to involve contexts in which the strong pressure of unlawful credit on companies is characterized by numerous transactions involving either unpaid or outstanding cheques and promissory notes, a higher than average use of cash, and entities experiencing financial stress or with an economic-financial profile that is not consistent with their transactions.

Reports of financial movements characterized by recurrent inward and outward credit transfers with a payment narrative relating to financial intermediation may reveal illegal conduct of banking and financial business when they are made by persons not authorized for such business. Similarly, it may happen that Italian companies are established for the purpose of providing loans abroad with no authorization to do so.

4.3.3. Corruption and misappropriation of public funds

According to the analysis carried out as part of the National Risk Assessment, corruption is one of most alarming and dangerous criminal phenomena in Italy. Social perception of corruption is very high and rising, fuelling distrust of institutions and politics.⁵⁵

⁵⁵ The impact of perceived corruption and the resulting distrust on economic growth may be even more serious than that caused by corruption in itself. As reported in National Risk Assessment, a recent analysis by the World Bank suggests that for every place down in Transparency International’s corruption perception index, a country loses 16 per cent in foreign investment. A recent study by Unimpresa (“Expo. Unimpresa, con corruzione in 10

Corruption is also a means for organized crime to infiltrate the public sector and condition its choices, extending its penetration of the economic and social fabric through control of the territory, to the detriment of the community.

It is very difficult to define financial conduct that is symptomatic of corruption or misappropriation in objective terms, but referring to an analysis of the subjective profile of those involved can help. In and of themselves the financial instruments used and the operational models adopted are neutral: however, a description of the persons and of the economic and professional context can effectively orient an analysis towards a hypothesis of corruption or misappropriation.

There have been cases of PEPs who, through relatives, other connected persons or companies directly or indirectly traceable to them, receive funds through credit transfers and cheques that may also be for small sums, originating in companies that have won public contracts. In order to guarantee anonymity or to conceal the identity of the beneficial owners, recourse is made to various strategies such as innovative investment instruments, fiduciary mandates and the creation of complex company chains with no real economic justification, sometimes with international offshoots and with the intervention of trusts.

From an objective point of view, the reports analysis has revealed transactions carried out on the same day for the indirect exchange of considerable sums, thus creating a distorted accounting of resources apparently involving invoicing fraud but presumably serving instead to create slush funds, in some cases abroad, for public contract procurement.

The prevention system, based on active cooperation supplemented by financial analysis, has made an invaluable contribution to judicial investigations that have uncovered the varied and complex connection that may be established, sometimes systematically, between the infiltration of organized crime into general government, the concealment of bribery and corruption, and the misappropriation of public funds. The financial analyses of the information available, including the initial findings of investigations, have made it possible to classify reports received into various categories for further inquiry, according to the structure of the criminal association, its various components, their specializations and the recurrent dealings between them.

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

Payment cards

The FIU Communication of 18 February 2014 set out a representative outline of anomalous behaviour involving payment cards. This outline describes as anomalous transaction methods a series of specific cases connected to the very frequent recharging and debiting of prepaid cards involving small amounts singly but considerable sums overall, or large-scale cash withdrawals by credit card, often abroad, and with little or no actual spending via the card.

The Communication draws financial intermediaries' attention to shortcomings in some safeguards that could facilitate this conduct and which are related to the low

anni -100 miliardi di Pil in Italia", 12 May 2014) shows that corruption in Italy reduces foreign investment by 16 per cent and increases the overall cost of public procurement by 20 per cent.

level of knowledge regarding customers, failure to set appropriate transaction limits, and ineffective anomalous transaction monitoring instruments and internal control systems.

On 30 January 2015 the FIU published a Communication on the anomalous use of virtual currencies, which is the result of an analysis carried out jointly with other Functions of the Bank of Italy.⁵⁶ The intention of this FIU Communication was to call the attention of the entities subject to AML/CFT obligations to certain operations connected with virtual currencies in order to prevent the exploitation of the economic and financial system for money laundering and the financing of terrorism. Intermediaries that provide services for gaming operators are asked to be particularly careful.

Virtual currencies

The active cooperation of general government bodies

General government entities have been subject to AML law since 1991. Legislative Decree 231/2007, Article 10(2), confirms this provision, while limiting their obligations exclusively to the suspicious transaction reporting requirement.

So far general government has not always shown itself to be aware of its role in active cooperation. The National Risk Assessment points out that it is a question of ‘vulnerability of no small account, considering the significance of bribery and corruption and the presence of extremely attractive targets for organized crime such as public contract awards and EU financing.’

In order to make general government bodies aware of their obligations of active cooperation, the FIU is in contact with the Ministry of the Interior to establish – in accordance with the principle of proportionality and under a risk-based approach – anomaly indicators that also take account of the areas of government most exposed to money laundering risks and of the particular nature of general government operations.

This sphere comprises certain activities characterized by substantial financial flows, including those of a public nature, such as the fiscal sector, public contracts and public financing.

It would seem that general government entities also need to receive instructions regarding the internal procedures and methods for reporting suspicious transactions.

⁵⁶ See the box in § 4.2.

5. STRATEGIC ANALYSIS

In accordance with international standards and domestic legislation, in addition to operational analysis on reports of suspected cases of money laundering, the FIU also conducts strategic analysis to detect and assess relevant trends and patterns and to identify weaknesses in the system. Strategic analysis helps in the orientation of the Unit's activities, the planning of initiatives and the prioritization of objectives. It utilizes and combines information obtained from the investigation of reports, the analysis of aggregate data and from all the other sources at the Unit's disposal.

The multi-dimensional scope of this type of analysis implies that all of the FIU's functions be involved in the process.

5.1. Characteristics and purposes

Strategic analysis utilizes the information available, enriching it with input from external sources, both open and confidential. It rests on two pillars: the identification of the typologies and patterns of anomalous financial conduct discussed above⁵⁷ and the observation and study of financial flows and money laundering,⁵⁸ as discussed in this chapter.

An additional purpose of strategic analysis is assessment of risk for the system as a whole or for selected geographical areas, means of payment and economic sectors. Defining risk levels enables the FIU to develop its own vision of the threats to and the vulnerabilities of Italy's provisions against money laundering. The FIU used the results of the strategic analysis in taking part in the preparation of the National Risk Assessment.

By picking out situations and contexts that warrant closer analysis, strategic analysis enables the FIU to prioritize its activities.

Strategic analysis employs quantitative methods, such as econometric techniques and data mining tools, to identify trends and anomalies statistically. The methodologies are chosen on the basis of the phenomenon to be examined, the data available and the objectives; and they are suitable for handling enormous masses of data, in that they allow correlating all the pertinent information for study of the variables.

The totality of the data used by the FIU comprises the aggregate AML reports (SARA), data deriving from operations, cooperation with national and international authorities and inspections, additional data sources and data requested from intermediaries.

In addition to commercial and open-source databases, the FIU uses the Bank of Italy's databases, including banks' automated prudential returns and the Central Credit Register.

⁵⁷ See Chapter 4.

⁵⁸ Article 6 (6)(a) and (7)(a), Legislative Decree 231/2007.

5.2. The aggregate data

The analysis of financial flows⁵⁹ is based largely on SARA reports, which aggregate all transactions, including split transactions, for amounts exceeding €15,000 recorded in each intermediary's Single Electronic Database. Many other countries also require the submission of data based on thresholds, regardless of the grounds for suspicion, particularly for cash transactions. But in Italy, unlike elsewhere, the data flows are aggregate and anonymous and cover the entire spectrum of payment instruments.

Aggregate
data: SARA
reports

The aggregation criteria are determined by the FIU. They include: the type of payment instrument (credit transfer, cheque, cash, etc.), location of the reporting branch, the customer's economic sector and residence, and location of the counterparty and the latter's intermediary (in the case of credit transfers). Both inward transactions (credits, deposits and so on) and outward transactions (debits, withdrawals and so on) are reported, with the value of cash transactions indicated separately.

Table 5.1 summarizes the main statistics for SARA reports received by the FIU in 2014. The range of reporting institutions was extended starting 1 January 2014 to include payment institutions. The total value and number of records submitted by reporting institutions fell slightly, by 4 and 1 per cent respectively, prolonging the trend of recent years in connection with the recession. However, the number of transactions edged up by 4 per cent, with a corresponding decline in their average amount. The bulk of the data (95 per cent by number of records and value) come from banks.

The data

The decline in transaction amounts was accounted for by banks, as the other categories of intermediary generally reported increased amounts. The most significant increase was reported by trust companies (69 per cent), but asset management companies, investment firms and insurance companies all reported increases of more than 10 per cent.

⁵⁹ Article 6, Legislative Decree 231/2007.

Table 5.1

SARA aggregate AML reports Descriptive statistics 2014				
Type of intermediary	Number of entities submitting reports	Total number of aggregate records sent ¹	Total money amount of aggregate records sent (billions of euros)	Total number of transactions underlying the aggregate data
Banks, Poste Italiane and CDP	705	94,563,282	19,939.1	299,758,057
Trust companies	283	145,749	88.5	500,852
Other financial intermediaries ²	189	1,410,893	284.6	4,555,448
Asset management companies	172	1,420,058	232.6	5,781,465
Investment firms	148	199,331	104.2	6,383,185
Insurance companies	92	1,384,241	134.0	2,757,883
Payment institutions	45	512,479	67.8	5,740,474
Electronic money institutions	7	11,518	1.0	153,505
Total	1,641	99,647,551	20,852.0	325,630,869

¹ The aggregate record is the basic item of the SARA reports. 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 and so on.). The SARA data are subject to rectification by the reporting institutions; the statistics set out in the table are based on data current as of 25 March 2015.

² 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.

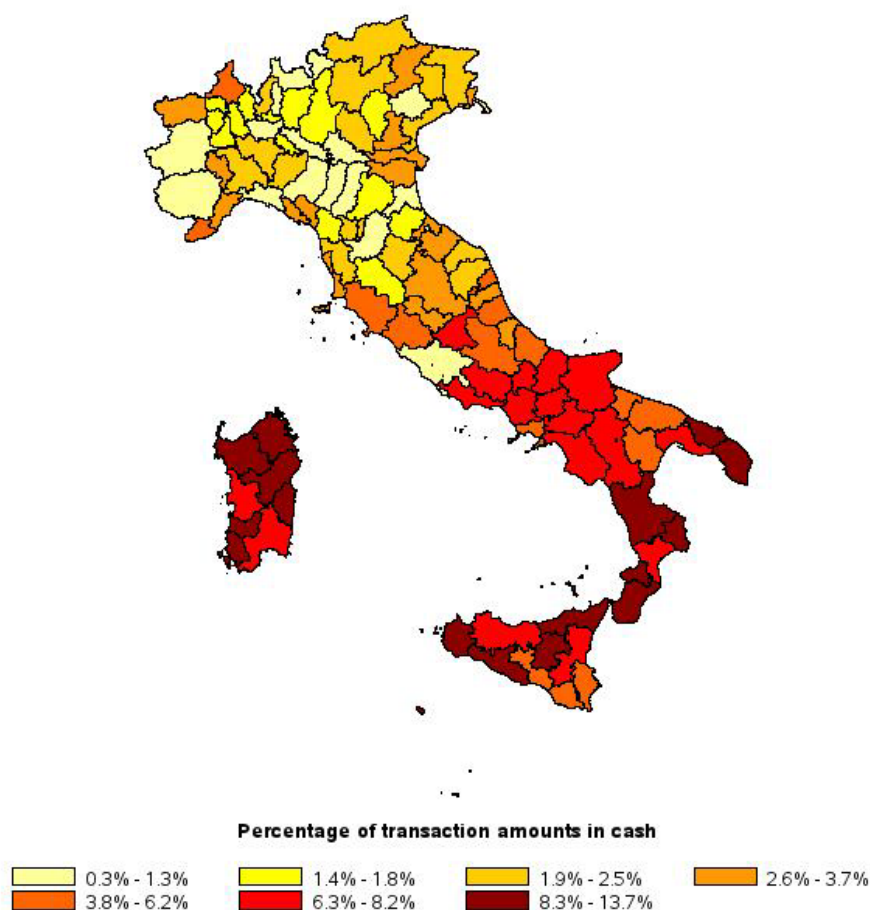
Cash transactions

The SARA data show separately the amounts of transactions settled even partly in cash, which are of special interest for all AML systems. The data indicate that cash transactions with financial intermediaries fell by 7 per cent in 2014, continuing the downward trend of recent years and reflecting increased use of alternative instruments and the restrictions placed on the use of cash by Article 49 of Legislative Decree 231/2007, as amended.⁶⁰

⁶⁰ The amount of cash exchanged between private parties cannot currently equal or exceed €1,000 (See Article 12 of Legislative Decree 201/2011).

Figure 5.1

Use of cash, by geographical area
2014



Note: Excludes transactions by general government entities and resident monetary/financial institutions, whose transactions are exempt from the reporting requirement insofar as they are subject to simplified customer due diligence. The SARA data are subject to rectification by the reporting institutions; the statistics set out in the table are based on data current as of 25 March 2015.

Cash withdrawals, which are more fragmented than deposits, often fall beneath the reporting threshold. This produces a wide gap between the SARA data on total withdrawals and deposits, with deposits on bank accounts amounting to €213 billion and withdrawals to just €38 billion.

The use of cash varies greatly by region, rising steadily the further south one goes. Cash accounts for under 4 per cent of total transaction value in the Central and Northern provinces, but for nearly 14 per cent in some Southern provinces (Figure 5.1). The Northern provinces with the highest percentages continue to be the border provinces, and in particular those bordering on reputed tax havens.

The high degree of geographical variability in the use of cash, while perhaps a sign of criminal behaviour, also reflects the differences in the socio-economic and financial

environment and in individual preferences on payment instruments. To properly understand the ‘red flag’ signalling function that cash can serve in terms of local risk of money laundering, therefore, the structural factors in its use must be taken into account.⁶¹

Information content of credit transfers

The SARA reports also provide highly detailed information on credit transfers, another payment instrument deserving special scrutiny. Reports on credit transfers are more detailed than those on other types of transactions in that they include data on the municipality or foreign country of residence of counterparties and their intermediaries, making it possible to analyse both the origin and the destination of the funds. Special interest attaches to cases where the foreign intermediary is located in a tax haven or non-cooperative jurisdiction, insofar as fund transfers to and from these jurisdictions may have motivations that are not strictly economic but rather connected with the lack of transparency that is a hallmark of such legal systems.

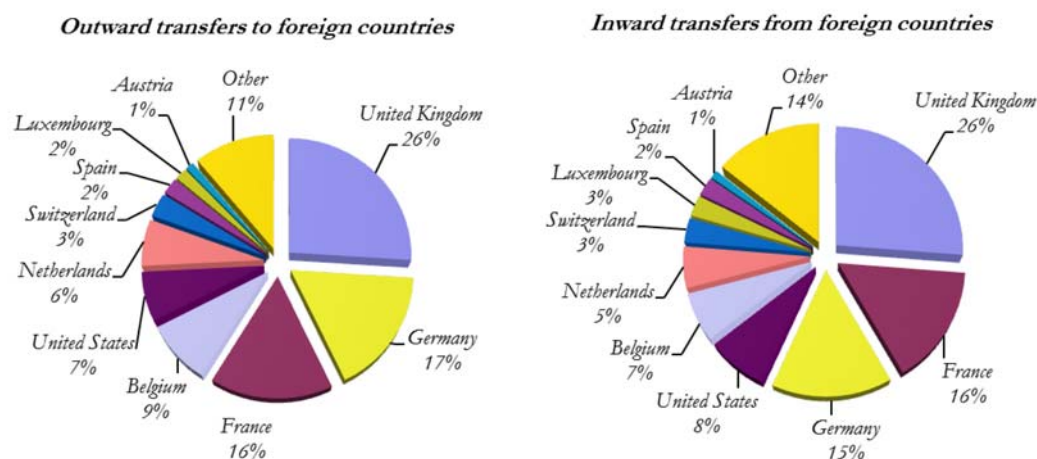
Foreign credit transfers

Credit transfers with counterparties using foreign intermediaries declined again in 2014, in connection with the recession. Both inward and outward transfers exceeded €1,100 billion in value but registered a total decline of 5 per cent for the year.

Figure 5.2 shows the shares of the main countries of origin and destination of the transfers. The top ten countries on both the inward and outward sides correspond with Italy’s leading trading partners, namely EU members and the United States. The main non-EU countries are also all significant trading partners (Russia and Turkey for inward transfers, China and Hong Kong for outward).

Figure 5.2

**Credit transfers to and from foreign countries
2014**



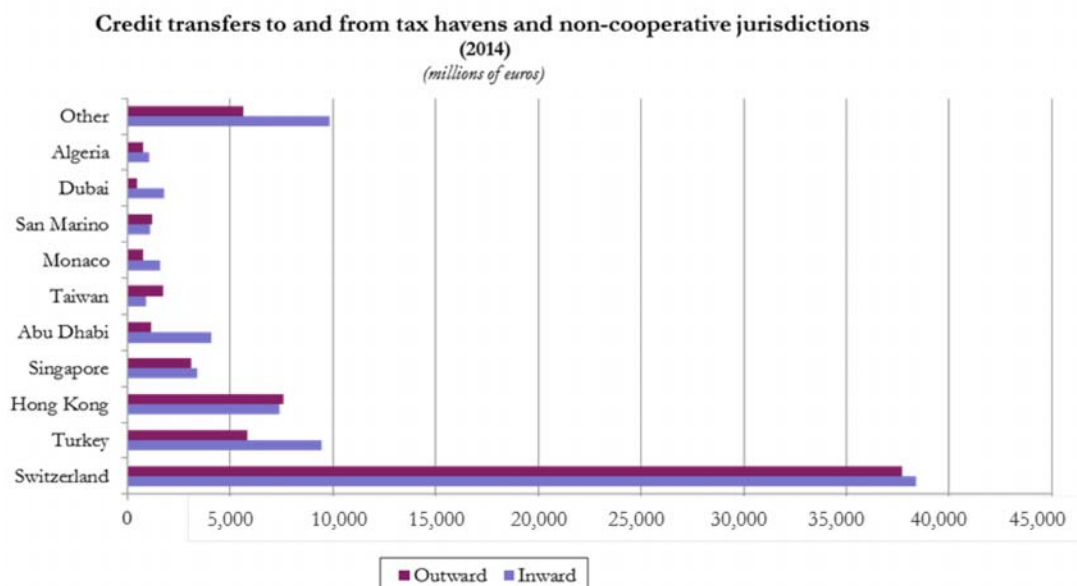
Note: Excludes transactions by general government entities and resident monetary/financial institutions, whose transactions are exempt from the reporting requirement insofar as they are subject to simplified customer due diligence. The SARA data are subject to rectification by the reporting institutions; the statistics set out in the table are based on data current as of 25 March 2015.

⁶¹ See section 5.3.

Credit transfers involving counterparties and financial intermediaries located in jurisdictions considered ‘sensitive’ from the standpoint of action against money laundering warrant special attention.⁶² Figure 5.3 reports the flows involving the main tax havens and non-cooperative jurisdictions. The picture is broadly similar to that for 2013, with a high degree of concentration in the same countries. The top 11 countries account for almost 90 per cent of the funds transferred.

Inward transfers were essentially unchanged from 2013, while outward transfers increased by 3 per cent. The largest share was again accounted for by Switzerland, although that country’s share of inward transfers fell to 49 per cent while that of outward transfers rose slightly to 57 per cent. The other high-ranking non-cooperative jurisdictions, albeit with much lower shares, continued to be those of 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.

Figure 5.3



Note: Excludes transactions by general government entities and resident monetary/financial institutions, whose transactions are exempt from the reporting requirement insofar as they are subject to simplified customer due diligence. The SARA data are subject to rectification by the reporting institutions; the statistics set out in the table are based on data current as of 25 March 2015.

Table 5.2 breaks down the value of credit transfers with tax havens and non-cooperative jurisdictions by Italian region of origin or destination. As in 2013, the flows were concentrated in the regions of the North-West (66 of the outward and 56 per cent of inward transfers). The picture was unchanged in the rest of Italy as well: the North-East and the Centre account for between 15 and 20 per cent each, the South and Islands for far less.

⁶² The list of non-cooperative countries and tax havens is drawn from the ministerial implementing decrees for the consolidated income tax law in effect since 31 December 2014 and the FATF’s list of high-risk and non-cooperative jurisdictions, February 2014.

In general, the volume of these transfers tends to correspond to 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 financial flows with the economic 'fundamentals' of the foreign jurisdictions and Italian territories involved.⁶³

Table 5.2

Credit transfers to/from tax havens and non-cooperative jurisdictions, by Italian region				
2014				
	Outward credit transfers	% of total	Inward credit transfers	% of total
	(millions of euros)		(millions of euros)	
North-West	43,439	65.7	44,600	56.4
Liguria	2,647	4.0	2,244	2.8
Lombardy	33,099	50.1	34,341	43.4
Piedmont	7,663	11.6	7,937	10.0
Valle d'Aosta	30	0.0	78	0.1
North-East	10,434	15.8	17,018	21.5
Emilia Romagna	4,572	6.9	8,231	10.4
Friuli Venezia Giulia	663	1.0	1,052	1.3
Trentino Alto Adige	425	0.6	579	0.7
Veneto	4,774	7.2	7,157	9.0
Centre	10,182	15.4	13,505	17.1
Lazio	6,596	10.0	4,841	6.1
Marche	538	0.8	1,211	1.5
Tuscany	2,919	4.4	7,031	8.9
Umbria	129	0.2	422	0.5
South	1,792	2.7	3,376	4.3
Abruzzo	230	0.3	1,714	2.2
Basilicata	19	0.0	28	0.0
Calabria	49	0.1	78	0.1
Campania	1,046	1.6	1,056	1.3
Molise	50	0.1	24	0.0
Puglia	398	0.6	477	0.6
Islands	244	0.4	596	0.8
Sardinia	37	0.1	270	0.3
Sicily	207	0.3	326	0.4
Total for Italy	66,090	100.0	79,096	100.0

Note: Excludes transactions by general government entities and resident monetary/financial institutions whose transactions are exempt from the SARA reporting requirement insofar as they are subject to simplified customer due diligence. The SARA data are subject to rectification by the reporting institutions; the statistics set out in the table are based on data current as of 25 March 2015.

The Unit uses the SARA data for targeted inquiries requested by the supervisory authorities and other institutions involved in countering money laundering, organized crime and terrorist financing (the Bureau of Antimafia Investigation, the Finance Police and the judicial authorities). During the year, 26 requests of this kind were

⁶³ See Cassetta A., Pauselli C., Rizzica L., Tonello M. (2014), "Financial flows to tax havens: Determinants and anomalies", UIF, *Quaderni dell'antiriciclaggio, Analisi e Studi* series, No. 1.

received.

5.3. Aggregate data analysis and research

In order to improve data quality and the reliability of the breakdown of the financial flows, the aggregate data are subjected on acquisition to automatic statistical controls to detect possible reporting errors. These controls, using quantitative methods, serve to detect not only erroneous data but also anomalous flows warranting further investigation by the reporting entity.

Statistical controls on data accuracy ...

Starting in March 2014, the FIU updated and refined the methodology for identifying anomalous data. The new controls are of two types: 'systemic' controls, comparing the data of each reporting entity with those of the entire system for the same month, and 'non-systemic' controls, comparing the conduct of the individual intermediary with its own reporting pattern over the previous 12 months.

... and detection of anomalies

In 2014 the FIU returned a total of around 22,000 aggregate records to about 1,000 intermediaries, 650 of them banks, for further analysis. In 90 per cent of the cases, the intermediaries confirmed the data. The rest involved erroneous data, which the reporters then rectified. In 270 cases (1 per cent of the confirmed observations), the intermediary pointed to a connection between the anomalous aggregate figure being checked and one or more STRs it had already submitted to the FIU. In another 230 cases the observation prompted the intermediary to consider filing an STR.

In 2014 econometric studies of the relevant phenomena and operations continued. This is a branch of quantitative analysis the FIU has introduced in recent years, in line with innovative approaches to financial intelligence. It exploits enormous amounts of data, such as the SARA and other data at the Unit's disposal. The studies not only deepen the FIU's knowledge of certain phenomena but serve to develop operational guidelines for preventing and combating money laundering.

An econometric study carried out in 2014 examined the correlation between the demand for cash and criminal activity in a territory. The study found that if the use of cash is adjusted for local economic and socio-demographic factors, the territorial distribution of the proportion of deposits potentially related to money laundering is quite different from that indicated by the descriptive statistics on the use of cash. Some preliminary results from the study were used in preparing the National Risk Assessment.

Anomalies in the use of cash: An econometric analysis of Italian municipalities

The use of cash is unanimously considered to be an important risk factor for money laundering. It is one of the main payment instruments through which the profits of informal, underground and illegal activities are channelled into the legal economy. Nevertheless, equating a preference for cash automatically with higher risk of money laundering can produce evident errors in assessment. The demand for cash, according

to the hypothesis for the study, can be separated into two components: one structural or 'natural' (captured by socio-economic and financial 'fundamentals') and one linked to criminal activity. An analysis of money laundering risk at local level based on the use of cash must identify this second component, taking appropriate account of the 'fundamentals'.

Drawing upon a rich database that includes the SARA reports, the study was directed to detecting and analysing anomalies in the use of cash, which are potentially linked to criminal activity, in 6,810 Italian municipalities in 2010 (the most recent year available for several variables drawn from external sources). First of all, it finds a negative correlation at municipal level between the use of cash and certain socio-economic and financial fundamentals: other things being equal, the share of cash deposits falls as per capita income, financial education indicators and the importance of the financial sector rise. By contrast, the correlation with criminality variables is positive: the higher the crime rate, the higher the incidence of cash deposits in the municipal economy.

Following the relevant literature, the study divides crimes into enterprise syndicate crimes and power syndicate crimes. The former are crimes associated with the illegal trafficking of goods and services that envisage, at least in part, an agreement among the parties involved, as in the case of drug dealing, the exploitation of prostitution, and fencing stolen goods. The latter are linked more directly to control of the territory, such as extortion, theft and robbery. This distinction led to the detection of a diminishing marginal effect of power crimes, but not of enterprise crimes, on the use of cash. A possible interpretation is that the control exercised by criminal organizations through violence in a certain area tends to lead to a gradual decline in the proceeds (as the territory itself is slowly suffocated by the criminal presence), while the anomalous use of cash linked to the exchange of illegal goods increases proportionally to the expansion of the respective markets.

A municipal indicator of the exposure to the risk of money laundering was calculated, namely the share of cash deposits in the town that is explained by the criminality variables. The indicator indirectly measures the probability that any cash deposit in a municipality can be traced back to an illegal activity. This is a 'relative' indicator of risk, which appears to be particularly suited to measuring (for example, through cash use attributable to power crimes) the degree of control exercised by organized crime in a certain territory, regardless of the size of the territory or its monetary flows. It is also possible to supplement the indicator to take account of the absolute size of the anomalous flows that the model picks up; such an 'absolute' risk measure appears especially well suited to enterprise crimes, measuring the total flows in a municipality that may potentially be traced to markets for illegal goods and services.

Figures 5.4 and 5.5 show, separately for the two types of crimes, the geographical distribution of the municipalities most at risk according to these indicators. In the case of power crimes, the geographical distribution of the highest-risk municipalities corresponds to the presence of criminal organizations, which are more widespread in the South. By contrast, large anomalous flows of cash associated with enterprise crimes, hence reflecting the size of the markets for illegal goods and services, are

distributed more uniformly, though with a markedly higher concentration in Campania.

Figure 5.4

Distribution of the highest-risk municipalities (power syndicate crimes)



Figure 5.5

Distribution of the highest-risk municipalities (enterprise syndicate crimes)



The study offers a series of operational implications, both for assisting intermediaries in assessing the riskiness of various activities and for orienting the action of the FIU and the other authorities.

Risk indicators for banks

In preparing the statistical measurements of money laundering risk, the FIU, together with the financial supervision directorate general of the Bank of Italy, has developed a set of indicators for remote controls and on-site inspections, based on the financial operations of the individual intermediaries at local level. The results contributed to the financial sector assessments of the National Risk Assessment.

The indicators were developed using data drawn from some of the main databases used by the FIU (SARA and STRs) and the financial supervision directorate-general (automated prudential returns of banks), and they include measures of risk and compliance. The statistics for each intermediary are compared at local level with those of other, similar intermediaries to indicate the exposure of the local operations of each intermediary to the risk of money laundering. The data considered include cash transactions, over-the-counter transactions, credit transfers with countries at risk, and protested cheques. The compliance indicators track the level of performance of the AML obligations as regards, for instance, number of STRs filed and the accuracy of the SARA data.

Analysis of the degree of active cooperation

With a view to supplementing the risk exposure indicators with a gauge of the active cooperation of reporting institutions, the FIU conducted a study to estimate the correlation of individual intermediaries' STRs in a given geographical area with a set of possible explanatory variables. An econometric model expresses the flow of reports submitted by each reporting institution in a province as a function of socio-economic, financial, demographic and judicial indicators, as well as of some of the measures of risk mentioned above and of the characteristics of the intermediary's local business. The results confirm the existence of a stable correlation of the number of STRs per intermediary in a province and the set of causal variables.

Where the number of STRs submitted is much lower than it "should" be as estimated by the model, this can form part of an overall evaluation to direct the FIU's action towards encouraging more active cooperation by the reporting entities. The model can also help identify cases in which excessive prudence drives intermediaries to submit a particularly high number of reports.

Cash advances on foreign credit cards

In 2014 the FIU continued its research and analysis on possible anomalies in the use of specific payment instruments. Initiatives to assess the vulnerabilities associated with payment cards included a pilot study, in cooperation with the Italian Banking Association and a number of banks, to monitor cash advances on credit cards issued abroad. The study identified the most common anomalous features, which appear to signal the splitting up and transfer to Italy, for conversion into cash, of substantial foreign funds of unknown origin.

This practice is facilitated by banks' widely uneven application of contractual limits on cash advances on foreign credit cards. The data precluded the thesis that a significant number of anomalous cases could be ascribed to the occasional presence of foreign citizens in Italy, say as tourists. The analysis identified three types of anomalous use, sometimes in combination: 1) use of a card for numerous sizable withdrawals from the same ATM (perhaps on the same day); 2) use of one card at different ATMs (also on the same day); 3) coordinated use of groups of cards.

Meetings with reporting institutions: Workshop on SARA and strategic analysis

The FIU is committed to sharing its analytical results and methods with reporting entities. In autumn 2014 the Unit held a workshop for the leading banks and industry associations on the use of the SARA data in strategic analysis. The FIU presented issues relating to the acquisition of aggregate data and control of their quality and briefly explained the studies it had carried out on credit transfers to high-risk countries, on anomalous uses of cash and on active cooperation, as well as on the risk indicators developed jointly with the financial supervision directorate-general. The workshop set out the empirical findings and the resulting statistical measures of risk and anomaly, which depending on circumstances may refer to particular territories, instruments, operating environments or intermediaries. In general, indicators of this type can help individual reporting entities in monitoring their transactions and the FIU and the other authorities in countering money laundering.

The workshop provided a valuable opportunity for discussion between the FIU and the reporting entities with a view to transparency and cooperation. In response to participants' interest in the results, a pilot project was launched to provide reporting entities, on request, with a number of statistical indicators of risk and anomaly concerning their operations. The results of this initial experiment, together with further advances in the Unit's analysis, could help in refining the indicators.

5.4. Gold trade declarations

The law governing the market in gold in Italy (Law 7/2000, as amended) provides that transactions involving investment gold or gold materials for mainly industrial uses (other than jewellery) be declared to the FIU. This requirement applies to domestic and cross-border transfers of gold for amounts of €12,500 or more. Under the law the competent authorities have access to the declarations not only for AML purposes but also to counter tax evasion and for public security.

Table 5.3 provides a few composite statistics on the declarations received by the FIU in 2013 and 2014, broken down by type of transaction, number of transactions and declared value.

**Statistics on gold
trade declarations**

Table 5.3

Declarations of transactions in gold						
Type of transaction	2013			2014		
	Number of declarations	Number of transactions	Declared value (millions of euros)	Number of declarations	Number of transactions	Declared value (millions of euros)
Sale	43,969	120,758	19,087	36,860	105,149	15,453
Gold loan (concession)	1,984	3,449	1,324	1,920	3,765	1,186
Gold loan (restitution)	924	1,159	144	550	805	100
Other non-financial transactions	123	330	342	85	209	147
Personal exports of gold	655	668	263	563	1,230	381
Personal imports of gold	16	16	2	10	15	3
Transfer as collateral	8	13	1	4	32	8
Delivery services for investment in gold	11	18	1	15	23	3
Total	47,690	126,411	21,164	40,007	111,228	17,281

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, which stabilized in 2013 after years of growth, fell significantly in 2014 (down 12 per cent), and the declared value continued its decline (down 18%). Apart from the fall in the price of gold, these developments also appear to reflect the decline in the ‘cash for gold’ business. Gold purchases by individuals (largely ‘cash for gold’ buyers) diminished sharply in 2014 to 46 per cent of all counterparties (their share had risen from 36 per cent in 2008 to a peak of 65 per cent in 2012).

Distribution by type of reporting entity...

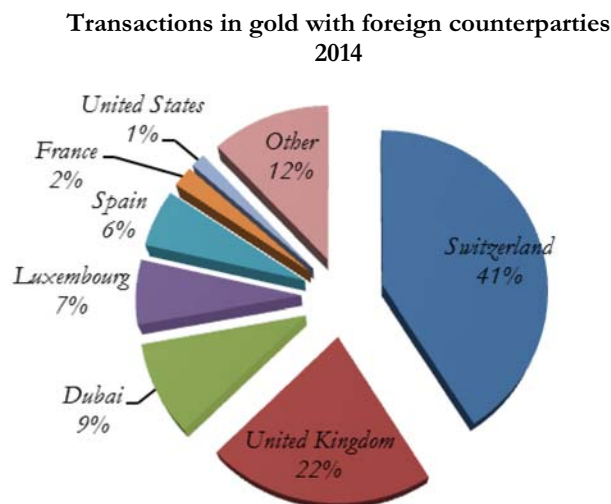
The shares of the various types of reporting entity (banks, professional traders and private individuals) remained essentially unchanged. Professional gold dealers account for 76 per cent of the value reported and banks for the remaining 24 per cent; the share of private individuals is marginal.

... and by foreign counterparty

Transactions in gold with foreign counterparties amounted to some €6.1 billion or 35 per cent of the total, about the same as in 2013. The top five countries

(Switzerland, UK, Dubai, Luxembourg and Spain) accounted for 85 per cent of the total, with a further concentration of the distribution of this business by country (see Figure 5.6). Switzerland's share dropped sharply (from 50 to 41 per cent), in contrast to the marked increases for the United Kingdom (from 15 to 22 per cent) and Luxembourg (from 2 to 7 per cent).

Figure 5.6



The distribution of Italian gold-purchasing counterparties was once again highly concentrated, with the provinces of Vicenza, Arezzo and Alessandria, traditionally specializing in gold-working, accounting for 57 per cent of the market.

Geographical concentration of Italian counterparties

In December 2014 the new system for transmitting gold trade declarations through the Infostat-FIU portal was launched.⁶⁴ The reporting flow is now completely digitalized, eliminating the onerous task of processing paper-based declarations (35 per cent of the total in 2014). In addition to the gain in operational efficiency, the new procedure has led to a net improvement in the quality of the declarations. When the declaration is uploaded, the software not only verifies the codes but runs a real-time statistical check of the consistency of the quantity of gold sold and the corresponding value, thereby eliminating at the source the reporting errors that plagued the old declaration process.

The new system of electronic transmission

The data on gold trade declarations are another area in which the FIU cooperates with supervisory authorities and with law enforcement institutions. The Unit complied with 15 requests for cooperation during the year.

⁶⁴ See also Section 9.4.

6. CONTROLS

6.1. Inspections

The FIU contributes to preventing and combatting money laundering and the financing of terrorism in part via onsite inspections of entities subject to the AML/CFT reporting requirements, in accordance with the powers conferred on the various authorities by the legislation in force. Given the wide range of entities with obligations of active cooperation and the involvement of different authorities in the controls, the FIU carries out inspections on a selective and targeted basis, with an eye to efficient planning. The inspections are not part of the FIU's ordinary preventive activity and are generally carried out in justified circumstances or when other channels for acquiring relevant information on the entity's business operations and transactions are unavailable.

The Unit conducts general inspections to check the fulfilment of the active cooperation obligations and the adequacy of the STR procedures; targeted inspections are carried out when an in-depth analysis of STRs is needed or as part of cooperation with judicial, law enforcement and supervisory authorities.

In 2014 the FIU conducted 24 inspections, 12 general and 12 targeted (See Table 6.1).

Table 6.1

	Inspections				
	2010	2011	2012	2013	2014
Number of inspections	25	20	17	21	24

Inspection programme

The inspection programme is risk-based. Accordingly, in light of the activities of the supervisory authorities, in 2014 the programme was extended to entities outside of the traditional sphere of banking and financial intermediaries.

The programme was broadened to include entities operating in sectors considered sensitive from a money laundering prevention perspective, characterized by a small number of STRs despite the widespread presence of specific indicators of anomalies and patterns of abnormal behaviour.

Inspections carried out

In 2014 for the first time the FIU carried out inspections at entities engaged in custody and transport of cash and valuables and at auditing firms, including in cooperation with the relevant supervisory authorities, and at gaming firms.

Problems identified

These inspections revealed some deficiencies resulting from inadequate due diligence, stemming in part from the lack of comprehensive implementing provisions for primary legislation, and problems in the procedures for reporting suspicious transactions.

Transactions of Italian intermediaries with foreign securities firms

In 2014 the FIU continued to examine anomalous over-the-counter transactions of Italian resident persons with foreign securities firms. Inquiries at these specialized operators served to gather objective and subjective information to help identify common anomalies that may help improve active cooperation.

As to the entities involved, the FIU identified a number of foreign brokerage firms operating both as counterparties and as service providers, generally not belonging to a national or international banking group and having their registered offices in countries considered tax havens and with bank secrecy laws. In many cases these foreign companies operate on the basis of enrolment in a register maintained by local self-regulatory bodies and, accordingly, are not subject to supervision by public authorities in the country of residence. Their ownership structure features the presence of Italians as partners, legal representatives or directors.

In objective terms, the business operations examined mainly consisted of the intermediation of financial instruments, generally illiquid, with institutional clients. The inspections uncovered trading in financial instruments with very substantial differences between the purchase and sale prices, carried out the same day or within a few days of each other. Sometimes the settlement of these over-the-counter trades was at prices significantly different from those on regulated markets. The proceeds were systematically transferred by credit transfer to accounts with non-EU intermediaries, located in the securities firm's home country.

The operations identified during the inspections are the subject of discussion between the FIU, Consob and the Bank of Italy's Directorate General for Financial Supervision and Regulation with a view to drafting and releasing patterns of anomalous behaviour.

In 2014, the FIU carried out checks on operators in the banking and finance sectors whose active cooperation was insufficient, owing in part to difficulties in getting to know their customers adequately.

The asset management and private banking sector again exhibited shortcomings in active cooperation, often due to a low propensity on the part of private bankers to assess client activity with an eye to identifying potentially suspicious transactions. In the online sector, the lack of direct customer relationships made it more difficult to perform due diligence, which have an impact on the capacity to detect suspicious transactions.

During the course of the year, general inspections were carried out at intermediaries selected by means of an econometric model that identifies those with disproportionately few STRs in relation to their business activities and operational context. The risk indicators developed by the EU together with the supervisory arm of the Bank of Italy were also considered.⁶⁵

The inspections uncovered information indicative of possible criminal activity, which the FIU reported to the judicial authorities, as well as administrative violations

⁶⁵ See Section 5.3.

in relation to which the FIU initiated sanctions proceedings, transmitting the reports of its findings to the Ministry of Economy and Finance for further processing.

6.2. Sanction procedures

In 2014 a total of 11 proceedings were initiated (6 following on-site inspections and 5 on the basis of off-site assessments) for the application of pecuniary administrative sanctions for reporting failures (See Table 6.2). Overall the FIU charged intermediaries with failing to report suspicious transactions for a total of about €18.3 million.

The reduction in the number of sanction procedures for reporting failures over the past few years is partly due to a higher degree of active cooperation, but also to a shift in the focus of the inspections from traditional compliance checks to fact-finding and analysis of new phenomena and operators.

With reference to the law on gold trading, the FIU managed the investigation of eight sanction proceedings in 2014 for failure to make the required declaration of transactions concerning gold transfers or trades with a value of €12,500 or more.

Preliminary investigations were also conducted for eight sanction procedures for violations of the obligation to freeze funds and financial resources in accordance with the law on the financing of terrorism.

Table 6.2

Administrative Irregularities					
	2010	2011	2012	2013	2014
Non-reporting of a suspicious transaction	29	62	39	29	11
Violation in relation to a gold transaction	9	11	7	7	8
Violation in relation to terrorist financing	-	2	-	7	8

In relation to investigations concerning sanctions for the last two categories of violation, the FIU arranged hearings upon request by the parties concerned and submitted reports of its findings to the MEF, which is responsible for the proceedings and the application of sanctions.

7. COOPERATION WITH OTHER AUTHORITIES

7.1. Cooperation with judicial authorities

The number of requests by the judicial authorities for the Unit's cooperation peaked in 2014: 265 requests were received, generating 393 responses, including follow-ups in relation to additional information obtained by the Unit from Italian sources or its foreign counterparts (See Table 7.1).

Table 7.1

Cooperation with the judicial authorities					
	2010	2011	2012	2013	2014
Information requests by judicial authorities	118	170	247	216	265
Responses	240	172	217	445	393

The various forms of cooperation between the FIU and the magistracy create important synergies between prevention and suppression. The latter benefits from the Unit's ample body of information and its analytical capabilities.

Forms of cooperation

The exchange of information with judicial authorities helps the FIU perform its functions more effectively and expands its knowledge of criminal types and practices, which also serves to identify anomaly indicators and representative models of anomalous conduct, whose dissemination to intermediaries and operators enhances their active cooperation.

The Unit has carried out analyses in support of investigations into financial crimes such as unauthorized *collection of savings* and other financial activities and into large-scale and cross-border tax fraud. The FIU's contribution was also sought in connection with suspected cases of misappropriation of funds, bribery and corruption, tax evasion, fraudulent bankruptcy, and serious fraud against the State. The Unit also carried out in-depth analyses in cases of suspected money laundering by organized crime.

When in the course of its duties the FIU uncovers evidence of criminal activity, it reports it to the competent judicial authorities pursuant to Article 331 of the Code of Penal Procedure, either directly by means of a report or indirectly via the technical reports on STRs sent to the investigative bodies.

Reports under Article 331 of the Code of Penal Procedure

If the Unit is aware of an on-going investigation, it provides information to the magistracy, mainly acquired during on-site inspections. The number of such transmission of information for investigative purposes has tripled compared to 2013, while the number of reports via STRs diminished (Table 7.2).

Table 7.2

Reports to the judicial authorities			
	2012	2013	2014
Reports under Article 331 of the Code of Penal Procedure	158	190	85
<i>Of which:</i>			
<i>submitted to the judicial authorities</i>	9	12	7
<i>made in connection with the technical report sent to the investigative bodies</i>	149	178	78
Information documents for investigative purposes	8	8	23

Cooperation with investigative bodies

The FIU continued to provide consulting to the public prosecutor's offices most deeply involved in fighting organized crime, corruption and tax evasion, gaining public recognition in the course of highly complex and delicate investigations. There was a particularly high level of cooperation with prosecutors in Rome, Milan, Naples and Palermo. The FIU continued to cooperate with the National Antimafia Bureau and through it with some public prosecutors' antimafia offices.

The cooperation takes account of the legal distinction of roles, obligations, and methods. The FIU takes all measures deemed appropriate to ensure the timely and confidential transmission of information, including through the growing use of electronic channels.

The Unit is also heavily engaged in courses for trainee magistrates organized by the Higher Institute for Judicial Studies (*Scuola Superiore della Magistratura*).⁶⁶

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

The FIU cooperates with the Ministry of Economy and Finance (MEF), providing technical support in the formulation of prevention policies, the drafting of legislation, the imposition of sanctions, and liaison with international bodies.

It participates in the Financial Security Committee (FSC), instituted at the Ministry, within which all the authorities involved in the AML system are members. The contribution of the FIU has become especially important in the National Risk Assessment, carried out in compliance with the recommendations of the FATF.

The FIU continues to cooperate with the authorities participating in the 'technical panel' at the MEF to periodically examine questions raised by operators, and more generally, the interpretation of the AML/CFT legislation.

⁶⁶ See Section 9.5.

7.2.1. The AML/CFT National Risk Assessment

In July 2014, the Financial Security Committee approved the National Risk Assessment, Italy's first national report on the risk of money laundering and terrorist financing. A summary of the report was presented to the public in December 2014.⁶⁷ The NRA describes and shares the experience of all the relevant administrative, law enforcement and judicial authorities and as such is an important tool for orienting AML operations and regulatory action.

The risk assessment, which is now required by the fourth AML Directive, was begun at the initiative of the FSC in 2013 in accordance with the first of the FATF's '40 Recommendations', namely that 'Countries should identify, assess, and understand the money laundering and terrorist financing risks for the country, and should take action ... aimed at ensuring the risks are mitigated effectively.' The assessment will be repeated in three years' time and every five years from then on. It can be updated if new threats or significant vulnerabilities emerge.

The international perspective

The assessment was prepared by a working group set up by the FSC, comprising experts from the member authorities, including the FIU, and other authorities with specific expertise on the issues involved. The group also drew on contributions from experts from the academic world with whom they held in-depth discussions. Meetings were also held with representatives from the private sector and trade associations to discuss both methodology and results.

The working group

The assessment determined the potential risk of money laundering in connection with the proceeds of criminal activity and identified problems unique to Italy. Weaknesses in the prevention, investigation and suppression mechanisms were then pinpointed in order to evaluate mitigation actions.

This exercise brought to light the significant threat that money laundering poses to the national economy owing to the gravity of the predicate crimes: bribery and corruption, fraudulent bankruptcy, tax fraud and other corporate crimes, usury, drug trafficking, gambling, illegal waste disposal, the sex trade and human trafficking. These criminal activities are often conducted by organized crime. The risks that they pose is heightened by certain problems typical of the Italian economy and society, such as more intense use of cash and the widespread presence of underground economic activity.

Assessment of threats to the national economy

The gravity of the threats and the significance of some of the weaknesses confirm the importance of a rigorous and well-structured system for preventing and combating money laundering and terrorist financing in Italy.

As regards the competencies of the FIU, the report looks at the Unit's financial analysis of the STRs, upon which the prevention of money laundering and terrorist financing hinges. The judgment is positive: according to the report, the significant increase in the number of STRs, though uneven between reporting categories, forms a body of information that the Unit manages with sophisticated IT systems and procedures for assigning risk levels. The large number of reports involved in criminal proceedings or investigations is a good indicator of the efficacy of the FIU's activities.

Safeguards

Some shortcomings in the regulatory framework were noted, such as the FIU's

⁶⁷ The report is available on the MEF's website.

inability to access investigative data, but the report appreciated the actions of the FIU and the investigative bodies to mitigate the adverse effects.

The FIU took an active part in the planning and preparation of the NRA, offering information and expertise to help define and validate data and methodologies. The Unit helped to identifying threats and vulnerabilities, sharing the results of its own strategic analyses to identify high-risk areas and behaviours and prioritize countermeasures.

As to the threat assessments, the FIU participated in the review of the financial estimates to assess the proceeds of the predicate crimes, with a view to statistical validation of the final threat rankings. The preliminary results of the study on the use of cash⁶⁸ were applied to assess the systemic problems produced by the specific Italian environment. The typologies used for the financial analysis of the STRs were shared with the working group.

Initiatives The final part of the report sets out initiatives for the future, categorizing them by sector, process and priority. Apart from specific measures for the individual sectors, the main system-wide initiatives include improving judicial statistics, the institution of the crime of self-laundering, and the development of protocols between the FIU, the National Antimafia Bureau and the Special Foreign Exchange Unit for international collaboration.

In 2014, in the matters and activities within its competence the FIU acted consistently with the risk assessment, to which it had contributed evaluations and special studies. The reorganization of the Unit implemented at the end of the year focused on certain key points of the report. Special structures were formed on terrorism and inspections. Integrated data management was enhanced, with the creation of a dedicated department, and investment in the data warehouse project continued. The Unit continued to hold training sessions and engage in dialogue with reporting entities via meetings and the dissemination of data and indicators to individual intermediaries on an experimental basis.

7.2.2. List of “designated” persons and freezing measures

Legislative Decree 109/2007 tasks the FIU with verifying intermediaries’ compliance with measures for freezing funds and financial resources. Such ‘targeted financial sanctions’, as the FATF calls them, serve essentially to combat the financing of terrorism and the activity of countries that threaten peace and international security.

In this framework the FIU also collects information and financial data on the funds and resources subject to freezes and facilitates the dissemination and updating of the lists of ‘designated’ persons.

In 2014 the FIU received 35 notifications of asset freezes relating to natural or legal persons on the lists of those subject to international financial 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.

⁶⁸ See the box in Section 5.3

Pursuant to the trade and financial sanctions against Russia provided for in Regulation (EU) no. 833/2014, the FSC's powers of authorization were extended to include the granting of financing and the provision of financial and technical assistance, directly or indirectly, to any legal or natural person, entity or body in Russia, in connection with technologies for the oil industry. These authorizations are required if the technology is intended for use in Russia, irrespective of the residency or domicile of the person, entity or body requesting the financing or assistance. A broad set of services is subject to restriction, comprising grants, loans, and export credit insurance for the sale, supply, transfer or export of products used in the oil industry, and the related provision of technical and financial assistance.

Table 7.3

	Freezes				
	Accounts and transactions subject to freezes	Persons subject to freezes	Amounts frozen		
			EUR	USD	CHF
Taliban and Al-Qaeda	53	38	102,969	1,408	50
Iran	60	14	8,432,443	3,562,354,032	37,593
Libya	8	6	125,830	132,357	-
Tunisia	1	1	50,625	-	-
Syria	28	5	20,605,818	240,324	151,897
Ivory Coast	3	1	1,700,214	34,816	-
Ukraine/Russia	5	2	812,956	-	-
TOTAL	158	67	31,830,855	3,562,762,937	189,540

At the end of 2014, the resources frozen, belonging to 67 persons, amounted to about €32 million, \$3.6 billion and nearly 200,000 Swiss francs (Table 7.3). The reduction in the dollar amount of funds attributed to the Taliban and Al Qaeda compared to the previous year was due to the delisting of one entity and the consequent release of its frozen funds.

In January 2014, following the diplomatic agreement with Iran for a long-term solution to the Iranian nuclear issue, the ceilings on the transfer of funds to and from Iranian persons and entities were raised. The threshold amount requiring prior notification to the FSC was increased from €10,000 to €100,000 and that for authorization of funds transfers from €40,000 to €400,000.

As a result, the number of applications for authorization dropped from over 4,300 requests in 2013 to roughly 1,400 in 2014. Every application was reviewed by the FSC, the national authority responsible for such matters, and by the network of experts that assists it. Authorization was denied where there were grounds for believing that the transfer was connected with the proliferation of weapons of mass destruction. Special attention was paid both to the type of goods involved and to the entities engaging in the transaction.

7.3. Cooperation with the supervisory authorities and other institutions

Information exchange
with the Bank of Italy

The exchange of information between the Unit and the Bank of Italy's Directorate General for Financial Supervision and Regulation continued to be intensive and constructive. The Directorate General presented the Unit with 26 reports of deficiencies in active cooperation by obliged entities, discovered mainly as a result of inspections. The reports were investigated further by the FIU and, in some cases, resulted in the charge of failure to report a suspicious transaction.

The FIU sent the Directorate General 32 reports on dysfunctions at some intermediaries in organization, customer due diligence and data recording and retention in the single database.

... Consob ...

The exchange of information with Consob continued in 2014. Consob notified the Unit of failures to submit reports of suspicious transactions that emerged during its inspections. The Unit sent Consob reports relating to transactions involving suspected market abuse.

... and IVASS

In 2014 there was stepped-up cooperation with IVASS, the insurance supervisory authority. The exchange of information largely dealt with cases of regulatory arbitrage on the part of Italian persons and entities that, not satisfying the requirements for operating on the Italian insurance market, form or 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.

Over the course of the year IVASS sent the Unit requests for information from foreign counterparts in relation to their supervisory activities.

Memorandum of
Understanding with
the Italian National
Anticorruption
Authority ...

On 30 July the ANAC and the FIU signed a memorandum of understanding that provides, in the exercise of their official duties and without prejudice to their respective confidentiality restrictions, for the exchange of information intended to identify specific risk factors associated with corruption or the impairment of the proper functioning of anti-corruption safeguards in the public sector or the effective satisfaction of public entities' obligation to report suspicious transactions.

Pursuant to the memorandum, the FIU and the ANAC share the information they acquire from the international bodies in which they participate in order to inquire further into the links between corruption and money laundering and to identify possible synergies between their respective institutional activities. The ANAC cooperates with the FIU in identifying the types of activities or behaviours that may be indicative of suspicious transactions, especially with regard to the sectors most exposed to the risk of money laundering and corruption, such as procurement, concessions, authorizations, contracts and public financing. The FIU helps to establish anti-corruption parameters, risk factors and indicators that the ANAC may use in the preparation of its national anti-corruption plan.

.. and the Customs
and Monopolies
Agency

The memorandum of understanding signed at the end of 2013 between the FIU and the Customs and Monopolies Agency entered into force in 2014. The two institutions have benefitted from their respective databases. The FIU has been given access to the Agency's data on declarations of cash movements of at least €10,000. In return, the Unit has supplied the Agency with information pertaining to its analyses,

useful in monitoring cross-border operations. Apart from the data, the Agency has shared its studies and analyses on currency violations drawing from its extensive experience in dealing with the frauds in trade in goods. The FIU is looking into the possibility of identifying connections between reports of suspicious transactions and the flow of anomalous declared export operations towards some countries signalled by the Agency.

In 2014, the agreement between the FIU and the Italian Revenue Agency entered into full force. The new agreement, signed in 2013, allows the FIU, already authorized to access the agency's registry of accounts and deposits, also to access the tax registry, as provided by law.⁶⁹

Access to the tax registry

In March 2014 a memorandum of understanding was signed between the FIU and the municipality of Milan to define the principles and modalities for cooperation to ensure the most fruitful possible performance of their respective duties.⁷⁰ The agreement provides for the exchange of information for the furtherance of research and analysis.

Memorandum of Understanding with the municipality of Milan

The FIU also took part in the "Lombardy technical panel," participants in which included the National Association of Italian Municipalities-Lombardy chapter, and a number of the municipalities in the Lombardy Region. As a result of these encounters the FIU has begun work towards the development of anomaly indicators applicable to general government bodies⁷¹ and, in particular, to local government.

⁶⁹ See Legislative Decree 231/2007, Article 6(6)(e).

⁷⁰ Municipalities are defined as general government bodies and as such are subject to reporting requirements under Article 1(2)(r) and Article 10(2)(g) of Legislative Decree 231/2007.

⁷¹ See the Box in Section 4.4.

8. INTERNATIONAL COOPERATION

8.1. Exchange of information with foreign FIUs

Within the system of international and EU regulations on money laundering, the function of FIUs is to centralize the receipt and analysis of STRs and the exchange of information with FIUs in other countries. International cooperation is thus a *raison d'être* of the FIUs, which over the years have established an extensive network of relationships and developed rapid and secure electronic communication systems.

Within the framework of the FATF Recommendations, cooperation between FIUs is governed by the Egmont Group standards. The fourth AML Directive provides a comprehensive system for this cooperation, strengthening safeguards and available instruments.

Cooperation with foreign FIUs is fundamental for the analysis of STRs, for identifying cross-border financial crimes and money laundering and for supplementing the information provided by the FIU to law enforcement and judicial authorities in support of criminal investigations and proceedings.

By cooperating with its counterparts in other countries, the Italian FIU has identified anomalous practices of regulatory arbitrage with foreign countries to facilitate the obscurement of both financial flows and the identities of the parties to the transaction. Some of the most common practices consist in: the use of foreign funds and investment instruments to conceal the funds belonging to persons and entities under investigation in Italy; using companies, trust companies and other foreign trust structures to move cash; establishing companies and performing operations in various countries so as to exploit gaps in the safeguards and controls and to prevent the identification of beneficial owners; anomalous use of foreign-issued prepaid cards to withdraw cash in Italy; and using foreign companies to provide online gambling services.

Cooperation between FIUs plays a crucial role in the financial battle against terrorism, as has been highlighted at international and EU level.

8.1.1. Requests sent to FIUs in other countries

The FIU sends requests for information to FIUs in other countries for the purpose of analysing suspicious transactions, where subjective or objective connections with other countries come to light. Requests usually aim at tracing the origin or use of funds transferred from or to other jurisdictions, identifying movable or immovable assets abroad and clarifying the beneficial ownership of companies or entities established in other countries. The number of requests sent by the FIU has increased considerably in the last five years (see Table 8.1).

The FIU continued with the systematic transmission of 'known/unknown' types of requests through the European FIU.NET network in 2014. This type of request is used to quickly uncover evidence about persons of interest through other FIUs. When evidence is found, a reasoned request for more specific information, supported by a detailed description of the case, is submitted to the other FIU. In 2014 the Italian FIU submitted 272 'known/unknown' requests referring to a total of 575 persons (302 legal persons and 273 natural persons) involving foreign connections warranting

investigation.

The Unit has taken steps to make processes more efficient and collaboration more effective.

The FIU has simplified the working process and the procedures for formulating information requests by creating a structured digital form that analysts can use for the direct transmission of the requests via international electronic channels. Improvements in the structure of requests make it easier to share cases with foreign counterparts, shorten response times and make the responses more focused. In some cases, swift data exchange actually provided the FIU with information that served to suspend suspicious transactions.

Table 8.1

Requests sent to FIUs in other countries					
	2010	2011	2012	2013	2014
Information required for the judicial authority	89	128	137	124	146
Information required for internal analysis	37	44	80	56	242¹
Known/unknown ²	-	-	-	270	272
Total	126	172	217	450	660

¹ This figure includes motivated requests sent by the FIU following a reply of 'Known' to a 'Known/Unknown' inquiry.

² This statistic was not surveyed independently prior to 2013.

The information acquired from foreign FIUs, which is used with their consent and to the extent they permit, often serves to cooperate more effectively with judicial authorities. It helps in finding evidence to orient investigation, activating precautionary measures and drawing up specific rogatory requests for information from foreign authorities. During the year, 146 requests were sent to foreign FIUs to obtain information on behalf of Italian judicial authorities, up from 124 in 2013.

Problems in international information exchange

There remain some problems that limit the effectiveness of international cooperation between FIUs. The differences in the institutional characteristics, powers and functions of FIUs are reflected in the effectiveness and efficiency of exchanges.

There are shortcomings in FIUs' capability to obtain and provide information owing to the continued persistence of banking secrecy, the protection of the anonymity of the shareholders and top officers of entities and companies and restrictions on investigative information.

It is difficult to pass on the information obtained to the competent investigative authorities, especially when judicial proceedings are pending. In such cases, cooperation between FIUs may suffer due to the conditions and restrictions imposed by the rules of mutual legal assistance and of judicial cooperation on a rogatory basis,

which are in turn characterized by significant differences between national legal systems.

Problems still remain for STRs submitted by EU intermediaries operating in Italy under the freedom to provide services.

8.1.2. Requests and spontaneous communications from FIUs in other countries

In 2014 there was a considerable rise both in the requests for cooperation and in spontaneous communications from foreign FIUs, consolidating the growth trend recorded in the last few years.

Table 8.2

Requests and spontaneous communications from FIUs in other countries – Subdivision by channel					
	2010	2011	2012	2013	2014
Egmont network	482	467	429	519	486
FIU.NET	143	229	294	274	453
Total	625	696	723	793	939¹

¹ In contrast to previous years, this figure includes the detailed requests received following a ‘Known’ response to a ‘Known/Unknown’ request.

The requests received by the FIU are subjected to preliminary analysis to assess the characteristics of the case and determine whether it is of direct interest to the Unit. When requests refer to information as yet unavailable, e.g. data on accounts or financial relationships or the origin or use of funds, the FIU takes steps to obtain such information from obliged entities, from external sources (e.g. the Revenue Agency’s registry of accounts and deposits), or from investigative authorities such as the Special Foreign Exchange Unit and the Bureau of Anti-mafia Investigations.

Table 8.3

Requests received and replies forwarded				
	2011	2012	2013	2014
Total requests	696	723	793	939
Total replies	632	805	1,066	1,144

Overall there were 1,144 responses to foreign FIUs requests in 2014, including communications containing data provided by investigative authorities.

The number of foreign FIUs to which the Italian FIU sent information has also increased and now includes all the FIUs in the European Union.

Table 8.4

Number of FIUs to which the FIU has sent information (on request or spontaneously)				
	2011	2012	2013	2014
Number of FIUs	74	74	84	83
Number of FIUs in Europe	25	24	25	27

As with requests for information, responses are also drawn up using structured electronic forms, which are modified from time to time according to the information needs of others and the characteristics of the case. This makes it possible to incorporate inspections and checks more efficiently and to use Egmont and FIU.NET procedures in a more direct way.

Response times have been significantly reduced, and with reference to the information sources that the FIU can access directly, the time was cut from an average of 80 days in 2013 to under 40 days in 2014. For exchanges via FIU.NET, the response time decreased even more sharply, from an average of 70 to 25 days.

At the same time, flexibility in cooperation, the ability to prioritize and the conformity of responses to the needs of other FIUs have all improved. The range of databases that the FIU can use to fine-tune its responses to requests is shown in Table 8.5.

Table 8.5

Databases available to the FIU for international cooperation		
Databases available to the FIU	Activation	FIU access
STR (RADAR) records	Always	Direct
Companies' register	Based on requests	Direct
Registry of accounts and deposits	Based on requests	Direct
Obligated entities	Based on requests	Direct
Cross-border declaration records	Based on requests	Indirect ¹
Investigative data	Based on requests	Indirect

¹This access was direct until 31 December 2008.

Almost all of the requests from foreign FIUs are for information on STRs involving persons of interest. In many cases information is also requested on the appointments and shareholdings in companies and enterprises. There is growing interest in information on bank accounts and banking and financial transactions, which is acquired by the FIU directly from the intermediaries involved by using the same powers as for the investigation of STRs, and ensuring the utmost confidentiality.

There have also been several cases where foreign counterparts request police information on persons' criminal records or on-going investigations. Although the

FIU does not have access to investigative data for its analyses, Legislative Decree 231/2007 provides that it can obtain this data from the Special Foreign Exchange Unit and the Bureau of Anti-Mafia Investigation to assist foreign FIUs. This is a mechanism that embodies the principle of ‘multidisciplinarity’ which, according to international and EU rules, provides that cooperation between FIUs shall be based on exchanges of ‘financial, investigative and administrative information’.

8.1.3. FIU-NET. Innovative functions and organizational developments

The advanced functions of FIU.NET enable the development of innovative forms of international cooperation in Europe. These are explicitly recognized by the fourth AML Directive, which provides that FIUs must use the advanced methods of cooperation provided by FIU.NET and in particular data ‘matching’.

FIU.NET enables the completely confidential cross-checking of personal data so as to identify patterns that can be further examined by means of detailed information exchanges. If requests are made involving specific names, the ‘Case Match’ function can identify matches in the files of all participating FIUs. The ‘Cross-Match’ function can compare entire databases and find common names. The data made available for matching are encrypted using hashing mechanisms that guarantee absolute irreversibility and hence complete confidentiality. Matching is anonymous and only later is it traced to the underlying name. It is an extremely useful instrument for finding foreign connections with regard to persons whose foreign activities were not previously known.

The FIU has carried out targeted bilateral matching exercises to identify and compare predefined databases. Multilateral tests have been carried out with six European FIUs. The Italian FIU has identified the archives to be used for information sharing: the matching database created includes more than 90,000 persons, selected from the reports received in the last twelve months.

A new and more advanced version of the FIU.NET (‘2.0’) platform was launched in 2014, strengthening functions and integrating it more effectively with the FIUs’ working procedures. The Italian Unit hosted a training session on the new configuration for the benefit of European FIU.NET users.

FIU.NET’s transition to Europol is under way. According to the Common Understanding between European FIUs and Europol, Europol’s new technical infrastructure, intended to support information exchanges between European FIUs, will maintain all of FIU.NET’s current functions and will facilitate further developments.

Of particular complexity are the technical aspects connected to the development of IT processes that support data matching functions equivalent to those currently in place. There is also a debate on the exchange and use of FIU information which, unless explicit consent to sharing is given, will not be visible either to Europol or to the Europol National Unit in each member state.

To promote study of and familiarity with the characteristics and use of FIU.NET for international cooperation between FIUs, the Italian Unit held a technical workshop in which a Europol delegation also took part. The ensuing debate provided useful

input for configuring the new system.

8.2. Reporting suspicious cross-border transactions

In compliance with the territoriality criterion of the third AML Directive, suspicious transactions are to be reported to the FIU of the country where the reporting agent is established even if the transaction occurs abroad under the freedom to provide services.

These situations are particularly important in the case of intermediaries that systematically operate under the freedom to provide services in countries other than where they are established, as often happens, for example, for payment institutions and electronic money institutions. The FATF standards establish that in the case of payment services involving the transfer of funds, intermediaries must report suspicious transactions to both the sender and the beneficiary country FIUs.

In the “Jyske Bank” case (Decision C-212/11 of 25 April 2013), the European Court of Justice upheld the legitimacy of national laws requiring that intermediaries established abroad report suspicious transactions directly to the local FIU. Jyske Bank is established in Gibraltar which does business in Spain under the freedom to provide services. In order to avoid easy regulatory arbitrage, Spanish law requires that suspicious transactions be reported also to the local (Spanish) FIU. The Court’s decision confirms the legitimacy of this extraterritorial approach in light of the general rules of the EC Treaty and of the special rules of the third AML Directive.

This question has long been under consideration by the EU Financial Intelligence Units’ Platform, whose proposals, drawn up by a working group coordinated by the Italian FIU, were incorporated into the fourth Directive.

The new rules confirm that EC intermediaries operating under the freedom to provide services must send STRs to the FIU of their home country; however, the latter must inform the FIUs in the countries where the transactions were carried out. This ‘centralized’ solution was preferred, as the ‘decentralized’ one was held to be overly burdensome for intermediaries, which would have had to inform all the FIUs involved.

With regard to intermediaries operating under the freedom to provide services through a network of agents, the fourth Directive requires them to report also to the host country FIU by means of a designated ‘central contact point’ within the host country’s network.

8.3. Technical assistance

The FIU offers international technical assistance in matters within its sphere of competence, mainly for its counterparts, both bilaterally and multilaterally.

As part of an EU programme for the discussion and exchange of experience on rules and methods for analysis and international cooperation, in 2014 the Unit hosted a delegation from the Ukrainian FIU. It also participated in a study visit to the Bank of

Italy by the Slovenian Central Bank that focused on activities for preventing and combating money laundering in the financial sector.

The FIU met with a delegation from the People's Bank of China to exchange information and experiences and to define channels for cooperation. Experiences were also exchanged with the Albanian FIU as part of a twinning scheme financed by the European Union, which concluded with a workshop held at the Italian FIU.

With regard to multilateral forums, the Unit took part in the Ukrainian Forum on Asset Recovery, which worked for the identification and recovery of assets unlawfully appropriated under the previous Ukrainian government. Within the OECD, the Unit took part in the Conducting Financial Investigations Programme for providing technical assistance to analysts and investigators who specialize in financial investigations, especially those coming from developing countries.

In the Egmont Group, the FIU takes part in the technical assistance activities of the Outreach working group, which provides support to nascent or consolidating FIUs, and the Training working group, which conducts training and capacity-building programmes. Here the focus is on sensitive geographical areas in Africa and Asia and on developing analytical tools and tasks, work procedures and IT instruments and international collaboration. The initiatives of the Egmont Group in these regions have helped to set up several FIUs and encouraged their joining the Group.

8.4. Participation in international organizations

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

8.4.1. The FATF's activities

The FIU is a standing participant in the work of the FATF as part of the Italian delegation headed by the Ministry of Economy and Finance. In particular, the Unit is a member of a series of specialized working groups.

With the start of the fourth cycle of Mutual Evaluation in 2014, the Evaluation and Compliance Group took on a role of coordination and supervision directed to uniform evaluations, appropriate application of the new methodology and settlement of questions of interpretation.

The Risk, Trends and Methods Group approved the report on the use of non-profit organizations for financing terrorism. The FIU made a specific contribution to the report which shows that these organizations are particularly exposed to the risk of terrorist financing. The Group also drew up a document on the characteristics and operational procedures of virtual currencies, with the aim of furthering evaluation of the related risks and devising countermeasures. There has also been further work on typologies connected with the use of cash, the transparency of the beneficial owners of entities and companies and the risks of transactions in gold.

The Policy Development Group prepares guidelines and best practices relating to some aspects of the new Recommendations. There is a particular focus on the

application of transparency measures for companies and trusts, on the adoption of the risk-based approach for the various categories of obliged entities, and on the risk-aversion (or de-risking) which may impede access to the financial system for whole swathes of customers. In-depth studies have drawn up indications for effective supervision and enforcement of the provisions on money laundering and on the application of AML measures to virtual currencies, based on the initial survey conducted by the Risk, Trends and Methods Group. The paper on virtual currencies, currently being drafted, will provide indications on the risks of such instruments and also set out possible mitigating measures, consisting either in the extension of traditional measures or new ad hoc measures.

The International Cooperation Review Group has continued with its evaluations in order to update the list of countries with 'strategic deficiencies'. Based on the decisions taken in February 2015, Iran and North Korea are still on the black list of countries at high risk, while Algeria, Ecuador and Myanmar have still not made sufficient progress with their action plans. The 'on-going process' for jurisdictions that have made a political commitment to dealing with their strategic deficiencies involves Afghanistan, Angola, Guyana, Indonesia, Iraq, Laos, Panama, Papua New Guinea, Sudan, Syria and Yemen. Reservations have been expressed concerning the progress made by Uganda. The Group is also committed to revising its own evaluation procedures in light of the new FATF Recommendations.

The role of the Working Group of FATF country FIUs became firmly established in the course of 2014. The Group dealt with questions of interpretation raised by the application of standards for FIUs, with the sharing of experiences in preparing and carrying out mutual evaluations and with the issues of interest covered in the mutual evaluation reports already produced.

In February 2015 during the FATF's Plenary meeting, the report on the financing of the terrorist organization Islamic State in Iraq and the Levant (ISIL) was approved. The report shows how the primary source of financing for ISIL comes from the territory it occupies, through the appropriation of bank funds and the exploitation of oil fields. The Report also refers to the investment techniques adopted and ISIL's organizational and governance requirements.

In the global attempt to find effective responses to the new threats posed by ISIL, many countries have introduced stricter rules for detecting and prosecuting unlawful financing. The Report points out, among other things, the need to identify in each country individuals and entities that should be included on the UN list for the application of economic sanctions, to share intelligence at international level, both spontaneously and upon request, to identify the territories where ISIL controls oil fields and intercept the revenues, and to detect the instruments the organization uses to raise funds through modern communication networks, such as social media.

8.4.2. The fourth cycle of mutual evaluation

Following the adoption of the new Recommendations and their Interpretative Notes in February 2012, the FATF approved the new Methodology for Assessing Compliance and Effective Implementation of the FATF Recommendations in February 2013, which includes criteria for the mutual evaluation of members' AML systems. The fourth mutual evaluation cycle of member countries has begun, together

with training sessions for evaluators.

The reason for revising the FATF Recommendations was to take into account the experience acquired in applying the previous standards, in force since 2003, and adapt them for continuity and increased effectiveness. The new standards for FIUs are largely drawn from those of the Egmont Group of FIUs, which participated in drawing up the Recommendations, the Interpretative Notes and the Methodology. The Italian FIU has been active in this process, within both the Egmont Group and the FATF. FIU representatives have taken part in the training for evaluators.

The mutual evaluation of the Italian anti-money laundering system

Italy was among the first FATF countries to undergo the fourth cycle of mutual evaluation.⁷² The evaluation, conducted by a team from the IMF, began in July 2014 with the sending of information on technical compliance, followed by data and information relating to the effectiveness of the AML system. During its onsite visit in January 2015 the team held meetings with all the competent authorities. Additional data and information were provided and discussed, with particular reference to the coordination between the various components of the system and to the degree of effectiveness of Italy's action to prevent and combat money laundering. A discussion of the final evaluation report is scheduled for the FATF Plenary meeting in October 2015.

The Italian delegation, which is coordinated by the Ministry of Economy and Finance, comprises all the authorities and entities with AML competences. The FIU has made a broad contribution, by processing information and data useful in demonstrating the effectiveness of the measures for reporting suspicious transactions, of the analyses underpinning investigations and of international cooperation with other FIUs.

Italy was evaluated by the FATF during the third mutual evaluation in 2005. The report on the Italian anti-money-laundering system, published in 2006, highlighted the failure to make self-laundering a crime and noted some regulatory shortcomings on matters of special interest to the Italian FIU, such as lack of access to investigative information.

In the last few years the FIU has worked very hard to adapt in order to comply with international principles, by calling for action, including regulatory and legislative measures, on issues that are not under its exclusive remit. The large-scale revision of standards in 2012, above all the radical changes to the evaluation methodology and the greatly increased importance that it attributes to the examination of effectiveness, complicates comparison with the current situation. Some of the critical observations of the FATF in 2006 were dealt with via legislative action taken in the years following. The best example is the recent criminalization of self-laundering, although other problems have yet to be solved.

⁷² Spain, Norway, Belgium and Australia underwent mutual evaluation before Italy. An expert from the Italian FIU took part in the evaluation of Belgium, which was concluded in February 2015.

8.4.3. The Egmont Group's activities

The Egmont Group approved a strategic plan in July 2014 setting two main objectives, or key result areas, to be pursued over the next two years: enhancing effective information exchange between FIUs and facilitating adherence to international standards, developing and sharing FIUs' expertise. The plan also calls for creating a more efficient organization, especially with regard to the running of the Secretariat, more active participation of the member FIUs, the organization and tasks of the working groups, and the development of cooperation with other international organizations.

The Egmont Committee continued the debate on the reorganization of the Group, necessary for ensuring the effective implementation of the new standards approved in 2013, reorganization of the working groups and the creation of a regionally-based structure. Reorganization is also needed to take into account the steadily expanding membership and the resulting implications for participation and governance. The Committee also dealt with some issues related to applying the 2013 standards and the developments in on-going infraction proceedings, in light of the related activities of the Legal Working Group.

The Legal Working Group's extensive activities include both the evaluation of legal issues relating to national legal systems and policy and regulatory issues. On legal issues, the working group examined candidate FIUs either to ratify their qualifications for membership in the Egmont Group under the new international standards and implementing criteria or to specify the correctives necessary. Furthermore, the working group continued or initiated the evaluation of potential cases of infraction of the standards by current member FIUs.

Special importance attaches to the results of the evaluation reports approved by the FATF and other competent international organizations and to complaints arising from bilateral relations. The most significant cases involved the independence of FIUs and data confidentiality in cases where the FIU is part of a broader investigative organization. There were also episodes of improper disclosure, even in the media, of classified information provided as part of international cooperation and often linked to the absence of suitable internal rules and procedures for ensuring its protection. Another significant area consisted in inquiries into the possible inadequacy of international cooperation due to a lack of relevant information, the impossibility of sharing such information or the lack of suitable information powers.

As far as policy themes are concerned, the Legal Working Group has begun discussion on the results of a survey conducted in recent months on the key problems encountered in applying the new international standards, in order to set priorities for further, in-depth examination and draw up criteria and guidelines in collaboration with the FATF, the IMF and the World Bank. A discussion paper summarizing and analysing the main issues focuses on the autonomy and independence of FIUs, especially regarding internal organization, reciprocity in international cooperation, information acquisition from obliged entities, the possibility of refusing cooperation by reason of the type of predicate crime, data protection, and the possible use of the information exchanged.

The Operational Working Group studied mass marketing frauds and money laundering in the diamond trade, the latter in collaboration with the FATF. It also

examined FIU powers for acquiring information both for domestic analyses and for international cooperation, and the characteristics of financial analysis. The group also continued its investigation into the exploitation of virtual currencies for money laundering or the financing of terrorism, to which the Italian FIU contributed actively with an account of regulatory aspects and the characteristics of the STRs received.

The Information Technology Working Group continued discussion of its 'Securing an FIU' project to enhance both logical and physical IT security and protect the confidentiality of international exchanges. The group also continued its work on the FIU IT System Maturity Model (FISMM), a project to formulate common methods for developing information systems. The project is divided into fourteen 'domains' related to the typical operating areas of an FIU: together with a document on security, the project will produce a methodology for assessing the maturity of an FIU's IT system. The group also worked on the Egmont Secure Web life cycle replacement project, which aims above all to improve security and data protection systems.

Finally, the Training Working Group has continued to focus on training and technical assistance initiatives for specific aspects of FIU activity. Training programmes have been developed to help all the member FIUs in applying the new international standards. Moreover, the courses on operational and strategic analysis have been updated.

The Unit is an active participant in the Egmont Group's activities and promotes its policies. An Italian FIU officer serves as a Vice-Chair of the Egmont Committee and Chair of the Legal Working Group.

9. ORGANIZATION AND RESOURCES

9.1. Organization

The Financial Intelligence Unit's organizational structure was overhauled in 2014. On 18 July the Bank of Italy issued a new regulation on the Unit's structure and operation (pursuant to Article 6 of Legislative Decree 231/2007). The regulation, which replaced that of 21 December 2007, when the Unit began operations, reflects the new organizational structure and concentrates on the implementation of current legislation, which lays down the fundamental provisions for the autonomy and independence of the Unit.

The substantial expansion of operations, the increase in operational and strategic analysis and inspections, the greater openness to cooperation and the commitment to relations with international bodies have progressively necessitated an increase of the Unit's human and IT resources.

Reorganization

These new demands meant that the Unit would have to be structured accordingly, as it had remained more or less unchanged since its establishment in 2008 with a relatively simple structure, without intermediate levels between the base units and the top management. The reorganization was carried out in accordance with the guidelines for the recent general reorganization of the Bank of Italy, upon which the FIU patterned its reorganization under its own regulations.

The objective was greater diversification of responsibilities and structures and a more rational division of duties and resources in order to make the Unit still more effective and consolidate its institutional role. The reorganization was also intended to strengthen the control and coordination of financial analysis and data collection, integration and processing.

The choices made are in line with the role ascribed to FIUs under international standards and with the conclusions of the National Risk Assessment, which emphasize the advisability of creating specialized sections for expanding functions.

The operational units are grouped under two directorates, one focused on the analysis of suspicious transactions, and the other on context analysis and institutional relations.

The Suspicious Transactions Directorate consists of three divisions: Suspicious Transactions Divisions I and II, which are responsible for examining reports from obliged entities, verifying compliance with the relevant legislation and handling any postponements, plus the Information Management Division, which handles the data on the STRs and develops analysis criteria and methodologies. This division is also in charge of analysing cases of suspected financing of terrorism and weapons of mass destruction, as well as money transfer reports, a sector whose highly atypical characteristics feature possible ties to terrorist financing.

The Analysis and Institutional Relations Directorate groups the divisions responsible for the FIU's other institutional duties. The Financial Flow Analysis Division collects, processes and analyses financial flows for AML purposes. The Regulation and Institutional Relations Division monitors regulatory developments and handles relations with other national authorities, in particular the magistracy and

supervisory authorities, and coordinates inspections. The International Cooperation Division handles relations with supranational bodies and information exchange with foreign FIUs. The directorate also includes the Secretariat, which handles documentation and duties related to the management of the Unit and its staff.

In early 2015, to complete the reorganization, two special sections were formed: one within the Regulation and Institutional Relations Division, responsible for inspections, and one within the Information Management Division, responsible for STRs on terrorist financing and the money transfer sector.

In addition to several staff managers, the Director is assisted by the Advisory Committee for the Review of Irregularities, comprised of the Deputy Director, as chair, and the two Directorate Heads. The Committee is responsible for analysing suspected irregularities uncovered during the course of the FIU's work in order to initiate sanction procedures, forward reports to judicial authorities and take any other necessary steps.

Committee of Experts

As required by law, the Unit is also assisted by a Committee of Experts, appointed for three years by MEF decree after consultation with the Governor of the Bank of Italy. The membership of the Committee, chaired by the Director of the FIU, was unchanged from 2013. It met a number of times during the year, monitoring the Unit's activities and contributing significantly to major organizational decisions, the development of anomalous behaviour patterns, the analysis of STRs and issues bearing on institutional and international cooperation.

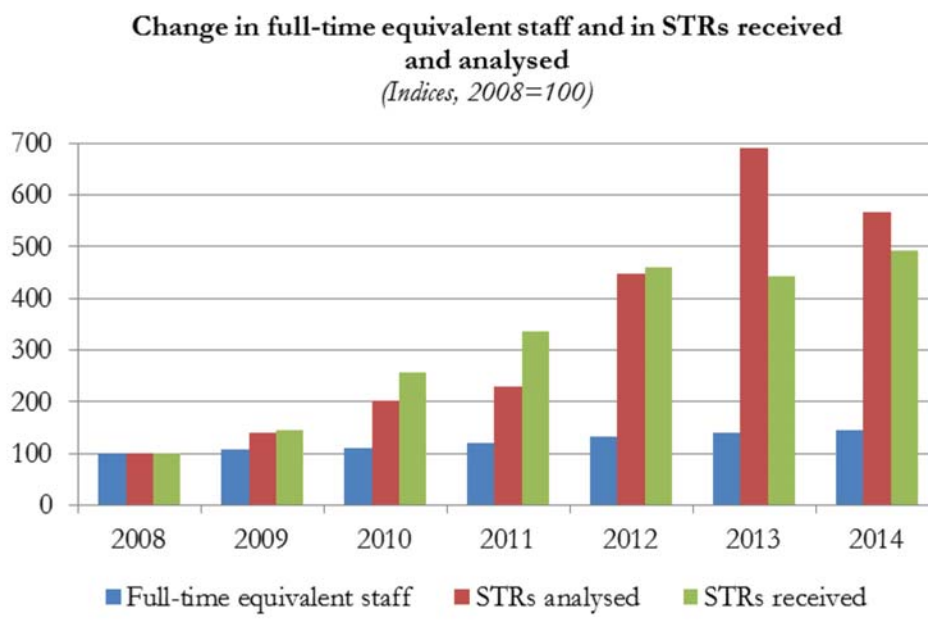
9.2. Performance indicators

The Unit remains committed to continually improving its performance. In 2013 the FIU achieved its objective of meeting the extraordinary increase in its workload since its creation. This was accomplished in part through the design and development of dedicated information systems and careful management control action, which fostered a significant increase in output capacity.

In this way the Unit coped with the further sharp increase in the number of STRs received in 2014 and progressively reduced the backlog of unprocessed reports to what can be considered a normal level. These significant accomplishments were achieved with only modest staff increases: the number of STRs processed per full-time equivalent staff has risen substantially over the years. In particular, following a drastic reduction in the backlog in 2013, the volume of STRs processed in 2014 again outnumbered those received, thanks to the continuing high level of productivity (see Figure 9.1).⁷³

⁷³ See Section 3.1.

Figure 9.1



The exceptional commitment displayed by the staff led to further improvement in the quality of analysis and enabled the Unit to effectively discharge extraordinary commitments, such as collaborating in the preparation of the NRA and in work connected with the FATF's Mutual Evaluation. The Unit was also able to conduct more extensive financial investigations, test new analysis approaches and methodologies, enhance cooperation with national, supranational and foreign authorities engaged in the battle against money laundering and terrorist financing and conduct studies and research.

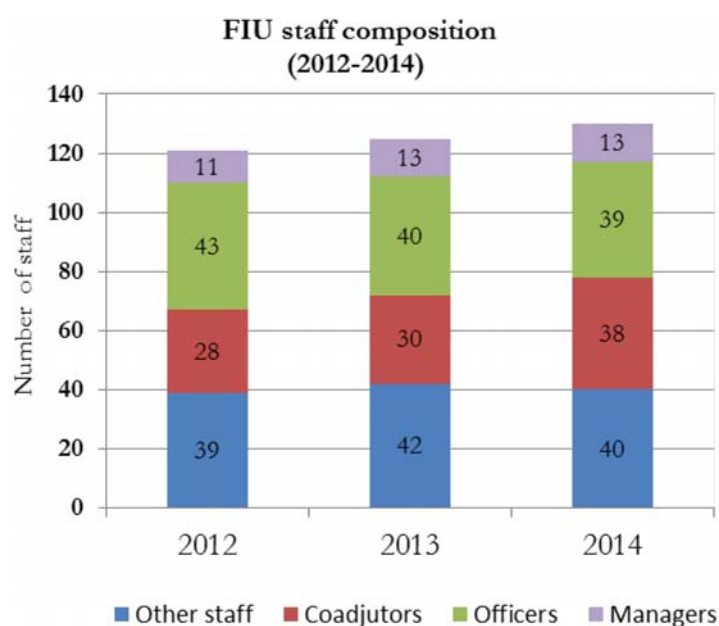
In keeping with international standards, the quality improvement measures enhanced transaction screening and helped to orient the entire operational process to the risk-based approach, thereby laying the groundwork for further examination of the most significant transactions by the investigative bodies.⁷⁴

9.3. Human resources

The FIU's staff increased from 125 to 130 in 2014 (currently below the full staffing level of 141), with the addition of 11 members, including 4 new hires, and the exit of 6 (Figure 9.2).

⁷⁴ See Section 3.5.

Figure 9.2



Special attention is given to training, and the FIU has continued to conduct training programmes, in some cases in collaboration with other institutions and associations, designed to share and discuss relevant cases and methodologies. Employees attended training courses on pertinent topics offered by the Bank of Italy and by other sector authorities and investigative bodies.

9.4. Information technology resources

The development and launch of information systems designed to assist the FIU in its work continued in 2014. In developing these systems, the emphasis has been on integrating the specific characteristics of each sector into a general framework capable of better synthesizing and presenting information used by the various functions as early as the data extraction stage. The purpose is to highlight the most important information and any connections so as to help identify the key points and select the aspects most useful to operations.

Data warehouse

Several stages in the FIU's data warehouse project were completed in 2014. Having the data warehouse will permit rapid, integrated access to all the information relevant to the Unit's institutional functions. New registry data matching rules were implemented, enabling linkage of the data in external databases with that in individual STRs in order to enhance financial analysis. In the future, the data will be integrated with that contained in other digital databases.

Gold trade declarations

In December the new system for electronically submitting gold trade declarations was launched. The project seeks to facilitate the exchange of data with the various participants (banks, dealers, others) and to improve the Unit's internal processing and utilization of the information.

The abundance of information held by the FIU is particularly valuable in light of intensifying institutional and international cooperation. The Unit is developing dedicated instruments and communication systems to better assist it in this task. The project to develop tools to manage the exchange of data with judicial authorities and foreign FIUs, to be phased in during 2015, is particularly important. The project is designed to utilize IT channels to acquire data and to digitalize the entire process for handling requests, thus achieving a higher degree of automation, considerably reducing manual processes, significantly decreasing the use of paper-based supports and, ultimately, increasing efficiency.

Exchange of data
with FIUs and
judicial
authorities

9.5. Information to the public

The FIU is increasingly concerned with dialogue with the other entities and institutions engaged in preventing and combating money laundering and terrorist financing and with the public at large. In 2014, for the first time the FIU's Annual Report on its activity to the Government and Parliament was officially presented to representatives of the institutions, financial intermediaries and operators at a public meeting.

Communication with
the public and the
AML system

The full Annual Report has been translated into English and both versions are available to the public on the Unit's website.

The FIU's website is separate from that of the Bank of Italy and has been completely redesigned and enhanced to provide the public with easy, direct access to information. The new website serves as an 'AML portal', the only Italian government website dedicated to this topic. In addition to explaining the FIU's work, the website offers an overview of the Italian and international AML system, full, up-to-date information on regulatory and institutional matters, accounts of relevant initiatives and in-depth analyses.

New website

The Unit has sponsored numerous initiatives, some recurrent, for discussions and meetings with representatives and members of the main professions subject to reporting obligations. The objective is to raise awareness of the purposes and possible uses of the various types of reports submitted to the FIU by providing feedback⁷⁵ that is used to make system-level comparisons and facilitate closer dialogue to improve the standards of active cooperation.

Dialogue with obliged
entities

In pursuit of this same purpose, the FIU issues publications and its members participate in studies and research on regulations and scenarios for combating all types of financial crime.

Publications, study
and research

The FIU continues to publish the *Quaderni dell'antiriciclaggio* to disseminate statistics, research and documentation on the battle against money laundering and terrorist financing.⁷⁶

The *Dati statistici* series, which offers half-yearly statistical data on the reports received and concise accounts of the Unit's operations, has now been flanked by the *Analisi e studi* series, launched in March 2014, comprising papers on selected themes in

⁷⁵ See Sections 2.3 and 5.3.

⁷⁶ In addition to the printed version, the publications are also available on the FIU website at: <http://uif.bancaditalia.it/pubblicazioni/quaderni/index.html>

money laundering and terrorist financing. The first issue contained a study on the determinants and anomalies of financial flows to tax havens. In April 2015 an issue of the *Quaderno* dedicated to money laundering case studies, a survey of the topic for obliged entities and non-expert readers, was published.

In 2014 the FIU participated in numerous conventions, seminars and meetings to enhance the awareness and understanding of the public and market operators, as well as to explain regulatory changes. The Unit provided speakers at more than 60 training programmes. One of the most important was the course for trainee magistrates organized by the Higher Institute for Judicial Studies (*Scuola Superiore della Magistratura*) and held at the Unit's headquarters and the Head Office and branches of the Bank of Italy. Notably, the Unit also participated in initiatives organized by other authorities involved in AML activities, such as Consob, the national police and the Higher Institute of the Prime Minister's Office (*Scuola Superiore della Presidenza del Consiglio*). Representatives of the Unit also spoke at international events.

ACTIVITIES IN BRIEF

Information gathering

- 71,758 suspicious transaction reports
- 99,647,551 aggregate data received
- 40,007 declarations on gold transactions

Analysis and dissemination

- 75,857 reports examined
- 59,594 reports transmitted to investigative bodies for further inquiry; 24,633 assessed as 'high' or 'very high' risk

Cooperation with investigative bodies and national authorities

- 393 responses to requests from courts
- 85 reports of crime
- 41 suspicious transactions postponed
- 158 cases of 'freezing of funds' monitored in relation to terrorist financing or threats to peace and international security
- 32 communications to the Bank of Italy's Directorate General for Financial Supervision and Regulation

Other cooperation initiatives

- Participation in the Italian risk assessment working group formed at the Ministry of Economy and Finance at the initiative of the Financial Security Committee (FSC)
- Contribution to the Italian delegation in the fourth cycle of FATF mutual evaluations
- Protocol of understanding with the National Anti-corruption Authority (ANAC)
- Access to the tax registry database
- Protocol of understanding with the Municipality of Milan

Cooperation with other FIUs

- 939 requests from foreign FIUs
- 1,144 responses provided to foreign FIUs
- 660 requests to foreign FIUs, of which 272 'known/unknown' requests transmitted via the FIU.NET platform

Spreading knowledge on money laundering and terrorist financing

- Speakers at more than 60 conferences and seminars on money laundering at universities and other institutions
- Speakers at a cycle of seminars for trainee magistrates, organized by the Higher

Institute for Judicial Studies

- Publication of the new FIU website
- Launch of the *Analisi e studi* series of the *Quaderni dell'antiriciclaggio* publication

Regulatory activity

- Instructions on procedures for notifications regarding returns owing to the impossibility of adequately carrying out customer due diligence
- Instructions for the preparation and transmission of declarations regarding transactions in gold of sums greater than €12,500
- Communication concerning the representative outline of anomalous behaviour involving payment cards
- Communication on the anomalous use of virtual currencies
- Participation in the technical working group set up at the MEF for revising the system of sanctions under Legislative Decree 231/2007
- Technical contribution to the guidelines issued by the National Council of Notaries

Upgrading of the information technology infrastructure

- Launch of electronic receipt of indicators of investigative interest from investigative bodies
- Launch of a project to manage the exchange of data with judicial authorities and foreign FIUs
- Launch of the system for collection and management of data flows on gold transactions

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 referred to in the technical annex referred to in Article 2 of the Decree.

Bureau of Antimafia Investigation (*Direzione Investigativa Antimafia*)

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 (to 139). In 2010 the Group became a formal international organization; its secretariat is in Toronto.

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 the purpose of money laundering and terrorist financing and that provide for compliance controls.

The list, pursuant to a decree of the Ministry for the Economy and Finance dated 10 April 2015, names the following countries: Australia, Brazil, Canada, Hong Kong, India, Japan, South Korea, Mexico, Singapore, United States, South Africa, Switzerland and San Marino.

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 called *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 and to disseminate the results of such analyses. 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*)

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, one each, 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 five members are a manager from the Ministry for the Economy and Finance, a Finance Police officer, an officer or functionary of the Bureau of Anti-mafia Investigation, an officer of the Carabinieri, and a representative of the National Anti-mafia Bureau. For asset freezes the committee is supplemented by a representative of the state property agency, and for tasks related to the 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 the coordination of action against terrorist financing, to money laundering as well.

FIU.NET

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

Freezing of assets

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 so 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 in the knowledge 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 in 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.

Self-laundering

Pursuant to Article 648-ter.1 of the Penal Code, ‘whoever, having committed or attempted to commit a crime with criminal intent, uses, replaces or transfers money, assets or other utilities deriving from the commission of such a crime to economic, financial, entrepreneurial or speculative activities, in such a way as to actively hinder detection of their criminal origin’ can be punished for the crime of self-laundering. The rule was introduced by Article 3(3) of Law 186/2014.

Single Electronic Database (*Archivio unico informatico*)

Pursuant to Legislative Decree 231/2007, Article 1(2)(b), the Single Electronic Database is a database created and run using IT systems that provide for the centralized storage 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*)

Formed within the Finance Police, the unit combats money laundering, both as an investigative police body and as the administrative body responsible, together with the Bank of Italy and the Bureau of Anti-mafia Investigation, for controls on 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 blacklist of jurisdictions named in the decree of the Minister of Finance of 4 May 1999 (most recently amended by the ministerial decree of 12 February 2014), the decree of the Minister for the Economy and Finance of 21 November 2001 (most recently amended by the ministerial decree of 30 March 2015) and the decree of the Minister for the Economy and Finance of 23 January 2002 (most recently amended by the ministerial decree of 27 July 2010). The blacklist comprises the following jurisdictions: Abu Dhabi, Ajman, Andorra, Angola, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Brunei, Cayman Islands, Cook Islands, Costa Rica, Djibouti (Ex Afar and Issas), Dominica, Dubai, Dutch Antilles (Sint Maarten – Dutch part, Bonaire, Sint Eustatius, Saba and Curaçao), Ecuador, French Polynesia, Fujairah, Gibraltar, Grenada, Guatemala, Guernsey, Hong Kong, Isle of Man, Marshall Islands, Jamaica, Jersey, Kenya, Kiribati, Lebanon, Liberia, Liechtenstein, Macao, Maldives, Malaysia, Mauritius, Monaco, Montserrat, Nauru, New Caledonia, Niue, Oman, Panama, the Philippines, Puerto Rico, Ras El Khaimah, St. Helena, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Seychelles, Sharjah, Singapore, Solomon Islands, Switzerland, Taiwan, Tonga, Turks and Caicos Islands, Tuvalu, Umm Al Quwain, Uruguay, US Virgin Islands and Vanuatu. The Republic of San Marino was removed from the blacklist in 2014, but it was included in the data processing for the annual report on 2014. 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, Cuba, Ecuador, Ethiopia, Indonesia, Iran, Iraq, Kenya, Kuwait, Kyrgyzstan, Laos, Mongolia, Myanmar, Namibia, Nepal, Nicaragua, North Korea, 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, 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.

ACRONYMS AND ABBREVIATIONS

AML	Anti-Money-Laundering
AML/CFT	Anti-Money-Laundering/Combating the Financing of Terrorism
ANAC	Italian National Anti-Corruption Authority (<i>Autorità Nazionale Anticorruzione</i>)
CASA	Anti-terrorism Strategic Analysis Committee
CDP	Cassa Depositi e Prestiti SpA
Consob	Italian Stock Exchange Authority (<i>Commissione Nazionale per le Società e la Borsa</i>)
EBA	European Banking Authority
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Market Authority
FATF	Financial Action Task Force
FISMM	FIU IT System Maturity Model
FIU	Financial Intelligence Unit
FSC	Financial Security Committee (<i>Comitato di Sicurezza Finanziaria</i>)
ISIL	Islamic State in Iraq and the Levant
IVASS	Insurance Supervisory Authority (<i>Istituto per la Vigilanza sulle Assicurazioni</i>)
MEF	Ministry of Economy and Finance (<i>Ministero dell'Economia e delle finanze</i>)
NRA	National Risk Assessment
PEP	Politically exposed persons
SARA	Anti-money laundering aggregate reports
STR	Suspicious transaction reports
VLT	Video Lottery Terminals
WMD	Weapons of mass destruction