



BANCA D'ITALIA
EUROSISTEMA



Unità di Informazione Finanziaria per l'Italia

Unità di Informazione Finanziaria Annual Report

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The *Unità di Informazione Finanziaria per l'Italia* (UIF) 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 financial intelligence unit, independently run and operating autonomously.

The UIF 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 these data with the resources 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 UIF which, in turn, works closely with the investigative and judicial authorities to identify and analyse anomalous financial flows. It is a member of the global network of financial intelligence units that share the information needed to tackle cross-border money laundering and financing of terrorism.

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INTRODUCTION

At the end of 2017 the UIF (Italy's Financial Intelligence Unit) will celebrate its establishment ten years ago as a result of the implementation of the Third Anti-Money Laundering Directive, which gave a significant push to the national anti-money laundering (AML) system. Moreover, the UIF will be assigned additional, important tasks through amendments to Legislative Decree 231/2007.

The significant increase in the UIF's activity recorded since 2010, spread across all the sectors within its competence, is well proven by the data for 2016. The fact that the number of suspicious transaction reports (STRs) exceeded 100,000 is the main, but not the only, sign of such growth. Cooperation with other authorities also increased, especially with the judicial authority and the global network of financial intelligence units (FIUs), as did the analysis of aggregate flows and oversight over entities other than financial intermediaries.

Over the course of 2016 the UIF assisted in the various stages of the drafting of laws and regulations for the transposition of the Fourth Anti-Money Laundering Directive with a view to strengthening the Italian system in light of the results of the first National Analysis of Money-Laundering Risks, the problems uncovered by the recent Mutual Evaluation for Italy conducted by the FATF, and the experience gained in recent years. The UIF put in a significant amount of work in international forums to help develop strategies to counter money laundering and terrorist financing and propose amendments to current EU rules to deal with new threats (Chapter 1).

The increase in STRs recorded in 2016 confirms the upward trend observed since the establishment of the UIF, and this holds true even when the effects of the voluntary disclosure programme regarding assets held abroad are excluded. This trend continued in the first four months of 2017.

This performance may be taken as a signal of the significant and enduring increase in banks' and other financial intermediaries' awareness of the role played by pro-active cooperation within the AML/CFT prevention system. Other categories of obliged entities are also becoming increasingly involved, and the overall quality and completeness of the reports have improved. The pursuit of efficiency in work processes enabled the UIF not only to deal with the renewed and significant rise recorded in 2016, but also to further reduce the stock of STRs still under examination at the end of the year (Chapters 2 and 3).

The analyses that were conducted yielded useful indications for identifying new money-laundering techniques. The examination of the reports uncovered patterns of conduct that enabled the UIF to broaden the scope of the financial analysis of the reports received, also making it possible to identify anomalous activity that is not detected by the obliged entities (Chapter 4).

The need to move beyond an approach based solely on acting on suspicious transaction reports was also called for in international forums, especially with respect to terrorist financing. On this front, the number of reports grew and so, to an even greater

extent, did the volume of data exchanged between the FIUs of different countries and the need to manage this very complex body of information. The UIF performs its tasks by leveraging, including in innovative ways, all available tools to make it easier for reporting entities to spot anomalous behaviour, identify any financial trails left by persons or entities deemed at risk, and make any information promptly available to the judicial and investigative authorities (Chapter 5).

The need for a pro-active approach also spread to the other functions performed by the UIF. As part of the work carried out on strategic analysis and studies, projects were completed to improve money-laundering risk indicators and identify any anomalous behaviour through the analysis of aggregate flows (Chapter 6). An intense schedule of inspections for the money transfer sector was completed in 2016 and the related in-depth analyses uncovered illicit conduct by money transfer operators and a significant volume of remittances sent abroad through unofficial channels and, therefore, not recorded in official statistics (Chapter 7).

The UIF continued its close cooperation with the domestic and foreign authorities in the relevant laws and regulation, sharing its findings and feeding its internal databases with the information received. In several cases, by cooperating either directly with the judicial authorities or indirectly with the investigative bodies through the judicial authorities, the UIF was able to achieve a high level of integration between its activities, with a positive impact on the quality of the results (Chapter 8). At international level, the exchange of information continued to broaden in 2016, benefiting from organizational improvements which made it possible to increase the circulation of important information and the quality of the in-depth studies that were conducted. The activity of the European FIUs Platform was fostered by promoting and coordinating an exercise to compare the characteristics of the FIUs of different countries with a view to removing the obstacles to effective cooperation (Chapter 9).

This year too the results achieved by the UIF were made possible by its staff's engagement, dedication and professionalism and the widespread adoption of information technology; the sharp increase in the workload was managed without increasing the number of staff significantly (Chapter 10). The UIF is already working on scheduling the implementation of the additional tasks set out in the relevant laws and regulations to assist in rapidly implementing the new measures laid out for the national anti-money laundering and counter-terrorism system.

The Director

Claudio Clemente

1. THE LEGISLATIVE FRAMEWORK

1.1. Transposition into national law of the Fourth EU AML Directive

In 2016 Parliament delegated¹ the Government to transpose into national law the Fourth EU AML Directive,² which comes ten years after the Third³ and bolsters the prevention systems of Member States in line with the FATF Recommendations of 2012.

The 2015 European
Delegation Bill

The new EU legislation promotes an approach based on risk, seen as a key criterion to define proportionate preventive measures and checks; it enhances transparency on information regarding the beneficial ownership of companies and trusts; it confirms the framework characterized by full confidentiality of the data on suspicious transactions; and it sets out specific criteria for the adoption of sanctions regarding violations of obligations in the field of preventing money laundering and the financing of terrorism.

The new legislation confirms the central role of the FIUs and lays out a more comprehensive framework that strengthens the units' institutional functions and widens its scope, which includes the predicate offences of money laundering.

The Directive states that 'the FIU as the central national unit shall be responsible for receiving and analysing suspicious transaction reports and other information relevant to money laundering, associated predicate offences or terrorist financing' and that 'each FIU shall be operationally independent and autonomous, which means that the FIU shall have the authority and capacity to carry out its functions freely, including the ability to take autonomous decisions to analyse, request and disseminate specific information'.⁴

Transposition

The transposition into national law of the Fourth EU AML/CFT Directive presented the opportunity to incorporate the FATF recommendations stemming from the Mutual Evaluation of the Italian anti-money laundering system it conducted in 2014-15.⁵

The draft anti-money laundering decree was submitted for public consultation by the Ministry of Economy and Finance in the autumn of 2016; it was then approved by the Council of Ministers in February 2017 and sent to the relevant committees of the Chamber of Deputies and Senate, which on 4 and 9 May 2017 issued their respective opinions containing numerous observations and conditions.⁶ The definitive version of

¹ Law 170/2016.

² Directive (EU) 2015/849.

³ Directive 2005/60/EC.

⁴ See the Preamble (37) and Article 32 of the Fourth EU AML Directive.

⁵ The [Mutual Evaluation Report](#) is available on the UIF website. For an analysis of the findings, see the UIF's [Annual Report](#) 2015, Chapter 1.

⁶ For the opinions provided by the Chamber of Deputies committees, see <http://www.camera.it/leg17/824?tipo=A&anno=2017&mese=05&giorno=04&view=&commissione=0>

the decree was approved by the Council of Ministers on 24 May 2017, with limited amendments to the initial draft, and subsequently signed into law by the President of the Republic.

The UIF actively provided its technical and institutional contribution to the outline of the new regulatory framework. This also included two hearings before the aforementioned parliamentary committees.⁷

The competent authorities

In keeping with the delegation criteria and with the approach followed until now by Italy, which has been judged favourably by the FATF, the new draft anti-money laundering decree largely confirms the existing institutional structure in place to combat money laundering and the financing of terrorism.

Among the competent authorities are the Ministry of Economy and Finance, the supervisory authorities, the UIF, the Special Foreign Exchange Unit of the Finance Police (NSPV) and the Anti-Mafia Investigation Department (DIA); the role of the National Anti-Mafia and Anti-Terrorism Directorate (DNA) has been revised and revamped. The Financial Security Committee (FSC) has been tasked with developing prevention strategies and carrying out country-wide risk analyses as well as granting exemptions from the provisions of the decree to certain entities if specific low-risk conditions are met. Supervisory and regulatory tasks are given to the ‘concerned entities and bodies’ and to ‘self-regulatory bodies’.

The UIF

The UIF has been assigned new, significant functions: it will receive and analyse the ‘threshold-based communications’ that the obliged entities will submit in accordance with the criteria set out by the UIF itself in dedicated guidelines. This constitutes a new, important tool to enhance and assist analysis for prevention purposes.

The UIF will issue guidelines for the detection and reporting of suspicious transactions for the benefit of all obliged entities; it will also publish instructions to streamline the communications to be sent by general government entities as well as anomaly indicators. By directly issuing these provisions, the UIF will be able to contribute to further improvement in terms of timeliness, thoroughness and quality of the active cooperation. The UIF’s competence as regards the definition of the rules for transmitting aggregate data was confirmed.

Cooperation

In keeping with the Directive, on an operational level the UIF has the right to acquire law enforcement information if certain conditions arise: for data covered by official secrecy, this includes authorization by the relevant judiciary authority. Making law enforcement information directly available to the UIF specifically addresses a remark to that effect by the FATF, which was part of a broader call to enable the UIF

[206#data.20170504.com0206.allegati.all00020](http://www.senato.it/japp/bgt/showdoc/frame.jsp?tipodoc=SommComm&leg=17&id=1022227); for those submitted by the Senate committees, see <http://www.senato.it/japp/bgt/showdoc/frame.jsp?tipodoc=SommComm&leg=17&id=1022227>.

⁷ See the Testimonies of the Director of the UIF on 27 and 29 March 2016 before the joint session of the II and VI Standing Committees of the Chamber of Deputies and the joint session of the corresponding Senate committees, which related to the draft legislative decree transposing Directive (EU) 2015/849 (<http://webtv.camera.it/evento/10852>) (only in Italian).

to enhance the databases used in its analyses.

Cooperation between all the national administrative, judiciary and investigative authorities involved in preventing and combating money laundering and the financing of terrorism is reinforced. This also includes the exchange of information between the UIF and the judiciary carried out to assist ongoing investigations on money laundering, self-laundering, predicate offences, and terrorism.

Cooperation with the DNA takes on new forms. The data relating to suspicious transaction reports – especially the identifying particulars regarding reported persons or their associates – will be transmitted to the DNA for it to check whether they are relevant for pending court cases; if so, the DNA will then be able to request additional and more detailed information. Ad hoc technical agreements between the DNA and the UIF, the Finance Police and the DIA will have to ensure that the identifying particulars of the reporting and reported entities and persons are processed in ways that preserve confidentiality.

International cooperation between FIUs will take place under rules that are virtually unchanged.

The list of entities subjected to anti-money laundering obligations was expanded. A significant change was the inclusion among the obliged entities of European banks not established in Italy but which operate in the country relying on a network of agents or accredited institutions. Special provisions apply to these networks providing payment services on behalf of EU electronic money institutions (ELMI) and payment institutions (PI); other provisions apply to central contact points established by EU payment institutions. This lays the groundwork for limiting the risk of criminal infiltration in the money transfer sector and in others that follow a similar business model in the sale of products and services.⁸

Obliged entities

Anticipating amendments to be made to this effect to the Fourth AML Directive,⁹ the scope of the new AML decree includes virtual currency exchangers, which are to be entered in a special section of the foreign currency exchangers register.

General government entities take on a different role in the new AML system: they are no longer formally subjected to it, but are nevertheless obliged to notify the UIF about any data or information concerning suspicious transactions in accordance with provisions that will be issued by the UIF itself. Only offices that handle certain types of administrative procedures will have to submit such notifications. On the basis of risk-related assessments, the FSC will identify which tasks are to be excluded from the scope of the new legislation and which are to be included.

Special provisions apply to gaming licensees and their network of distributors and operators.

Anti-money
laundering
safeguards

Under the new legislation, the preventive measures and checks are adjusted on the

⁸ See the [Testimony](#) of the Director of the UIF on 19 April 2016 before the VI Standing Committee (Finance) of the Chamber of Deputies (only in Italian). See also the [UIF Annual Report](#) 2015, Sections 4.5.1 and 7.1.

⁹ See Section 1.2.

basis of a risk assessment. Italy and the obliged entities must carry out such assessment also taking into account the analysis conducted by the European Commission.

As regards customer due diligence, the new rules provide for ordinary, simplified and enhanced measures, depending on the risk assessed by the obliged entities.

Special, confidential sections of the Companies Register will be created to include information on the beneficial ownership of legal entities and trusts with a view to enhancing transparency and making it easier for the obliged entities to comply with the identification and due diligence obligations and for the competent authorities to carry out their checks.

As regards the storage of data and information, the trend is to streamline the obligations imposed on the entities subjected to the legislation. Care must be taken to avoid negative repercussions on the significance of the data available to the competent authorities for further inquiries and checks. For the supervised banks, the relevant authorities can issue specific provisions governing the storage and use of the data contained in electronic databases.

A key element of the system is the obligation to report any suspicious transaction to the UIF. Following the indications coming from the parliamentary committees, any reference to late reporting as defined by pre-set circumstances laid out by the law was eliminated; in fact, for suspicion to arise and be confirmed it is necessary to conduct complex assessments that are often not limited to a single transaction but concern the client's transaction history and subjective profile.

As regards the UIF's role in analysis and dissemination, the new legislation confirms most of the current framework but refines some of the operational processes and adds some specific provisions – mentioned above – concerning the DNA. A new rule allows the UIF to forward its analyses to intelligence authorities in cases of special interest.

The existing confidentiality safeguards protecting reporting entities were strengthened, especially for cases in which the information is subsequently used in criminal proceedings.

The new legislation regulates the internal reporting systems (whistleblowing) to be put in place to allow employees and people in an equivalent position to report within their organization any potential or actual violation of AML rules.

The sanction system

The sanction system was revamped. Financial sanctions are envisaged for serious, repeated, systematic and multiple violations, but also for breaches that do not fit this description. The fines are higher for the former, ranging from a minimum to a maximum set by the law; smaller, pre-set amounts apply to the latter. The seriousness of the violations is determined according to criteria that are laid out explicitly. Special provisions apply to violations of reporting obligations that resulted in financial benefits to those responsible for the breach.

The new system contains some provisions that apply to all obliged entities and others that concern specific supervised entities (banks and financial intermediaries, and

auditors), the latter being more rigorous and stringent. In keeping with banking and financial regulations, in addition to the liability of the legal entity, the new provisions introduced personal liability for members of the corporate bodies in specific cases and the possibility of applying to them an ancillary administrative sanction in the form of a temporary ban on them fulfilling their role or position. Employees of banks, financial intermediaries and trust companies may also be held responsible for failure to report suspicious transactions.

As for determining competence in matters related to failure to report suspicious transactions, the new law established parallel competences reserved to the Ministry of Economy and Finance and the supervisory authorities depending on whether the violation was committed by a natural or legal person. For serious, repeated, systematic and multiple violations, an order imposing sanctions may be published.

With respect to the sensitive issue of transitional rules, those concerning the continuing validity of the provisions issued by sectoral supervisory authorities will be phased out on 31 March 2018.

Transitional rules

As regards the prevention of the financing of terrorism and the activities of countries that constitute a threat to world peace and security, new powers were granted to the FSC, whose composition was also revised. In addition to this, a new definition of what constitutes a weapon-of-mass-destruction proliferation programme was spelled out. It is possible to temporarily freeze the funds or other assets of entities engaging in terrorist activity. The UIF's scope in this respect remains practically unchanged.

New provisions on terrorist financing

A separate decree governs the sale and purchase of gold and precious stones and metals by operators other than professional dealers as defined by Law 7/2000, which are subjected to the new AML legislation. The decree responds to the need for traceability and transparency in a sector that is at high risk of criminal infiltration, as the first National Risk Assessment showed.

The 'cash-for-gold shops' decree

'Cash for gold' businesses must apply for inclusion in a special register maintained by the Organismo di Agenti e Mediatori (OAM) and comply with the obligations relating to the identification of customers and the storage of data that arise from their distinctive business model. The obligation to report suspicious transactions pursuant to Legislative Decree 231/2007 remains in effect. As regards enforcement, in addition to punishing cases of unauthorized exercise of banking and financial activity, the law provides for specific administrative sanctions.

1.2. International developments

The year 2016 was marked by a succession of measures and initiatives taken by international and EU institutions to combat money laundering and the financing of terrorism.

The Fourth AML/CFT Directive, adopted on 20 May 2015, is currently being transposed by most Member States. To facilitate a consistent interpretation of the new rules and the convergence of the transposed national laws, the European Commission organized workshops focusing on selected topics together with member states. At the

Transposition of the Fourth AML/CFT Directive into Italian law

same time, the EU FIUs Platform conducted a preliminary analysis of the provisions of specific interest to the Units.

The insights provided by the Platform were discussed in detail in a dedicated transposition workshop organized with Member States. The topics covered all the main issues of interest to FIUs, e.g. the implementation of reporting obligations in cross-border or intra-group contexts; the practical implications of FIUs' autonomy and independence; the range of national authorities entitled to receive the findings of the analyses; the conduct of international cooperation in ways that enhance the exchange of information and limit the number of cases in which such exchange or the possibility of using the information thus obtained for further inquiries and investigations can be refused; and the data protection framework.

The FATF Strategy

Over the course of 2016 the competent international and EU bodies focused on strengthening the system for preventing and combating terrorism financing, also by taking into account the new threats that have arisen. Two new resolutions adopted by the United Nations Security Council in 2015¹⁰ broadened criminal justice rules and financial sanctions; the FATF conducted an evaluation on compliance with the main counter-terrorism standards, which led, in February 2016, to the publication of its new comprehensive Strategy on Combating Terrorist Financing.

Operational Plan

This was followed, in June 2016, by an Operational Plan detailing the activities to be developed, e.g. in-depth analyses of the different types of terrorism financing, specific and up-to-date studies on ISIL-related risks, targeted amendments to certain standards, rules for non-profit organizations, lower thresholds for the implementation of due diligence measures, and checks on cash and fund transfers. The operational plan also underscores the need to expand the FIUs' access to information (financial, investigative and intelligence) that could prove useful for analysis, strengthen cooperation between national authorities and enhance the exchange of information also at international level, overcoming current difficulties and broadening the ability to share data of interest.

Action Plan

At EU level, at its February 2016 meeting ECOFIN stressed the importance and urgency of identifying appropriate solutions to the criticalities highlighted by the rise of terrorism. At the same time, the European Commission developed an Action Plan¹¹ comprising a number of proposals, mainly of a legislative nature, that are in line with the FATF's Recommendations.

The Action Plan stresses the role that the FIUs can take on in identifying instances of cross-border financing of terrorist networks and points to the need to broaden the powers to obtain information and the available centralized databases to obtain data that can assist the analysis of financial phenomena and the sharing of information at international level. According to the Commission, the FIUs must work in close cooperation with the authorities combating terrorism financing and develop

¹⁰ Resolutions No. 2199 and No. 2253.

¹¹ [*Communication from the Commission to the EU Parliament and the Council on an Action Plan for Strengthening the Fight against Terrorism Financing*](#) (COM (2016) 50), 2 February 2016.

their activities by moving from a suspicions-based disclosure system to a more intelligence-based disclosure system.¹²

In keeping with the indications contained in the Action Plan, on 5 July 2016 the European Commission proposed amendments to the Fourth AML Directive to strengthen the existing rules for preventing and combating terrorism financing and to enhance transparency on the beneficial ownership of companies and trusts. In compliance with the ordinary co-decision legislative procedure, the text of the proposal was submitted to the European Parliament and the European Council. Following intense negotiations between Member States, an agreement was reached on a final text in December 2016. The European Parliament has in turn presented its own amendments. Negotiations are under way between the Council, the Parliament and the Commission to reach an agreed version of the texts (“trilogues”).

Proposed amendments to the Directive

The proposed amendments seek to expand the anti-money laundering and counter-terrorism rules to virtual currency exchangers and to the operators that store the credentials through which users access their virtual portfolios. In addition to this, more stringent rules envisage the use of pre-paid cards. Effective and uniform implementation by Member States is all but necessary given the cross-border nature of these phenomena.

Virtual currencies and pre-paid cards

As regards virtual currencies, new forms of authorization and supervision on operators are envisaged. For non-reloadable pre-paid cards the threshold for exemption from due diligence obligations is lowered significantly, while the use of cards issued in third countries is allowed only if their characteristics are equivalent to those set out by EU legislation.

To enhance transparency on beneficial ownership, a proposal has been put forward to broaden the range of information available on the beneficial owners of companies, entities and trusts, which must be collected and kept up-to-date in dedicated national registers that would be accessible by all (and not only the FIUs, other competent authorities and entities that have an obligation to take due-diligence measures). The debate is still ongoing on whether this last provision is compatible with and proportionate to the need to safeguard individual privacy. A shared platform will be created to connect the national registers.

Transparency on beneficial ownership

The new rules also provide for the establishment of central registers or central electronic data retrieval systems that make possible the real-time identification of holders of bank accounts opened in Italy.

Central databases of accounts

In Italy the national database of financial account holders has been operational for some time, constituting a key tool for the UIF’s analyses. The new EU rules will make it possible to acquire information on the existence of banking relationships even when these occur in other EU countries.

The proposal drafted by the Council contains provisions governing the exchange of information between the authorities in charge of carrying out checks to ensure compliance with AML preventive obligations. The heterogeneity and the large number

Supervisory authorities

¹² See [Action plan](#), page 7.

and differing characteristics of the competent anti-money laundering supervisory authorities in the various EU countries are behind the complexity of the issue.

Powers of the FIUs

The proposal further clarifies the principle by which the FIUs must be able to obtain information from any entity subjected to the rules, regardless of the existence of reports – something that Italian legislation has stipulated for a long time. At national level, such clarification seeks to remove the existing obstacles to the collection of information useful for the purpose of analysis; at international level, its aim is to provide useful information to foreign counterparties in cross-border cases.

To foster cooperation between the FIUs, the ‘criminal justice condition’ will be eliminated, clarifying that the exchange of information must take place regardless of the existence and nature of a predicate offence. A specific provision explicitly rules out the possibility of refusing cooperation on the grounds that the matter is significant for tax purpose or that an investigation or criminal proceeding has already been launched in the country to which the FIU that has been asked to cooperate belongs. This is yet another example of how the independence of the FIUs is enhanced vis-à-vis the activities and investigations carried out by the judiciary or law enforcement bodies.

Mapping Exercise

In 2016 the FIUs Platform carried out a Mapping Exercise on the characteristics and powers of European FIUs and on cooperation between them. The Exercise was coordinated by Italy’s UIF and led to a final report published in December 2016, which found that there are profound differences between FIUs in terms of their nature, organization and institutional and regulatory structures, and these differences influence the effectiveness of their action.¹³

Harmonization of money laundering criminal offence

In order to implement the Action Plan, the Commission proposed additional legislation to complete and strengthen the EU regulatory framework for preventing and combating money laundering and terrorism financing.

The first proposal regards the harmonization of the definition of money-laundering criminal offences;¹⁴ its wording is based on a harmonized definition of criminal conduct (including self-laundering) and on a minimum range of predicate crimes, in line with FATF standards and the Warsaw Convention of the Council of Europe,¹⁵ with an additional focus on fostering the convergence of national approaches.

The new legislation will envisage the prosecution of money laundering offences including in the absence of a conviction for the predicate crime, even if it was committed abroad (this could lead to a situation of ‘double jeopardy’, whose negative effects would, however, be tempered by greater harmonization). The proposal also introduces forms of liability for legal entities with respect to money laundering offences committed by their corporate bodies. No changes are, instead, proposed regarding the offence of ‘administrative’ money laundering, which was introduced in the Fourth AML Directive, for which the obligation to report suspicious transactions applies. Consequently, criminal and administrative cases of money laundering could be treated differently, with repercussions that are not yet assessable.

¹³ See the box in Section 9.2.

¹⁴ Proposal for a Directive COM(2016) 826.

¹⁵ See Section 1.5.1.

Furthermore, the Commission proposed a regulation on reporting obligations concerning physical transfers of cash and other valuables.¹⁶

According to the proposal, the declarations of physical transfers of cash and valuables must be pro-actively and promptly transmitted by the customs agencies that receive them to the FIUs for use in their analyses – and not simply ‘made available’ to them. The obligation to transmit the information promptly covers both the data stemming from routine declarations and those collected in ‘suspicious’ cases detected during border checks, regardless of the amounts carried. One of the issues is the possible involvement of the FIUs in the withholding of the cash being physically transferred for which customs checks see evidence of ‘criminal activity’.

The Action Plan also resulted in a proposal for a regulation granting mutual recognition of seizure and confiscation orders¹⁷ and a Communication on security,¹⁸ which among other things makes reference to the development of a European Terrorist Financing Tracking System to enhance the ability to track fund transfers.

1.3. Identification of countries with strategic deficiencies

The uniformity of the rules established in the different countries is an essential condition for preventing and combating money laundering and terrorism financing effectively. The FATF standards grant considerable leeway as regards their implementation, and this translates into significant differences between national systems, with negative repercussions on domestic analyses as well as on international cooperation between competent authorities. The picture is further complicated by the opportunistic strategies pursued by some jurisdictions, which maintain incomplete or lax anti-money laundering systems that allow anonymity, thereby facilitating conduct intended to conceal the beneficial ownership of entities and assets.

The Panama Papers case, triggered in April 2016 by the disclosure of confidential documents in the possession of a Panamanian law firm and relating to companies and entities set up to ensure the anonymity of their beneficial owners, drew once again the attention on the widespread recourse to corporate vehicles to circumvent tax transparency and AML rules by fictitiously registering them in someone else’s name. The case also highlighted the existing weakness of international standards and rules on the transparency of beneficial ownership, which are still incomplete and ineffective in application. Proof of this is the fact that, of the 11 countries assessed so far by the FATF in the Fourth Mutual Evaluation round, only Spain and Italy were judged favourably with respect to the effectiveness of their respective systems for preventing misuse of corporate vehicles.

The FATF takes systematic action to identify and monitor countries that show strategic deficiencies in their AML systems. The findings are published in two

¹⁶ Proposal for a Regulation COM(2016) 825.

¹⁷ Proposal for a Regulation COM(2016) 819.

¹⁸ COM(2016) 831.

documents that are updated three times a year and contain a list of high-risk countries;¹⁹ at the moment it comprises only 11 jurisdictions.

The effectiveness of such action is somewhat limited as the attention is mainly focused on the compliance of the regulatory framework, leaving in the background the questions related to the implementation and effectiveness of the measures. Moreover, the assessment process has not yet been fully aligned to the 2012 Recommendations and related Methodology (which is more geared towards effectiveness).

At European level, the Fourth AML Directive marked the dropping of an approach based on a ‘white list’ of third countries characterized by equivalent AML systems. The Commission is now tasked with compiling a ‘black list’ of countries that display a high risk of money laundering or terrorism financing owing to strategic deficiencies in the national systems.²⁰

Over the course of 2016 the Commission adopted a delegated regulation by which it accepted the FATF’s list of high-risk countries,²¹ without performing an independent assessment of the risks that are specifically relevant to the European Union and of the jurisdictions from which those risks originate. The European Parliament made its reservations about this approach clear from the onset, first in a letter by the ECON and LIBE committees to the European Commission and then by raising a formal objection through specific resolutions.

The Parliament has underscored how the findings of its own committees engaged in investigation and analysis show that other countries, which are not included in the European Commission’s list, do however display significant criticalities, mostly arising from the tight nexus between the money laundering risk and the risks related to tax offences, and from the inadequacy of the countries’ systems to prevent and contrast the two phenomena. The Parliament has, therefore, encouraged the Commission to carry out its own assessment without relying exclusively on exercises conducted by other organizations.

1.4. The assessment of risk at EU level

In the Fourth AML Directive, the risk-based approach for establishing AML measures entails the performance of multi-level and complementary assessments. The analyses carried out in each of the Member States through national risk assessments are coupled by a supranational risk assessment coordinated by the European Commission whose goal is to identify and evaluate the risks stemming from the combination of threats and vulnerabilities present in the different Member States but which the single countries are unable to detect.

¹⁹ See the link: [http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc\(fatf_releasedate\)](http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc(fatf_releasedate)).

²⁰ Article 9 of the Fourth AML Directive.

²¹ See Delegated Regulation (EU) 2016/1675, as amended.

The European-level exercise considers factors beyond those of national significance. The risks considered are those originating outside the EU but susceptible of having repercussions on member states, and also those arising within some Member States and susceptible of affecting others.

Over the course of 2016 the European Commission launched its supranational exercise on the basis of a specially developed methodology which sets out precise procedures for identifying and assessing risks by means of examining the threats from which they arise, the vulnerabilities that allow them to materialize, and the scale of the possible consequences. Naturally, the exercise takes account of the Member States' national risk assessments as well as of the risk factors identified by the private sector with respect to the products or services traded, the customer base, and the distribution channels.

Dedicated workshops on selected topics held with national authorities made it possible to identify the main practices that generate money laundering and terrorism financing risks in the EU. For each sector included in the scope of the Fourth AML Directive, the level and nature of the threats were estimated; this was followed by an evaluation of the vulnerabilities inherent in the prevention systems and estimation of the residual risk.

For any given threat, the more effective the mitigation systems, the lower the degree of vulnerability. The combination of threats and vulnerabilities therefore determines the residual risk for each area under scrutiny.

The supranational analysis was conducted with the involvement of a task force bringing together national authorities and experts on the different domains. The FIUs made a direct contribution, also through the European Platform. The UIF shared the experience gained in the in-depth analysis of cross-border cases and in the detection of risks concerning activities carried out in other Member States.

The findings of the supranational risk assessment will be summarized in a final report to be completed by the end of July 2017. The Commission will issue recommendations to the Member States, indicating the measures and steps that must be taken to ensure that risks are mitigated effectively. The decision by a Member State not to align with such recommendations will have to be formally notified and justified.

1.5. National legislation

1.5.1. Laws

At the beginning of 2016 wide-ranging decriminalization measures²² were passed regarding AML violations for which a purely monetary penalty was set ('blind'

²² Legislative Decree 8/2016.

decriminalization),²³ in addition to other specifically identified offences.

Decriminalization affected the following types of conduct: violation of provisions regarding identification obligations; missing, late or incomplete recording of data; missing, late or incomplete reporting from external collaborators to the intermediaries on whose behalf they operate of the data necessary to comply with the record-keeping obligation.²⁴

Decriminalization brought about some interpretative questions regarding the reconciliation of the new provisions with those contained in Legislative Decree 231/2007, especially with respect to the identification of the sanctioning procedure applicable to the decriminalized offences and the implications for the authorities in charge of preventing and combating money laundering and the financing of terrorism. Such points will be clarified once anti-money laundering legislation is amended to incorporate the provisions of the Fourth AML Directive.

Other measures regarding penalties

Violations of AML regulations were also the object of some of the amendments introduced by the legislation transposing the EU Directive on the freezing and confiscation of instrumentalities and proceeds of crime in the European Union.²⁵

These include the improper use, forging or alteration of credit or payment cards or equivalent documents to obtain a profit for oneself or for others and the possession, transfer or purchase of such cards or other illicitly obtained or otherwise forged or altered documentation.²⁶ With respect to these offences, should there be a conviction or should the penalty be applied at the request of the parties, confiscation of the items used to commit the offence may be ordered, as well as that of the proceeds or products of the offence, unless they belong to a person that was not involved in the offence. Should confiscation of the aforementioned items not be feasible, the goods, monies and other assets available to the offender will be confiscated, up to a value corresponding to that of the proceeds or products of the offence.

Ratification of international conventions

Italy ratified and implemented various international conventions.²⁷

These include: i) Council of Europe Convention on the Prevention of Terrorism, signed on 16 May 2005 in Warsaw; ii) International Convention for the Suppression of Acts of Nuclear Terrorism, signed on 14 September 2005 in New York; iii) Protocol amending the European Convention on the Suppression of Terrorism, signed on 15 May 2003 in Strasbourg; iv) Council of Europe Convention on laundering, search, seizure and confiscation of the proceeds from crime and on the financing of terrorism, signed on 16 May 2005 in Warsaw; and v) Council of Europe Additional Protocol to the Convention on the Prevention of Terrorism, signed on 22 October 2015 in Riga.

²³ See the box 'Effects of the decriminalization of anti-money laundering violations' in the [UIF Annual Report](#) on activities carried out in 2015.

²⁴ Article 55, paragraphs 1, 4 and 7 of Legislative Decree 231/2007. Decriminalization also affects paragraph 6 with respect to the part stipulating that the penalties provided under paragraphs 1 and 4 are doubled if the identification and recording obligations were met fraudulently.

²⁵ Legislative Decree 202/2016 transposing Directive 2014/42/EU.

²⁶ Article 55(9) of Legislative Decree 231/2007.

²⁷ Law 153/2016.

Of special interest are the provisions contained in the Warsaw Convention on money laundering, the search, seizure and confiscation of the proceeds of crime, and on the financing of terrorism. While Italian legislation is already substantially aligned with it, the Convention introduces some changes regarding the powers of the FIUs, such as access to law enforcement data and the possibility of suspending suspicious transactions at the request of foreign counterparties; in Italy these provisions were introduced by the decree transposing the Fourth AML Directive.

Against the backdrop of growing awareness of terrorism-related issues, new criminal law provisions were introduced to combat conduct that aids and abets terrorism.

Fighting terrorism

The new Article 270-quinquies.1 of the Penal Code punishes those who collect, pay out or otherwise provide money, regardless of how it was obtained, for the purpose of using it, partially or entirely, to engage in terrorist activity. It also punishes those who deposit or hold such money or assets. Article 270-quinquies.2 punishes those who take, destroy, scatter or damage money or assets that were confiscated to prevent the financing of terrorist activities.

On matters of taxation, ratification was authorized for the protocol amending the convention between the Italian Republic and the Swiss Confederation²⁸ for the avoidance of double taxation and the settlement of some issues relating to income tax and assets; among others, provisions were introduced to broaden the exchange of information for tax purposes. In this respect, the convention does not allow the signatory states to refuse to share information only on the grounds that it is held by a bank, other financial institution, representative, agent or trustee, or on the grounds that the information relates to the property rights of a person.

**Italy-Switzerland
convention**

The convention rules out generalized and indiscriminate searches for information (“fishing expeditions”).

A legislative decree passed in May 2016²⁹ introduced provisions on publicity, transparency and the prevention of corruption.

**Publicity, transparency
and the prevention of
corruption**

The decree lists the general government bodies and entities to which the new rules on transparency apply and introduces, among other things, the right to access general government data and documents beyond those for which publication is mandatory. The decree also assigned to the National Anti-Corruption Authority (ANAC) the task of adopting the National Anti-Corruption Plan, a three-year plan to identify the main corruption risks and lay out the objectives, timing and practical adoption and implementation of the measures. In case of repeated violations of the Plan’s provisions, the persons responsible for corruption prevention are liable in their capacity as managers as well as for disciplinary purposes for failure to monitor, unless they can prove that they notified the relevant offices about the measures to be adopted and on how to implement them and that they exercised oversight over compliance with

²⁸ Law 69/2016.

²⁹ Legislative Decree 97/2016.

the Plan. Violation of the prevention of corruption measures by government staff constitutes a disciplinary wrongdoing.

Voluntary disclosure

In December 2016 the law³⁰ provided for a reopening of the time limits – from 24 October 2016 to 31 July 2017 – for the voluntary disclosure of financial assets held abroad and the violation of reporting obligations for tax purposes.³¹ The scheme applies to violations committed prior to 30 September 2016.

Admission to the voluntary disclosure schemes does not exempt from complying with the provisions of Legislative Decree 231/2007, save for the fine imposed for the violation of the ban on using foreign savings accounts or bankbooks opened anonymously or with a false name, in keeping with international standards.

Special provisions apply to voluntary disclosure cases featuring cash or bearer securities. In these cases, while carrying out customer due diligence, the taxpayers must declare the manner and circumstances by which they acquired such assets.

1.5.2. Secondary legislation and UIF communications

Communication on the prevention of terrorist financing

In its communication of 18 April 2016, the UIF drew the operators' attention to the need to promptly identify suspicious elements pointing to terrorism financing, and provided guidelines on the matter.³²

The communication listed the new methods used to finance terrorism: besides the traditional channels, i.e. non-profit organizations and money transfer businesses, other innovative techniques were uncovered, such as crowdfunding and virtual currencies.

Anomalous patterns in over-the-counter trading

On anti-money laundering matters, in its communication of 1 August 2016 the UIF released guidelines on how to identify patterns of anomalous behaviour to face the rapid growth of over-the-counter markets in recent years. Such markets differ from their regulated equivalents and from multilateral systems and are used to trade securities in a setting marked by the absence of systematic rules regulating trade.

The communication originates from the in-depth analyses carried out by the UIF on anomalous over-the-counter transactions in financial instruments conducted by resident intermediaries with foreign securities investment firms. The UIF underscores how the low level of transparency regarding the price formation mechanism, the trading of non-standardized securities and high trading volumes expose these markets to the risk that prices are manipulated for illicit purposes.³³

Such in-depth studies uncovered potentially anomalous activity that could be traced back to (a) customers transferring abroad funds belonging or available to third

³⁰ Law 225/2016.

³¹ The first voluntary disclosure scheme was introduced by Law 186/2014.

³² See Section 5.2.

³³ See the box 'Transactions of Italian intermediaries with foreign securities firms' in the [UIF Annual Report](#) on activities carried out in 2014.

parties – including general government bodies, foundations or legal persons – and which they obtained through fraud or deception or (b) disloyal conduct on the part of employees of the intermediaries to the detriment of their employers or of customers. On a subjective level, it has emerged that anomalous over-the-counter transactions were carried out with foreign companies displaying recurring characteristics, especially in terms of geographical area of origin, main types of transaction involved, and the ownership and control structure. On an objective level, the type of activity recorded was marked by a prevalence of illiquid financial instruments, with low issuance volumes and, in some cases, coupons with complex indexing structures. Special attention is given to transactions in which a government body is involved.

On 23 December 2016 the Director of the UIF and the President of the National Council of the Order of Accountants and Bookkeepers (CNDCEC) signed a memorandum of understanding that will enable accountants and bookkeepers to comply with the obligation to report suspicious transactions, including through the CNDCEC.³⁴

Memorandum of understanding between the UIF and the CNDCEC

Following the completion of the reform of the Single Register for financial intermediaries, on 5 May 2016 the UIF issued a communication to clarify some aspects of the submission of aggregate AML reports (Segnalazioni AntiRiciclaggio Aggregate – SARA).

Communication on aggregate AML reports (SARA)

³⁴ See Section 2.1.

2. ACTIVE COOPERATION

The Unit is the institution authorized to investigate suspicious transactions that may involve money laundering or financing of terrorism, on the basis of reports from financial intermediaries, professionals and other qualified operators who are required to collaborate actively in detecting such transactions and to promptly notify the Unit.

Centralizing the flow of information at the Unit means that the evaluations can be standardized and integrated in order to identify subjective and objective links, trace financial flows even beyond Italy's borders, reconstruct innovative ways to launder money and select those cases with a higher level of risk.

The Unit sends the results of its analyses to the competent law enforcement bodies (the NSPV - Special Foreign Exchange Unit of the Finance Police and the DIA - the Anti-Mafia Investigation Department) for further investigation. The suspicious transaction reports are sent to the judicial authorities if crimes are involved or if the authorities themselves request the reports. The results of the analysis may be sent to the supervisory authorities if important cases are detected.

The Unit uses this vast body of information to develop anomaly indicators and identify patterns of anomalous behaviour to guide reporting entities in detecting suspicious transactions.

2.1. Reporting flows

In 2016 the UIF received 101,065 reports,³⁵ an increase of over 18,000 reports compared with 2015 (+ 23%) (see Table 2.1).

Table 2.1

	Reports received				
	2012	2013	2014	2015	2016
Number of reports	67,047	64,601	71,758	82,428	101,065
<i>Percentage change on year</i>	<i>36.6</i>	<i>-3.6</i>	<i>11.1</i>	<i>14.9</i>	<i>22.6</i>

The fact that over 100,000 reports were received, a figure that has more than doubled in the last five years from 49,075 in 2011, shows not only the persistence of a growing trend that began in 2008, but also a steady acceleration in the pace of growth (11%, 15% and 23%) since 2014.

³⁵ Detailed information on suspicious transaction reports can be found in the [Quaderni dell'antiriciclaggio, Collana Dati statistici](#), published on the UIF's website.

The increase in reporting was influenced by the effects of the ‘voluntary disclosure’ measures to regularize funds held abroad,³⁶ which have led to considerable increases in the number of STRs.

Net of this effect on the overall number of reports received over the last two years, the growth rates described above remained positive, though lower, at 5.4 per cent in 2015 and 5.7 per cent in 2016.

Awareness of the role of active cooperation in the prevention of money laundering and terrorist financing consolidated further. The number of reports submitted increased across all the categories of reporting entities. It is worth noting that percentage increases were also less variable, between 19 and 47 per cent: the previous year, a peak of 150 per cent was recorded for professionals, broadly attributable to the reports connected with the activation of voluntary disclosure procedures, while the figure for financial intermediaries excluding banks and Poste Italiane SpA decreased by 5 per cent. The role played by banks and Poste Italiane SpA continues to be predominant, as they submitted 78 per cent of all reports (see Table 2.2).

Table 2.2

STRs by type of reporting entity					
	2015		2016		<i>(% change on 2015)</i>
	<i>(number)</i>	<i>(% share)</i>	<i>(number)</i>	<i>(% share)</i>	
Total	82,428	100.0	101,065	100.0	22.6
Banks and Poste Italiane SpA	65,860	79.8	78,418	77.6	19.1
Financial intermediaries excl. banks and Poste Italiane SpA ¹	8,719	10.6	11,251	11.1	29.0
Professionals	5,979	7.3	8,812	8.7	47.4
Non-financial operators	1,864	2.3	2,584	2.6	38.6
Entities not covered by the previous categories	6	0.0	0	0.0	-100.0

¹ The entities listed in Legislative Decree 231/2007, Article (11)1 excluding (a) and (b), 2 and 3, and in Article 10(2) (a), (b), (c) and (d).

The contribution made by financial intermediaries (other than banks and Poste Italiane SpA) increased by 29 per cent compared with 2015 and continues to be a significant share of total reports, at over 11 per cent. The contribution made by Electronic Money Institutions and payment institutions remained essentially stable and important in quantitative terms. Among the latter, money transfer operators were

³⁶ In view of the number of voluntary disclosure STRs, in September 2015 the UIF introduced a specific survey category ‘Money laundering: voluntary disclosure’. to manage them better, including from a statistical point of view.

particularly active, with 3,733 reports accounting for 66 per cent of the total for the category.³⁷ There was a sharp increase in the reports made by trust companies, up to 1,700 from 859 in 2015 and by insurance companies, up to 2,185 from 1,201 in 2015. Both of these categories are involved in voluntary disclosure, though at different stages of the procedure (activation of the procedure/repatriation of funds, subsequent investment). About 72 per cent of the reports received from trust companies involve transactions connected with voluntary disclosure, whereas this figure falls to 28 per cent for insurance companies (See Tables 2.3 and 2.5).

Table 2.3

STRs by category of banking and financial intermediary					
	2015		2016		<i>(% change on 2015)</i>
	<i>(number)</i>	<i>(% share)</i>	<i>(number)</i>	<i>(% share)</i>	
Banking and financial intermediaries	74,579	100.0	89,669	100.0	20.2
Banks and Poste Italiane SpA	65,860	88.2	78,418	87.4	19.1
Financial intermediaries - Article 106 of the 1993 Banking Law ¹	687	0.9	797	0.9	16.0
Insurance companies	1,201	1.6	2,185	2.4	81.9
Trust companies	859	1.2	1,700	1.9	97.9
Payment Institutions and Electronic Money Institutions	5,661	7.6	5,971	6.7	5.5
Asset management companies and SICAVs	129	0.2	265	0.3	105.4
EU and non-EU investment firms	116	0.2	252	0.3	117.2
Companies managing markets and financial instruments	2	0.0	1	0.0	-50.0
Other financial intermediaries ²	64	0.1	80	0.1	25.0

¹ Articles 106 and 107 of Legislative Decree 385/1993, prior to the reform contained in Legislative Decree 141/2010, which eliminated the general and special registers envisaged by Articles 106 and 107 and instituted the new register pursuant to Article 106 of the TUB.

² The category includes the other entities listed in Legislative Decree 231/2007, Articles 10(2) letters a), c), d), f) and 11, paragraphs 1-3, not included in the previous categories.

Professionals

In the category of professionals, law firms, law and accounting firms and law practices sent over 3,388 reports, against 849 in 2015, almost entirely (98 per cent) attributable to applications for admission to the voluntary disclosure procedure. The data are very concentrated: 1,959 reports, about 58 per cent of the total, were sent by the same reporting entity, while 72 per cent of the remaining 1,429 reports were sent by another four entities.

³⁷ Some 83 per cent of these reports were sent by the leading three operators in the sector.

In the category of professionals however, the relative share of reports from accountants, bookkeepers and employment consultants declined by about 11 per cent.

The continual growth in the contribution made by notaries seems to be due to the role played by the CNN in recent years in forwarding almost all the reports (3,484 against 98 sent directly) and making it easier for notaries to fulfil their reporting obligations.

The awareness that improving communications with the various categories of reporting entities has a positive effect on the quality and quantity of reports, and that professional associations can play a key role in this, led to the signing of the abovementioned memorandum of understanding on 1 December, 2016,³⁸ which will enable accountants and bookkeepers to fulfil their obligation to report suspicious transactions, also through the National Council of the Order of Accountants and Bookkeepers (CNDCEC).³⁹ According to the memorandum, the CNDCEC will be authorized to receive encrypted STRs from accountants and bookkeepers and send them in complete and anonymous form to the UIF. This procedure ensures maximum confidentiality with regard to the identity of the reporting entity, thereby preventing CNDCEC from seeing (or knowing) the content of the reports.

The number of reports submitted by non-financial operators,⁴⁰ increased again in 2016, from 1,864 in 2015 to 2,584 in 2016. In absolute terms it is still gaming and betting firms that account for the largest share of reports in this category (about 80 per cent), with an increase of close to 40 per cent. This result may have been affected by the awareness arising from the inspections carried out by the UIF over the last two years on some important operators in this category, the only one not affected by voluntary disclosure.

Non financial operators

There was an appreciable increase of 323 in the number of reports submitted by the 'Other non-financial operators' category. Most of these reports come from entities operating in the private security and cash-in-transit sector, while the contribution of general government remained marginal, with 10 reports, which is even lower than in 2015 (see Table 2.4).

³⁸ See section 1.5.2.

³⁹ Article 43 of Legislative Decree 231/2007 governs how professionals compile their reports and envisages that they can send their reports directly to the UIF or to their respective Professional Associations. As far as accountants are concerned, the Ministry of Economy and Finance Decree of 4 May 2012 leaves the rules on how to send STRs electronically to a protocol between the UIF and the CNDCEC.

⁴⁰ The entities listed in Legislative Decree 231/2007, Article 10(2) letters (e) (f) and (g) and Article 14(1).

Table 2.4

STRs received from professionals and non-financial operators					
	2015		2016		<i>(% change on 2015)</i>
	<i>(number)</i>	<i>(% share)</i>	<i>(number)</i>	<i>(% share)</i>	
Professionals	5,979	100.0	8,812	100.0	47,4
Notaries and National Council of Notaries	3,227	54.0	3,582	40.7	11.0
Law firms, law and accounting firms and law practices	849	14.2	3,388	38.5	299.1
Accountants, bookkeepers and employment consultants	1,497	25.0	1,326	15.0	-11.4
Lawyers	354	5.9	424	4.8	19.8
Auditing firms, auditors	21	0.4	22	0.2	4.8
Other professional services providers ¹	31	0.5	70	0.8	125.8
Non-financial operators	1,864	100.0	2,584	100.0	38.6
Gaming and betting firms	1,466	78.6	2,050	79.3	39.8
Gold traders and manufacturers and retailers of precious stones and metals	240	12.9	55	2.1	-77.1
Antique dealers and auction houses	2	0.1	0	0.0	-100.0
Other non-financial operators ²	156	8.4	479	18.6	207.1
Other	6	100.0	0	0.0	-100.0

¹ The category includes the other entities listed in Legislative Decree 231/2007, Article 12(1) 11, and Article 13(1) not included in the previous categories.

² The entities listed in Legislative Decree 231/2007, Article 10(2) letters (e) (f) and (g) and Article 14(1).

The impact of voluntary disclosure

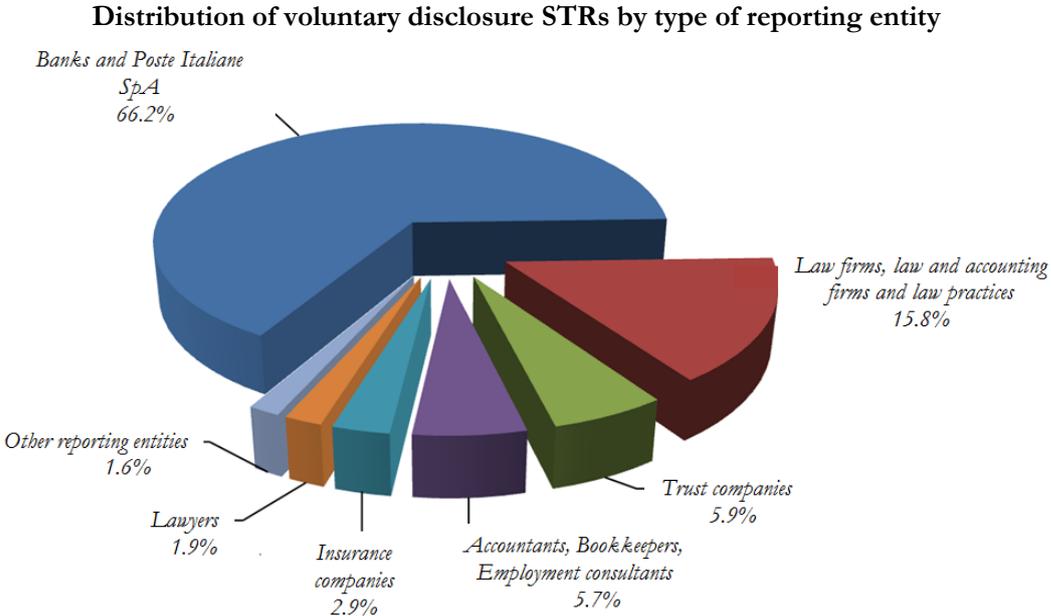
In 2016 the reports involving financial transactions connected with the activation of the voluntary disclosure procedure⁴¹ accounted for an even greater share of overall

⁴¹ On this subject see the box in Section 4.2.1.

flows, with 21,098 reports of this kind sent over the year,⁴² 21 per cent of the total⁴³ compared with 8 per cent in 2015.

The distribution of voluntary disclosure STRs among the various categories of obliged entities shows that, compared with 2015, accountants considerably reduced their contribution from 20 to 6 per cent, while that of banks and Poste Italiane SpA rose from 53 to 66 per cent; the relative weight in the total of other types of reporting entity remained essentially unchanged compared with the previous year (see Figure 2.1 and Table 2.5).

Figure 2.1



The category ‘Other reporting entities’ includes notaries and the National Council of Notaries, asset management companies and SICAVs, investment firms, Electronic Money Institutions, financial intermediaries - Article 106 of the TUB, EU and non-EU investment firms, auditing companies and auditors.

A comparison with last year’s data shows that other categories of financial intermediaries (investment firms, asset management companies and SICAVs, trust companies and insurance companies) are increasingly involved in the voluntary disclosure procedure, although the absolute numbers of their reports are not very significant.

The bigger contribution from financial intermediaries may be explained by the fact that the reports submitted in 2016 refer to the last phase of the 2015 voluntary disclosure life cycle, and therefore involve transactions carried out when funds are repatriated or invested, rather than applications for admission to the procedure.

⁴² The data include reports classified by reporting entities as being related to voluntary disclosure category, as well as those classified as such by the UIF during their processing.

⁴³ See Section 1.5.1.

Table 2.5

Reports connected to voluntary disclosure by type of reporting entity			
	Total STRs	Total voluntary disclosure STRs¹	%
TOTAL	101,065	21,098	20.9
Banking and financial intermediaries	89,669	16,046	17.9
Banks and Poste Italiane SpA	78,418	13,962	17.8
Financial intermediaries - Article 106 of the 1993 Banking Law	797	-	-
Insurance companies	2,185	615	28.1
Trust companies	1,700	1,234	72.6
Payment Institutions and Electronic Money Institutions	5,971	3	0.1
Asset management companies and SICAVs	265	56	21.1
EU and non-EU investment firms	252	176	69.8
Companies managing markets and financial instruments	1	-	-
Other financial intermediaries	80	-	-
Professionals	8,812	5,052	57.3
Notaries and National Council of Notaries	3,582	50	1.4
Law and accounting firms and law practices	3,388	3,336	98.5
Accountants, bookkeepers and employment consultants	1,326	1,204	90.8
Lawyers	424	405	95.5
Auditing firms, auditors	22	1	4.5
Other professional services providers	70	56	80.0
Non-financial operators	2,584	-	-
Gaming and betting firms	2,050	-	-
Gold traders and manufacturers and retailers of precious stones and metals	55	-	-
Antique dealers and auction houses	-	-	-
Other non-financial operators	479	-	-
Other	0	-	-

¹ See footnote 42.

In 2016, 620 new entities registered with the system for collecting and analysing anti-money-laundering data in order to report suspicious transactions, bringing the total to 5,133. The new entities are mainly professionals (525), especially those belonging to

the categories accounting for many of the voluntary disclosure STRs,⁴⁴ accountants in particular (322).

New registrations

Of the new entities registered, 218 have actually submitted a total of 762 reports. Of the new professionals registered, 194 have sent at least one report (of a total amount of 679, of which 570 are connected with voluntary disclosure operations).

In the first quarter of 2017, despite the sharp reduction in STRs connected with voluntary disclosure, the total flow of STRs was consistent with that of 2016, with about 400 more STRs. The percentage distribution among the various categories changed slightly, partly as a result of the increase in the number of STRs sent by financial intermediaries excluding banks and Poste Italiane SpA.

Trend 2017

2.2. Suspicious Transactions

Almost all the reports submitted in 2016 involved suspected money laundering (100,435⁴⁵ of a total of 101,065). However, there was a significant increase in reports relating to financing of terrorism, as a result of the exacerbation of the threat of terrorist action from persons connected with ISIL and because of the perception of this risk by operators.⁴⁶ The actual number of STRs relating to financing of terrorism is 741, which also takes account of those originally classified by reporting entities as belonging to the ‘money laundering’ category and later reclassified during the UIF’s internal analysis process.

There were only 11 STRs on financing the proliferation of weapons of mass destruction (See Table 2.6 and Figure 2.2).

Table 2.6

Distribution of STRs by category					
	2012	2013	2014	2015	2016
	<i>(number)</i>				
Total	67,047	64,601	71,758	82,428	101,065
Money laundering	66,855	64,415	71,661	82,142	100,435
<i>of which</i> voluntary disclosure ¹				6,782	21,098
Financing of terrorism	171	131	93	273	619
Financing of proliferation of WMD	21	55	4	13	11

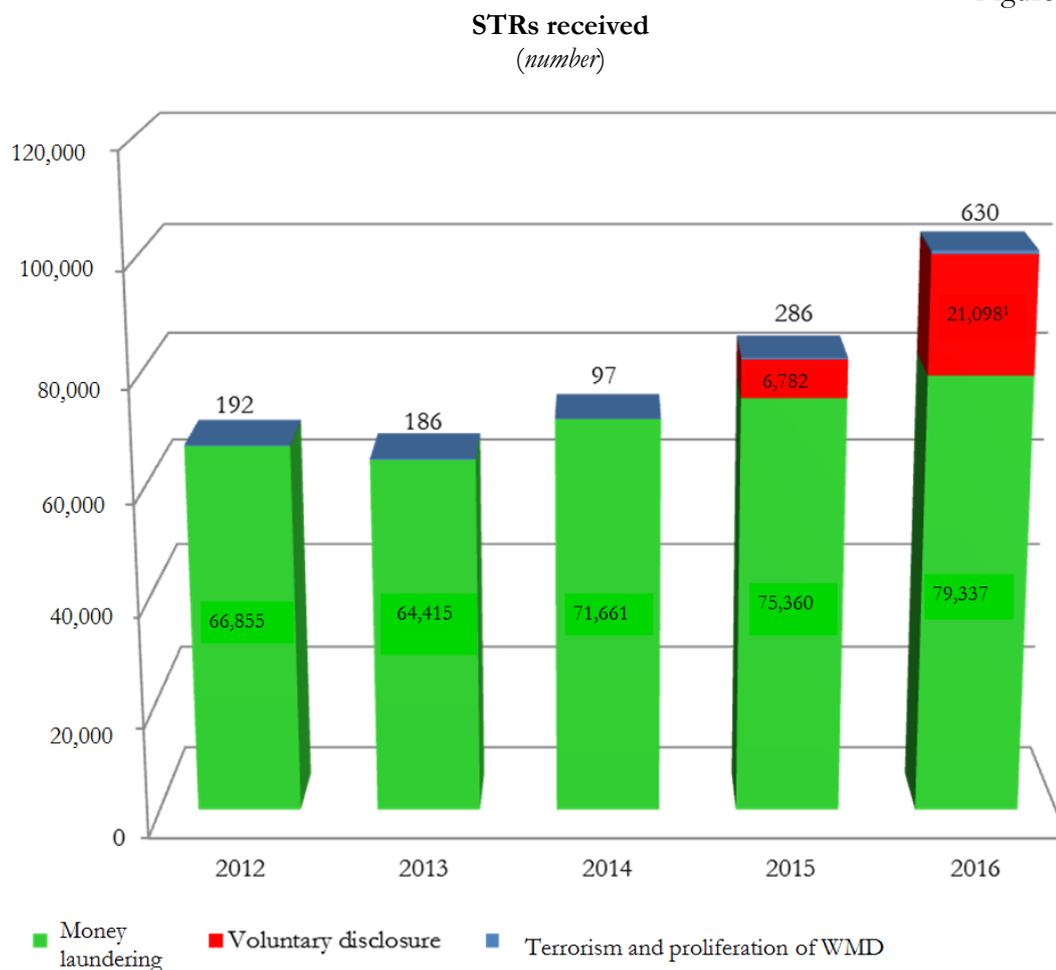
¹ See footnote 42.

⁴⁴ Accountants, law firms, law and accounting firms and law practices.

⁴⁵ This data include voluntary disclosure STRs, which constitute a subset of the broader category of money laundering.

⁴⁶ See Section 5.1.

Figure 2.2



¹ See note 42.

The data for the first three months of 2017 confirm the growing trend observed in the previous year: there were 209 STRs on financing of terrorism and 6 on proliferation of weapons of mass destruction.

Territorial distribution of STRs

With reference to the territorial distribution of STRs,⁴⁷ in 2016 Lombardy continued to be the leading region and further increased its STR contribution in both absolute and relative terms. The increase seems mainly attributable to voluntary disclosure, as there were 10,110 STRs of this type in the region. Generally speaking, voluntary disclosure had more of an impact in the regions of northern Italy, which registered more significant increases in percentage terms (Liguria 28 per cent, Emilia-Romagna 25 per cent, Piedmont 24 per cent and Veneto 22 per cent) (see Table 2.7).

⁴⁷ Since more than one suspicious transaction can be included in each report, the source of the report is usually assumed to be the same as the place of the request/execution of the first transaction.

Table 2.7

Distribution of STRs received by region where transaction occurred					
Regions	2015		2016		<i>(% change on 2015)</i>
	<i>(number)</i>	<i>(% share)</i>	<i>(number)</i>	<i>(% share)</i>	
Lombardy	16,892	20.5	25,373	25.1	50.2
Campania	8,436	10.2	9,769	9.7	15.,8
Lazio	8,928	10.8	9,325	9.2	4.4
Veneto	6,430	7.8	7,841	7.8	21.9
Piedmont	5,711	6.9	7,100	7.0	24.3
Emilia- Romagna	5,579	6.8	6,979	6.9	25.1
Tuscany	5,105	6.2	5,908	5.9	15.7
Puglia	4,800	5.8	4,519	4.5	-5.9
Sicily	4,394	5.3	4,497	4.4	2.3
Liguria	2,267	2.8	2,911	2.9	28.4
Calabria	2,034	2.5	2,127	2.1	4.6
Marche	1,837	2.2	2,067	2.0	12.5
Friuli-Venezia Giulia	1,400	1.7	1,488	1.5	6.3
Abruzzo	1,171	1.4	1,265	1.3	8.0
Sardinia	1,369	1.7	1,153	1.1	-15.8
Trentino-Alto Adige	969	1.2	1,099	1.1	13.4
Umbria	805	1.0	949	0.9	17.9
Basilicata	611	0.7	521	0.5	-14.7
Molise	447	0.5	316	0.3	-29.3
Valle d'Aosta	224	0.3	212	0.2	-5.4
Abroad ¹	3,019	3.7	5,646	5.6	87.0
Total	82,428	100,0	101,065	100.0	22.6

¹ The category includes reports from obliged Italian entities in which the required field 'Place of execution/Request' for the first transaction recorded has been filled in with a foreign country by the reporting entity.

The significant growth (87%) in transactions reported by Italian intermediaries but classified under the 'Abroad' category⁴⁸ is also due to voluntary disclosure

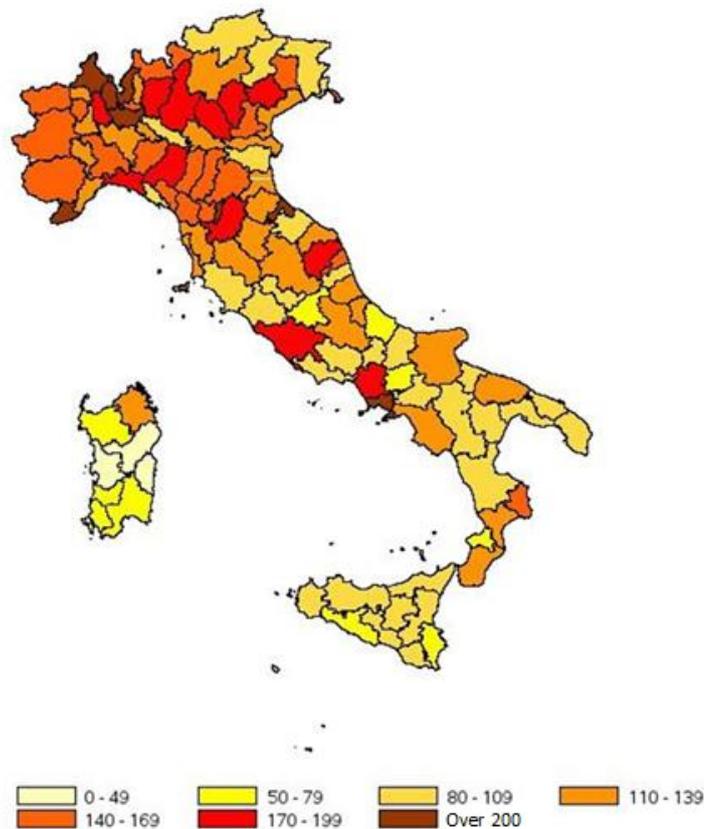
⁴⁸ See Table 2.7, footnote 1.

operations (4,421): the foreign countries referred to most frequently are Switzerland (3,901), followed in order by the Principality of Monaco (389) and San Marino (240).

The values normalized on a provincial basis show that the border provinces of Imperia, Como, Varese, Verbano-Cusio-Ossola and Rimini are found in the highest class, with more than 200 reports submitted. Milan and Napoli account for most of the reports from their respective regions, as does Prato.

Figure 2.3

Distribution of STRs received by region where transaction occurred
(Number of STRs per 100,000 inhabitants)



Amounts reported

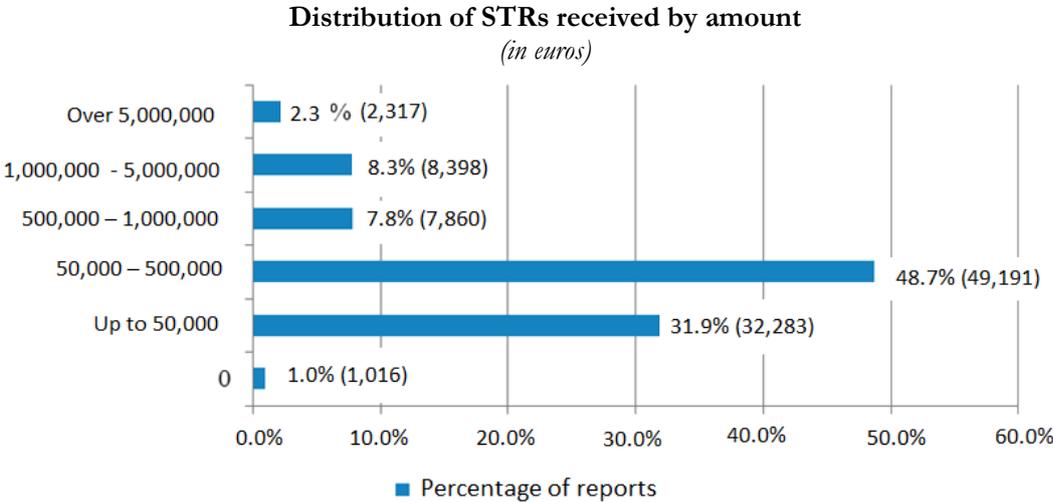
In 2016, the total value of suspicious transactions actually executed and reported to the UIF came to over €88 billion, against about €97 billion in 2015.

Bearing in mind that both transactions actually executed and those only attempted are reported, when the latter are also counted, the overall figure for 2016 exceeds €154 billion, which is a significant difference compared with the previous year's figure of €114 billion. Generally speaking, estimates of the total value of the suspicious transactions reported are treated with caution and are assessed as being indicative. It should be remembered that the system leaves to the discretion of reporting entity the possibility of limiting the area of suspicion to a subset of the transactions in the STR. The calculation of the total value of the suspicious transactions is heavily influenced by the assessments of this kind made by the reporting entities. The same transaction may

also be reported by more than one entity,⁴⁹ leading to a multiplication of the amounts. Since this is an aspect that is even more important for voluntary disclosure reports, for which the situation is further exacerbated by the possible involvement of various reporting entities during the application phase, the actual repatriation transactions and the subsequent investment of the relative funds.

Almost half of the reports received overall involved suspicious transactions for amounts between €50,000 and €500,000 (see Figure 2.4). Compared with 2015, there is a general increase of 3 per cent in the figures for the middle classes to the detriment of the extreme ones: the most significant fall (-3 per cent) is in the reports on suspicious activity involving limited sums of up to €50,000).

Figure 2.4



With regard to the distribution of transactions reported according to their type,⁵⁰ there is an increase in money orders of over 16 percentage points. The considerable difference compared with 2015 can be explained in part by the activation of new functionalities that make it easier to compile the reports from the money transfer circuit.⁵¹

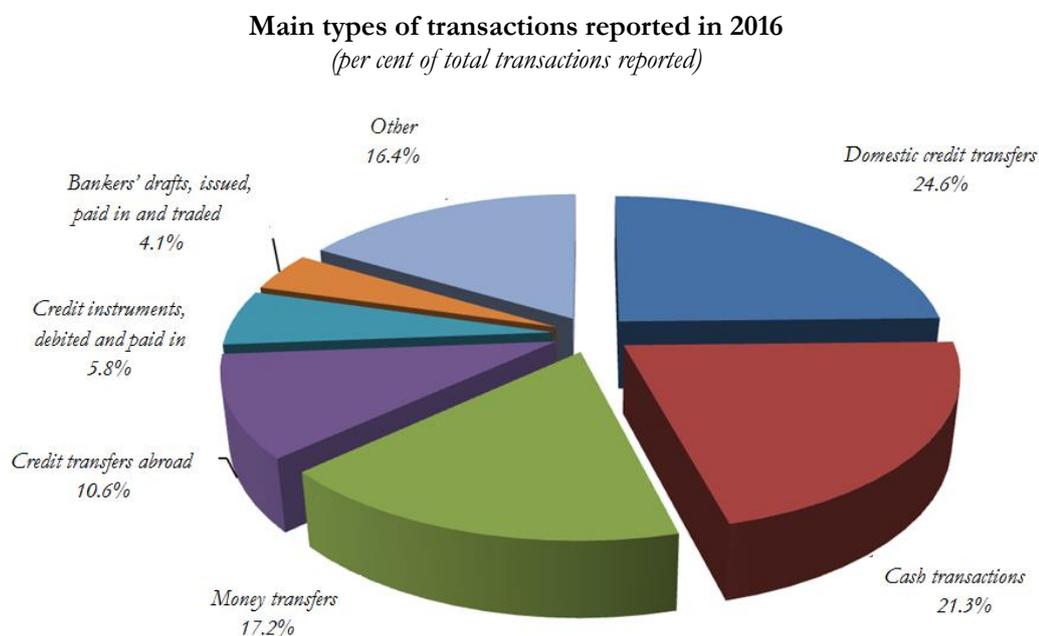
Types of transactions reported

There was a smaller increase, in relative terms, in foreign credit transfers: these are mainly inward transactions connected with the repatriation of capital following the activation of the voluntary disclosure procedure.

⁴⁹ For example, the issuing of a banker’s draft, a transaction that can be reported by both the issuing bank and the bank where it is cashed.
⁵⁰ Percentages are calculated with reference to the number of individual transactions, not to the number of reports. It should be remembered that a single report may contain more than one transaction.
⁵¹ See section 2.3.

All the remaining operational categories recorded a decrease, including cash (-5 per cent) and domestic credit transfers (-8 per cent).

Figure 2.5



Transmission times for STRs

In 2016 some 43 per cent of reports were sent within one month of the transaction, 61 per cent within two months and 72 per cent within three months (see Figure 2.6).

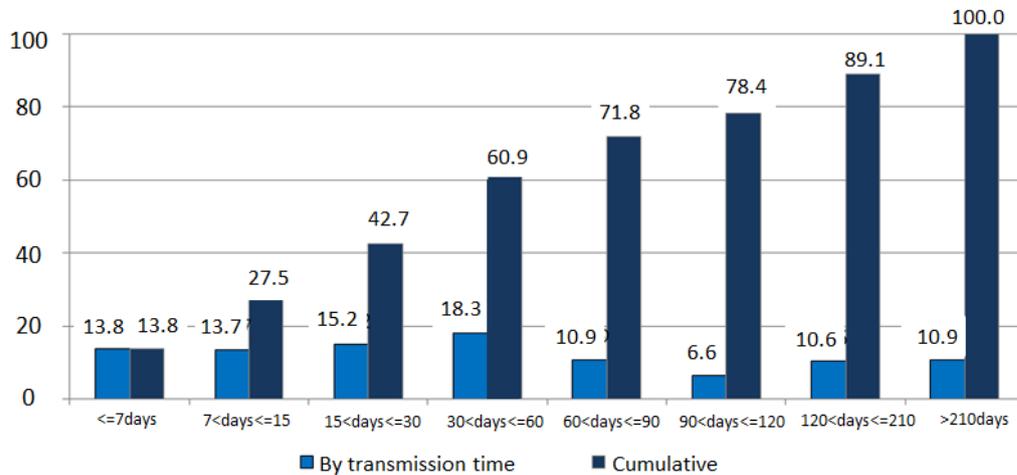
Although in recent years the system has increased awareness of the need to reduce reporting times, the data for 2016 are broadly influenced by voluntary disclosure reports which presumably required reporting entities to make a different and more complex analysis: 20 per cent of reports were sent within one month, against 49 per cent of the remaining ones.

Transmission times are faster for reports relating to cash transactions, with more than 73 per cent being sent within 60 days and for those sent in connection above all with suspicious elements of a subjective nature (mostly attributable to investigations into reported persons). These reports are often characterized by a less comprehensive assessment process.

With regard to the various categories of reporting entities, in the 15 days following the transaction, 'Banks and Poste Italiane SpA' sent 30 per cent of their reports, 'Professionals' sent 21 per cent, 'Other financial intermediaries' sent 17 per cent and 'Non-financial operators' sent 14 per cent. The difference between the categories may also depend on the different internal analysis processes for ascertaining the grounds for suspicion, influenced by the organization and the type of activity of the reporting entity.

Figure 2.6

Distribution by transmission time of STRs received by the UIF in 2016
(per cent of total transactions reported)



2.3. The quality of active cooperation

Timeliness in sending reports is undoubtedly a key element in active cooperation. However, the effectiveness of the latter depends above all on factors such as the quality and completeness of the information provided, and in order to improve the system, the UIF is working on several fronts. Since 2012 the UIF has held a series of meetings with the main reporting entities to discuss common irregularities and inefficiencies in reporting. The quality of the active cooperation of the reporting entities from the ‘Banks and Poste Italiane SpA’ category has been monitored since 2014 and the results are shared with the leading members of the category.

As a result, an initial series of interventions was planned, consisting of meetings and formal communications for reporting entities selected according to specific characteristics emerging from qualitative assessments made by UIF analysts and from the specifically developed indicators. These indicators have been used in a modular way, giving greater weight to the STRs’ quality and complexity, expressed by synthetic indices, in order to better identify any problems and how best to intervene.

Meetings with reporting entities

In 2016 the UIF held meetings with three intermediaries from among the main reporting entities, two from the ‘Banks and Poste Italiane SpA’ category and one from the ‘Other financial intermediaries’ category, collectively responsible for 19 per cent of the reports received over the year.

As in the previous two-year period, the UIF continued to provide the main operators from the ‘Banks and Poste Italiane SpA’ category with feedback reports, summarizing its findings.

Feedback reports

The reports provide some indicators that operators can use, on the basis of their individual experience and type of activity, to gauge their own position in relation to others in the same reporting category. There are indicators for four different aspects of making a report:

- 1) the extent of the cooperation, measured by the number of reports submitted by the reporting entity in the relevant time period as a percentage of the total number of reports sent by the reference group. This provides a parameter for the entity to assess the quantity of the reports they provide;
- 2) timeliness, shown by the percentage distribution of reports by time period and by median transmission time. This allows the reporting entity to assess their own speed of reaction to emergent suspicious elements;
- 3) the ability to detect transactions that pose an effective money laundering risk, measured by indicators that capture both the risk level of the reports according to the UIF's prior financial analysis and the existence of any law enforcement investigations under way;
- 4) the ability to describe suspicious activities adequately and effectively in terms of the number of levels in the transactions and of the persons indicated in the report.

The feedback for reporting entities is being updated at IT level by means of a project to automate and integrate these activities into the RADAR platform. This was scheduled for the first half of 2017 and will develop new ways of sending feedback to reporting entities including the results of the UIF's analyses, at the same time improving the level of the current security safeguards.

The aim of the feedback is to improve interaction between the UIF and the obliged entities and make the latter more aware of the informative effectiveness of the reports submitted and help them to select transactions warranting further investigation.

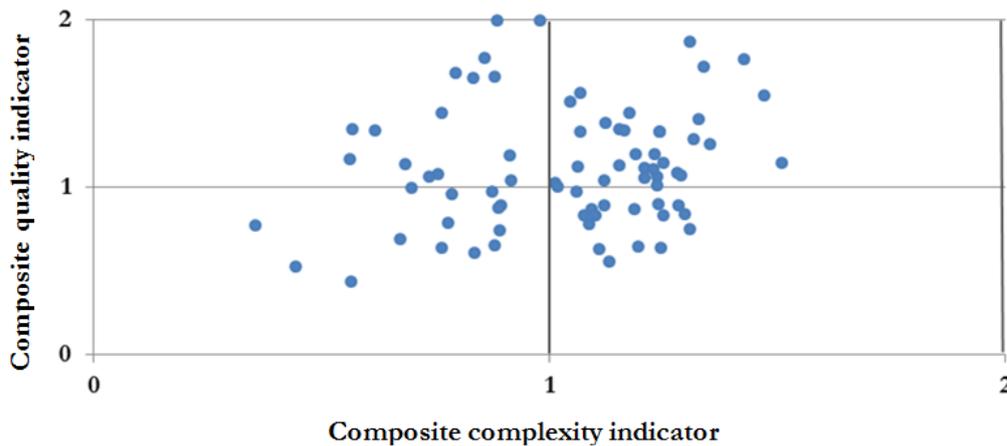
Assessment of the quality and complexity of STRs

As in previous years, each reporting entity has been classified according to the quality and complexity of the reports sent compared with the average levels of the category, using two indices that summarize the importance of the reports submitted in terms of the high level of risk measured by the UIF and the investigative bodies (the composite quality indicator) and of how well the cases were described (the composite complexity indicator).

Figure 2.7 shows the positioning of the reporting entities in each of the four categories relating to the quality/complexity of their active cooperation. The scatter graph was plotted with reference to 77 operators (65 in 2015) from the 'Banks and Poste Italiane SpA' category that submitted more than 100 reports in 2016. Compared with 2015, the average value for the quality of reports for this category was higher. In the sample analysed, 61 per cent of entities submitted reports of above-average quality in 2016, compared with 48 per cent the previous year.

Figure 2.7

Scatter graph based on quality/complexity indices of the reporting entities in the 'Banks and Poste Italiane SpA' category that submitted more than 100 reports in 2016



Among the entities monitored, 32 of them, or 42 per cent, submitted reports of a quality and complexity higher than the benchmark, (against 34 per cent in 2015).

The reports of 15 entities, or 20 per cent, were less complex but of above-average quality, while 16, or 21 per cent of the total, sent reports with a high level of complexity but of below-average quality.

Finally, 14 reporting entities sent reports that were below average in terms of quality and complexity, which was a lower percentage than that of last year (18 per cent against 26 per cent in 2015).

As for professionals, increasing and further developing the dialogue with professional bodies is confirmed as an essential tool for improving the flow of reports not only in quantitative but above all in qualitative terms. There is still ample room for improvement in the quality of active cooperation in this category, given the often insufficient content of the reports, which hinders the UIF in its risk assessment and financial analysis of transactions.

The UIF provides support for obliged entities in registering with the Infostat-UIF portal and in sending STRs by using a dedicated email address. In 2016, the UIF processed over 2,300 requests sent by email to the address provided.

Support for reporting entities

As regards IT interventions, in 2016 a project was completed with a new input function for reports on suspicious activity in money transfers, with a high number of subjects and transactions, with the aim of putting all the relevant details in a standardized format. These details can then be integrated with the system in order to obtain and analyse STRs and use them in aggregate form, at the same time reducing the costs for reporting entities. The new function was presented at a meeting held at the

UIF in June in which 40 operators took part and has been available on the Infostat-UIF portal since 27 July 2016.

Other categories of obliged entities are also interested in these input methods, since their type and quantity of reports are comparable to money transfers. The UIF has started to examine the possibility of extending the new function to other reporting entities.

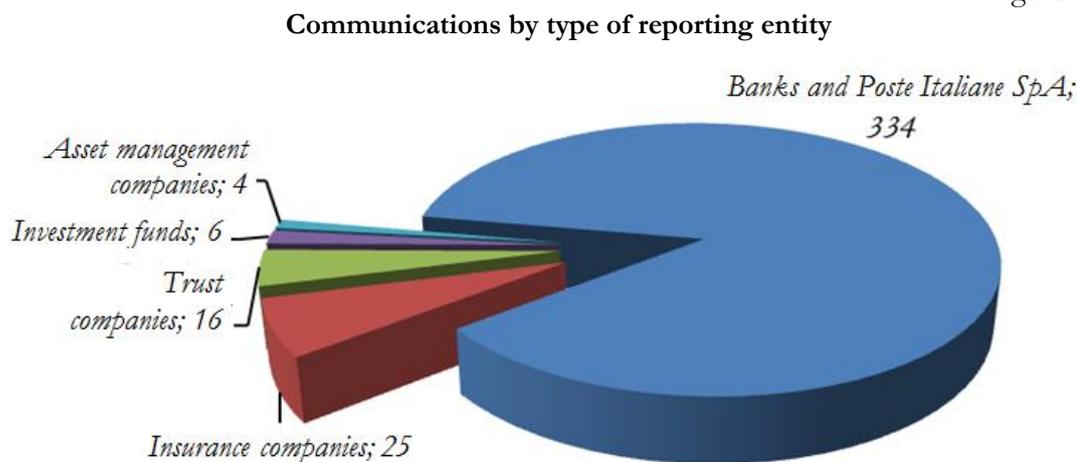
2.4. Communication of cases where due diligence is not possible

The UIF receives communications of transactions made by intermediaries to return funds for sums of more than €5,000 when they are unable to carry out adequate due diligence on their customers.⁵² These communications help enlarge the information database available to the UIF for its institutional purposes.

Data on returned funds

In 2016 the UIF received 385 communications of this kind, compared with 362 in 2015, for a total of about €33 million, most of which were sent by banks and Poste Italiane SpA, followed by insurance companies (see Figure 2.8).

Figure 2.8



Almost 90 per cent of returned funds, for a total of about €30 million, were transferred to accounts held at banks with headquarters in Italy. The remaining 41 cases of returned funds involved banks with headquarters abroad, mainly in European countries. In 62 cases of returned funds operations, STRs were submitted.

⁵² Article 23(1-bis) of Legislative Decree 231/2007. Communications are made following the instructions issued by the UIF with the [Measure of 10 March 2014](#).

3. OPERATIONAL ANALYSIS

The UIF analyses, from a financial point of view, the suspicious transaction reports (STRs) filed by obliged entities and then forwards them to the Special Foreign Exchange Unit and to the Anti-Mafia Investigation Department, together with a technical report containing the results of the analysis.

The financial analysis conducted by the UIF comprises a series of activities aimed at redefining and expanding the context of the initial report, identifying persons, entities and objective connections, reconstructing the financial flows underlying the operations, and identifying transactions and situations linked to money laundering or the financing of terrorism, thereby increasing the set of information for each report. It is a process of transformation in which the data obtained from the suspicious transaction reports are processed automatically, supplemented by the analysts' findings, and then classified according to risk and transaction type in order to identify the most significant of them and, lastly, to then share this information in the most effective way possible so as to facilitate the ongoing investigations. The process takes a risk-based approach as defined in the international standards and allows the work of the Unit to be adapted, taking into account the risks and vulnerabilities identified in the course of risk assessments and from the results of strategic analyses.

The analysis of suspicious transaction reports is central to the Unit's financial intelligence activities and is instrumental in identifying the investigative elements to be forwarded to the authorities responsible for investigating cases of money laundering, predicate offences and the financing of terrorism.

The UIF is constantly working to improve its assessment processes and add to its data sources, strengthening the selectivity and effectiveness of its institutional activities and the sharing of its results with investigative bodies.

The wealth of knowledge that comes from the selection and analysis of STRs also allows the UIF to classify suspicious transactions and to identify and define types and patterns of abnormal behaviour to be shared with the obliged entities.⁵³

3.1. The numbers

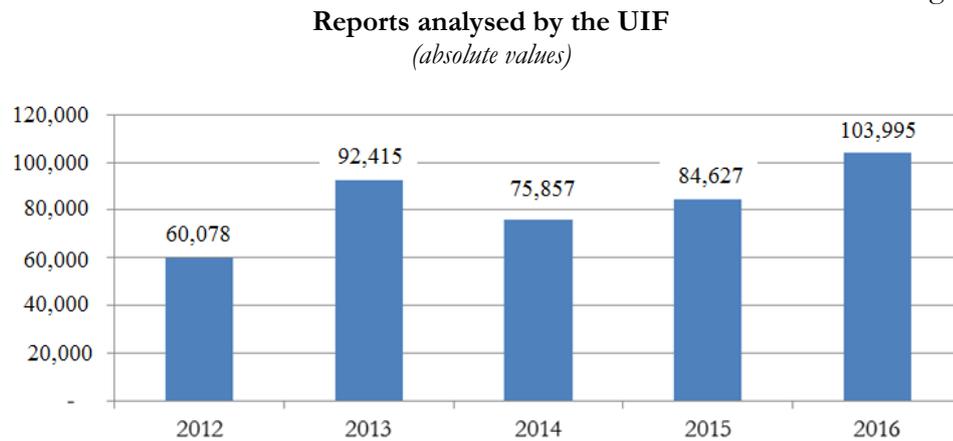
In 2016 the Unit analysed and transmitted 103,995 STRs to investigative bodies (Table 3.1 and Figure 3.1), an increase of about 23 per cent compared with 2015.

⁵³ See Section 1.5.2 and Section 4.

Table 3.1

Reports analysed by the UIF					
	2012	2013	2014	2015	2016
Number of reports	60,078	92,415	75,857	84,627	103,995
<i>Percentage change on previous year</i>	<i>96.4</i>	<i>53.8</i>	<i>-17.9</i>	<i>11.6</i>	<i>22.9</i>

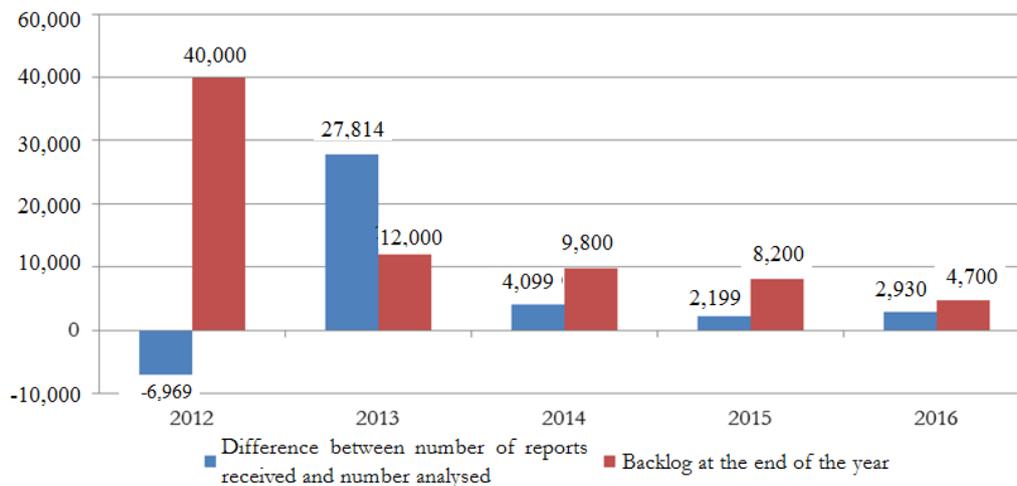
Figure 3.1



The drive to progressively increase the efficiency of its work processes meant that, again in 2016, the UIF was able to deal with the growth in the number of STRs received and make further inroads into its backlog of reports as at 31 December (4,700 against 8,200 at the end of 2015) achieving a positive balance (of almost 3,000 reports) between the number of reports analysed and the number received during the year (Figure 3.2).

Figure 3.2

Efficiency of STR work processes (absolute values)



This positive balance was achieved by continuously fine-tuning the organization of resources within the divisions responsible for dealing with the reports, by making improvements to the efficiency of the various stages of the work processes. At the same time, the constant updating of the available technical and digital tools, wider access to information sources and improvements in how they are used through the progressive integration of the databases have made a significant contribution to increasing analysis capabilities, accelerating work processes at the same time.

3.2. The analysis process

In accordance with international standards, the financial analysis process is divided into a series of activities designed to identify which suspicious transaction reports are considered 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 collection and management of the STRs are supported by a computer system (RADAR) which receives the reports and is the first point of data entry. The recurrence of suspicious behaviour (even by different operators) or cross-checks with other transactions produce an initial frame of reference for the anomaly that elicited the report.

The RADAR system classifies the reports, identifying those with the highest level of risk and which are therefore given priority, on the basis of a rating assigned automatically to each report which partly depends on the level of risk indicated by the reporting entity.

The analysis process follows two interdependent paths. The first selects and classifies the reports with the highest level of risk, the second aims to supplement and

develop the data gathered and processed by the reporting entities, placing them under the correct financial profile for future dissemination. These activities are carried out in parallel, with reciprocal effect throughout the entire analysis process: the estimated risk of a reported transaction guides and directs any further investigation; in turn the results of this process will significantly influence the importance attributed to the reports when they are transmitted to the investigative bodies.

Again in 2016, the UIF continued to work on perfecting the analysis process, by increasing efficiency and achieving greater accuracy in its results. These objectives, considered a priority since the Unit was created, have become even more urgent in the light of the constant increase in the number of STRs received. They have been pursued over the years with specific technical tools, which have made it possible to automate some of the phases of the analysis process, and with some organizational adjustments such as sifting STRs by theme at the analysis stage and channelling analogous typologies towards faster processing streams (for example, voluntary disclosure reports).⁵⁴

In the national context, the results of the UIF's cooperation with its various institutional counterparts, have led to a greater number of databases to consult during the analysis process. It is worth noting that in 2016 it became possible, under the information-sharing agreement with the Italian Revenue Agency, for the UIF to gain access to information about those who had effectively signed up for voluntary disclosure, although not to detailed information about the amounts regularized and the foreign countries that may have been involved. It is to be hoped that following on from this cooperation, the amount and the quality of the data accessible to the UIF will be further increased, as this would be useful in order to evaluate the tax and income positions of the persons or entities named in the reports. This aspect is of strategic importance in light of the significance, from a quantitative point of view, of the reports that stem from tax and duty irregularities. Furthermore, the transition from the current access procedures, that allow access solely to a small number of analysts, to a form of mass consultation of the abovementioned information would help to integrate these data with those of the other databanks being used, and thus processing times would become even faster.

Following the same line of thought, there is also the commitment to prepare appropriate technical tools in support of the most delicate phases of the analysis process. It is worth mentioning the exchange of information with the foreign FIUs,⁵⁵ as in numerous cases this is a fundamental hub for the analysis pathway, since the reports are frequently of international concern. To better support this activity, a project was started up to automate the phases for transmitting and receiving the requests and to allow the integrated management of the results, leading to a significant improvement in terms of the speed and security of the exchanges.

⁵⁴ See section 3.4.

⁵⁵ The international cooperation channel can be activated in various ways (see Section 9.1).

3.3. Risk assessment

A proper risk assessment in the various phases of the STR appraisal process is important for the financial analysis and in the subsequent investigative phases. The assessments summarize a number of factors.

The most important factor is the risk of money laundering or terrorist financing attributed to the transaction reported by the obliged entities, which is expressed on a 5-point scale.

The level of risk assigned by the reporting entity helps to determine the automatic rating attributed by the RADAR system to each STR.

This rating, expressed on a scale of 1 to 5 and calculated by means of an algorithm structured on mainly quantitative variables, produces the first assessment of the reported transaction's risk level which, by incorporating internal and external factors, may differ from the risk profile assigned by the reporting entity. However, its accuracy also depends on the correct and thorough compilation of the STR by the reporting entities.

Though sophisticated, the automatic rating system is obviously unable to adequately capture any qualitative risk factors that can be detected by financial analysis. The automatic rating can therefore be confirmed or modified throughout the various processing phases in order to define the report's final rating, which is then transmitted to the investigative bodies.

The UIF is constantly working to improve its tools and methodologies (including with econometric techniques) so as to provide guidance which, together with the rating mechanism detailed above, makes the processing of reports more efficient.

The steady expansion of the flow of reports has made it necessary for the Unit to develop techniques and tools to evaluate quickly and accurately the validity of the suspicions raised in the reports. In this context, the UIF brings into play the selection of skills it has acquired during its years of financial analysis: in extreme cases, failure to provide *de facto* evidence in support of the suspicions reported leads to their being dismissed; in other cases, the level of risk attributed to the type of activity reported will have a decisive influence on how quickly and how thoroughly the report will be analysed.

Estimating risk means evaluating, in different forms and measures, all the information available to the Unit; their progressive inclusion in the data warehouse⁵⁶ has made a significant contribution to strengthening and speeding up this phase of the analysis process by automating the matching of the structured information contained in the STRs with those held in external databases. In this area the indicators of

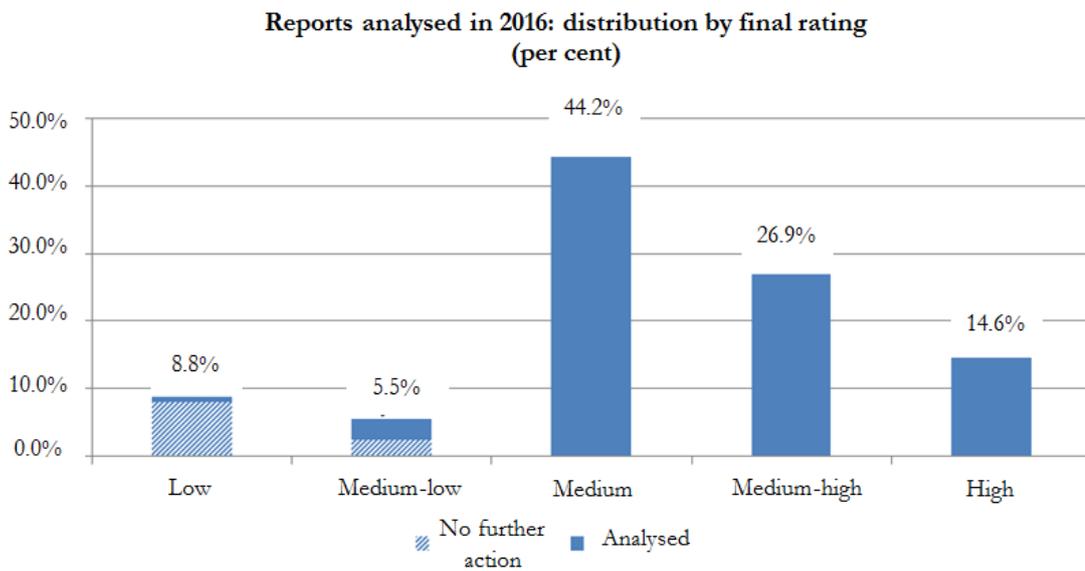
⁵⁶ The data warehouse integrates most of the information available to the UIF and makes it possible to access the relevant information more rapidly for the investigation of suspicious transactions, by exploring the data both in summary form and at the greatest level of detail. See the UIF's [Annual Report](#) of its work in 2015, Section 4.4.

investigative interest transmitted by the Finance Police,⁵⁷ which are useful to supplement the information available to the analysts with elements taken, though in summary form, from the investigation files, take on particular importance, given the gap in the legislation that has so far stopped the UIF from accessing these data.⁵⁸

The UIF's final rating

In 2016, at the end of the acquisition and analysis process, 42 per cent of the STRs analysed by the Unit were considered to be high risk (high and medium-high ratings), 44 per cent medium-risk and 14 per cent low risk (low and medium-low ratings; see Figure 3.3).

Figure 3.3



The comparison of the levels of risk attributed by the reporting entities and the final rating assigned by the UIF at the end of the analysis process shows that, once again, in 2016 there was a significant rate of convergence of the evaluation pathways: the reports that basically received the same rating made up 42 per cent of the total. What is more, this convergence is seen more frequently for those reports which the reporting entities consider to be of greater medium-high or high risk (Table 3.3).

⁵⁷ This refers to the agreement with the Finance Police whereby the UIF initially communicates the identifying particulars of the persons mentioned in the STRs to the Special Foreign Exchange Unit of the Finance Police and receives a brief, general monthly list of the level of investigative interest in the reports in the light of previous offences of the persons named. On this point see UIF [Annual Report](#) 2014, Section 3.5.

⁵⁸ See section 1.1.

Table 3.3

Comparison of STR risk ratings of reporting entities and the UIF's final ratings <i>(percentage composition)</i>					
		Risk indicated by the reporting entity			Total
		Low and Medium-low	Medium	Medium-high and high	
UIF Rating	Low and medium-low	10.5	3.1	0.7	14.3
	Medium	22.4	13.3	8.5	44.2
	Medium-high and high	8.8	14.3	18.4	41.5
Total		41.7	30.7	27.6	100.0

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

As regards the reports to which the UIF assigned a higher rating, there is less convergence with the assessments made by the reporting entities. It should be borne in mind that the UIF's analyses may benefit from a broader range of information sources, in addition to an overview of suspicious activity, often not available to individual reporting entities.

3.4. The methodology

The processing of STRs starts with a 'first-level' analysis, which applies to all reports received, in order to evaluate the actual level of risk and decide on the most appropriate type of processing.

On the basis of the information acquired automatically or from other sources, the grounds for suspicion of money laundering and the need for further action are evaluated.

If some of the preconditions are present (full description of the activity and the grounds for suspicion; suspicion based on a well-known typology; impossibility of proceeding with further investigations; and the chance of sharing the information rapidly with the investigative bodies), the STR can be accompanied by a simplified report, thus optimizing processing times.

When it is necessary to investigate further to reconstruct the financial tracks of suspicious funds, the STR undergoes a 'second-level' analysis, ending with a report detailing the results of investigations made.

At this stage, there are many investigative options and tools available. Besides contacting the reporting or other obliged entities directly to obtain further information, it is possible to consult the national database of financial account holders to identify the banks with which the suspects hold their accounts and to access the national tax database and involve foreign FIUs if the transaction has cross-border implications or if significant repetitions emerge from FIU.NET's periodic multilateral matching software ('Ma3tch').

An effective financial analysis results from a flexible approach, able to adapt the tools and methodologies to the particular case in question and modulate the various components according to the importance of the individual case. The capacity to channel the reports through different analysis pathways, each time selecting the most appropriate way forward on the basis of the information supplied, is indispensable for striking a balance between the need for a good investigation and time pressures. In this situation, past experience plays a fundamental role, making it possible for the UIF's analysts to consolidate, over time, specific areas of specialization and to construct differentiated processing methodologies, which are progressively refined and constantly updated in order to face the continuous evolution of the reference landscape.

Voluntary disclosure STRs

The strong impact on active collaboration of STRs relating to voluntary disclosures made it necessary to create a specific pathway to process these kinds of reports. A special category was introduced for this purpose, a sub-class of the more general money laundering category, in order to ensure, from the outset, correct reporting from the entities themselves and an easy and separate set of reports relating to voluntary disclosure in the Unit's files.

At the same time, the Unit adopted specific ways to process these reports so as to ensure a standard approach and produce reports rapidly, especially in cases with no particular problems or complexity. This kind of processing does in fact favour first-level analysis which, on the basis of the information acquired and any additional data requested, assesses the possible connection of the voluntary disclosure with situations that are defined in the disclosure procedure as not liable to sanctions and identifies the specific category for the report being examined to be assigned to, from among those specifically related to voluntary disclosure. This matching, where possible, accelerates processing times. However, where a higher level of risk is found in the situation under examination, which implies raising the level of analysis to be carried out, further investigations are conducted related to the particularities of the case reported, in order to recognize the subjective links coming out of the disclosure procedure itself and, above all, to see if there are any activities that are criminally significant and not covered by the non-liability to sanctions under the voluntary disclosure procedure.

Focus Group on Organized Crime

The work of the Focus Group on Organized Crime has been strengthened. It was set up in November 2015 to monitor, collect and make available to internal operational departments the information and methodologies considered to be useful for the analysis of situations involving organized crime.

The development of analysis techniques to enhance the information content of reports that may refer to these situations and to increase the capacity to carry out further financial investigations requires the timely and accurate preliminary selection of reports on this kind of activity. Therefore, some criteria were drawn up for automatic extraction to filter reports as they come in. The extraction criteria are constantly fine-tuned and exploit the recurrence of some of the constituent elements of individual reports that can reasonably be expected to connect the financial situations brought to the attention of the Unit to persons directly or indirectly linked to the main mafia factions. In the same way, it remains possible to link the report to the situation in question not only at the point of entry to the system, but at every stage of the process,

on the basis of objective and subjective elements as they are added to the original report.

The specific features of organized crime require the financial investigation of STRs relating to it to be carried out in reference, in the first place, to the persons and the networks existing among them. It is crucial to fully exploit the network analysis techniques by using the integrated software tools available in the data warehouse:⁵⁹ identifying as many transactions, financial, commercial, and corporate relationships and links as possible increases the quantity and quality of elements that the authorities can use to detect new relationships or confirm those that have emerged during investigations.

During 2016 UIF consolidated its capacity to extend the range of its own analyses beyond simply examining the STRs it receives. With a proactive approach aimed at detecting suspicious transactions not reported by the obliged entities, the Unit has in fact carried out investigations to see if some of the schemes and behaviour models identified in sectoral analyses and in particularly vulnerable areas are reproducible. In some cases, the investigation of STRs has sparked further intelligence work which, through interactions with the reporting entities considered most likely to be exposed to the risk of becoming involved in the criminal behaviour under examination, has allowed the UIF to work more incisively by identifying criminal behaviour that has not been intercepted by the network of obliged entities. Below is an example of this approach in reference to the analyses conducted by the Unit in connection with some irregularities that emerged in the management of liquidation procedures.

Proactive approach

As part of the continuous fine-tuning approach to financial analysis techniques, in line with the risk-based approach, analyses have been developed so that the database of reported transactions is re-examined, regardless of the suspicions specifically mentioned in the individual STRs. In order to make the best use of the RADAR database, this type of analysis is supposed to identify precisely those situations and persons about which the reporting entities have not expressed any justified suspicions and when it is impossible to ascertain a specific type of anomaly. This project was started by the Unit in 2016 and deals with the exploitation of migrant traffic, a phenomenon of particular interest because of the socio-political importance it has taken on in recent years; because of links with the financing of terrorist activities that emerged from the investigations; and because of the nature of the associated financial trails.⁶⁰

Analysis of migrant smuggling

3.5. Issues of major concern

Operational analysis has revealed specific issues that have been the subject of further investigation.

⁵⁹ See note 56.

⁶⁰ See the box in Section 3.5.2.

3.5.1. Irregularities in the management of liquidation procedures

The analysis of an STR brought to light the irregular use of funds belonging to a public entity under liquidation on the part of the liquidator himself, with the involvement of persons responsible for supervising the entity. This serious misconduct led the Unit to make further checks to find any recurrences of similarly anomalous activity in other liquidations of entities and companies of this kind.

Following an evaluation of the legislation governing the management of public liquidations in order to restrict the perimeters of investigation from a subjective point of view, the analysis process began by taking a second look at the reports already present in the UIF's archives. Some transactions emerged that had been made by private companies as counterparties in a liquidation procedure.

The analysis of numerous bank accounts identified by consulting the national database of financial account holders, the contractual documentation relating to some acts registered with the national tax database and information acquired through cooperation with foreign FIUs made it possible to identify multiple anomalous transactions regarding liquidation procedures under way for some time. The patterns discovered can basically be traced back to two main cases according to whether the anomalies had an impact on the settlement of debts and therefore on the liabilities side of the procedures, or on loan sales operations and therefore on their asset side.

Orders were examined regarding the payment of liquidation debts in favour of companies, including foreign ones, other than the original creditors, with some elements in common with regard to the subjective profile and the ways in which the sums paid are subsequently used. These are often newly established and interconnected companies, which have been included, presumably as a result of transfers, in the rights of the original creditors of the liquidation proceedings. The use by the beneficiary companies of funds deriving from such payments is characterized by their almost total withdrawal in cash or, in the case of foreign companies, by transfers in favour of nominees of Italian nationality, including via further corporate shields.

This kind of case recalls some features of a type of misappropriation of funds that had already emerged from the Unit's previous analyses of liquidation proceedings and centred on the so-called 'untraceable creditors'. It was possible to verify that when bankruptcy proceedings were very lengthy, the credits claimed by third-party companies no longer traceable at the time of liquidation were unduly cashed by other parties operating on the basis of deeds of sale of dubious authenticity and mainly acting in the interests of the liquidator.

As regards assets attention was focused on arranging the settlement of some of the claims under the proceedings that had been sold to third parties. The UIF's analysis brought to light how these sales were characterized by numerous anomalies, some of which were also found in the related notarial deeds, regarding the timing of transactions, the subjective profile of the concessionary companies, the exchange value of the sale in relation to the real value of the credit being transferred, and the procedures for settling the underlying financial transactions. The investigations showed that this type of activity was actually carried out in different ways according to the characteristics of the credit being transferred: in some cases it was found that the participants in the transactions

were present as transferees of entities previously involved in court proceedings; in others, the anomaly involved the financial settlement of the transfer, which took place at a later date than the transferred credit; in yet other cases, suspicions were raised due to the lack of guarantees for the payment of the credit or else guarantees were issued by intermediaries involved in criminal investigations.

The irregularities found during the analysis involving transactions for a total value of tens of millions of euros were notified to the judicial authority, which began its own investigations with the collaboration of the Unit in relation to the financial aspects. In this situation, the Unit also adopted a measure to suspend the suspicious activity. It emerged from the analysis that there were possible connections with cases in which corruption was involved.⁶¹

3.5.2. Money transfers

On the basis of the experience it gained in 2016, the UIF refined its aggregate analysis methodology to money transfer reports. Alongside the investigation of individual or connected STRs, aggregate analysis produces a broader picture of the reported situations, including time frames, and detects recurrent players and connections that are not immediately obvious.

In 2016, 3,733 reports were received from 22 operators dealing mainly in money transfers, 3 of whom were responsible for 83% of the reports. These reports brought to the attention of the Unit a total of 147,250 anomalous transactions set up by 20,245 persons, involving more than 4,000 agents. The data was analysed in aggregate form together with the data on similar reports from 2015: together this creates an overall database of 359,394 transactions, 50,540 clients and 5,120 agents.

The analysis turned out to be particularly useful in detecting situations where the activity of a single agent were linked to a series of transactions that were, as a whole, irregular or suspicious. Specific indicators were created on the basis of qualitative and quantitative parameters that consider the overall volumes moved, client origin and counterpart countries in the transfers, as well as any indication of suspicious behaviour on the part of the agent noticed by the reporting intermediary. These parameters have led to the identification of agents with the highest risk factors, followed by a re-examination of all activities in aggregate form.

Some of the main anomalies found were those linked to the fictitious splitting of payments, helped by or carried out by the agents themselves to circumvent the limits imposed by law on transfer amounts. Others involved money transfers whose origin or destination is inconsistent with the client's country of origin. Still others present anomalies in geographical terms, for example, attention has been drawn to flows of money transfers in zones characterized by migrant arrivals and departures due to suspicions of the aiding and abetting of illegal immigration.

⁶¹ See section 4.2.2.

In parallel, an analysis was conducted to identify the clients with the riskiest profiles, including, in this case, on the basis of indicators showing non-occasional business which, because of the characteristics highlighted, does not reflect the declared aim of the money transfer. The analysis found three anomalous typologies of money transfers. The first relates to persons involved in triangular financial flows, receiving funds from countries in the more economically advanced areas (for example North America and Northern Europe) and sending them to less developed countries (especially African ones), who therefore seem to play a role in connecting international networks characterized by a lack of transparency. The second typology highlights the role of persons acting principally as receivers of funds from various countries in the form of possible payments for underlying commercial transactions, of uncertain legality. Lastly, the third typology relates to transfers arranged by the senders in favour of counterparties located in various countries other than those of origin, most likely traceable to organizations that hide the real persons involved in the transfers by using a nominee.

As in the previous year, in 2016 the financial flows of operators in the money transfer sector were brought to the UIF's attention by means of numerous reports from other categories of obliged entities, in particular banks⁶² and cash-in-transit companies. The information contained in these reports - assessed together with that emerging from inspections or made available by the home and host supervisory authorities and by the Organization of Agents and Mediators (OAM) - made it possible to identify various EU payment institutions operating in Italy whose active cooperation is insufficient or totally lacking.

The investigations contributed to reconstructing the financial scheme used to transfer large cash sums abroad. Some noticeable operating procedures which - even if legal in themselves and presumably also aimed at reducing the risk of robbery and at cutting costs - actually hindered the financial analysis process. In particular the use of services provided by cash-in-transit companies to physically transport cash has made it difficult to identify the natural persons who have materially paid in the cash to the current accounts of the money transfer operators and therefore, ultimately, of the agents whose businesses record the cash sums.

The practice of using services provided by EU financial intermediaries (especially UK Electronic Money Institutions and German banks) to order transfers of money abroad led to the emergence of 'triangulations', which made it more difficult to reconstruct the financial flows and, specifically, to identify the country where the money reached its final destination. In one case, where a very large sum of money was sent abroad (more than €2.5 million, presumably directed towards China in the period 2014-2016), some Italian companies also came to light for transfers typical of a payment institution in the absence of the necessary authorizations; these companies were only

⁶² In the last few years there has been a tendency on the part of banks to end dealings with companies working in the money transfer sector, considered to be most at risk (for example because they are newly established or as a result of the channels they use). These policies, defined in international analyses as de-risking policies (see Section 9.4), shift financial flows to untraceable channels effectively making it more difficult to reconstruct them.

allowed to operate as payment service agents on behalf of EU institutions. The UIF collaborated with the judicial authorities which, in December 2016, imposed personal precautionary measures on some of the people involved in the abovementioned suspicious activity.

Analysis of ‘migrant smuggling’

On the basis of a transnational joint analysis,⁶³ a project was conducted in 2016 to identify the financial trails of migrant smuggling among the transactions reported.

The literature and investigative work confirm the widespread use of money transfers by criminal factions involved in human trafficking. This has led to the development of this project, which is specifically aimed at the STRs on this sector of activity. The high number of variables associated with each individual transfer reported, along with information about the personal details of all the persons involved in the transaction (payer and payee, and the individual agents they used), have provided a basis for developing an ‘inductive’ type of analysis: the selection of transactions leading back to persons whose involvement in migrant smuggling investigations has been confirmed, constitutes the ‘training set’, which identifies recurring elements, both in subjective terms (prevailing nationalities) and in more specific financial terms (counterpart State, location of transaction). These recurring elements have been interpreted in the light of information supplied by press sources regarding the structure and functioning of criminal organizations uncovered by investigations, in order to distinguish between accidental repeats and those that can actually be explained as possible components of a financial mechanism. The set of these components therefore constitutes the ‘model’ candidate to represent the financial phenomenon of interest.

Reports received after the entry into the system of new persons, in turn investigated for migrant trafficking, then went on to make up the ‘test set’ that allowed the Unit to try out the model. After validation, the model was applied to the UIF’s databases, in order to identify persons who, while not giving specific cause for suspicion in relation to migrant smuggling, do have some subjective characteristics and do carry out financial transactions that match the relevant profiles and therefore raise the suspicion that they could be members of organizations involved in such crimes.

The suspicions, which were formulated ‘cautiously’, were submitted to the investigative bodies in the knowledge that the financial behaviour represented in the model, while compatible with that actually found in the financial transactions of persons investigated for migrant smuggling, can also be interpreted during the investigations as having a different purpose. Since the UIF cannot obtain any information on the context of such transactions, it is not possible to investigate further.

The analysis aims to identify cases and persons at risk or to pinpoint threats, in line with the risk-based approach methodology used by the UIF in its financial intelligence work. In this context it is crucial to validate a model that is intrinsically pro tempore, not only so that the profiles are checked and reconfirmed each time new

⁶³ See the box in Section 9.1.

transactions, made by persons under investigation for migrant smuggling, are reported to the UIF, but also because it is reasonable to expect that the underlying crime may change its financial aspects, thus requiring a fine-tuning of the profiles.

A recent operation run by the investigative bodies, which also uncovered a connection between migrant smuggling and terrorist financing, confirmed some of the assumptions made on the basis of the aforementioned profiling: the investigation looked at names that had already emerged after applying the methodology described to the analysis of the suspicious transaction reports.

3.6. Reports dismissed as requiring no further action (NFA)

The UIF dismisses reports requiring no further action (NFA) and stores them for ten years, following procedures that allow the investigative bodies to consult them if necessary. Therefore dismissing a report does not mean that it is cancelled - it can be recovered for financial analysis if new information becomes available. The UIF informs the reporting entity directly or via their professional associations when the report is filed for NFA.

Reports are dismissed when no elements were detected that raised reasonable suspicions of money laundering or terrorist financing and this is one of the times when the selection skills of the UIF come to the fore. This can be either before the first STR analysis, when the structured information received from the reporting entity and that detected by the RADAR system in the database matching phase, are sufficient to rule out the importance of the suspicion underlying the report, or in the more advanced stages of the investigation, if the elements gathered by the analyst provide an explanation of the reported conduct that allows the suspicion to be downgraded to a simple anomaly.

Efficient selection of cases on the part of the UIF is based on their skilled use of the available body of information, together with the adequate weighting of the different elements that come together to create an overall picture of the events reported. The indicators of investigative interest received from the Finance Police play a fundamental role here,⁶⁴ providing the Unit with an idea of the possible importance to law enforcement bodies of reports that apparently have little financial significance, but could instead be relevant in light of the involvement of the persons concerned in previous crimes.

There is a different approach to reports related to voluntary disclosure. Exclusion from criminal sanctions deriving from the activation of the voluntary disclosure procedure only extends to some cases provided by law, and can only happen following evaluations that fall outside the competence of the Unit. This means that these kinds of reports are usually filed for NFA.

⁶⁴ See note 57.

In the course of 2016, some 10,899 STRs were filed for NFA, corresponding to 11 per cent of all the reports analysed (Table 3.4). For the abovementioned reasons, excluding reports related to voluntary disclosure, the percentage of reports filed for NFA is 14 per cent.

Table 3.4

Reports dismissed as requiring no further action (NFAs) by the UIF					
	2012	2013	2014	2015	2016
Reports analysed	60,078	92,415	75,857	84,627	103,995
NFA reports	3,271	7,494	16,263	14,668	10,899
<i>NFA reports as a percentage of all reports</i>	<i>5.4</i>	<i>8.1</i>	<i>21.4</i>	<i>17.3</i>	<i>10.5</i>

Around 82 per cent of the NFA reports had been rated as low or medium-low risk by the obliged entities, while only 3 per cent of reports were deemed of high or medium-high risk (Table 3.5).

Table 3.5

For each NFA report, comparison of the reporting entity's STR risk rating with the UIF's final rating <i>(percentage composition)</i>					
		Reporting entity's risk rating			Total
		Low and medium-low	Medium	Medium-high and high	
UIF Rating	Low	75.7%	0.5%	0.0%	76.2%
	Medium-low	5.9%	15.3%	2.6%	23.8%
	Total	81.6%	15.8%	2.6%	100.0%

3.7. Suspension orders

The UIF, on its own initiative or at the request of the Special Foreign Exchange Unit, the Anti-Mafia Investigation Department or the judicial authorities, may suspend transactions that are suspected of involving money laundering or terrorist financing for up to five working days, as long as this does not jeopardize the investigation.

Suspensions are usually ordered in response to unsolicited communications from banks that provide advance information on the contents of suspicious transaction reports.

This power is particularly effective in delaying the execution of suspicious transactions for a limited period of time, until further precautionary measures can be taken by the judiciary.

In 2016 we saw that the flow of information sent by reporting entities was basically stable as regards exercising powers of suspension: 126 cases compared with 124 in 2015. In 31 cases (29 in 2015) the investigation led to a transaction suspension order, with an overall value for suspended transactions of around €18.9 million (€16.7 million in 2015). The average value of suspended transactions increased to €609 thousand from €575 thousand last year.⁶⁵ In 68 per cent of cases, the Unit received notice of the subsequent seizure of the funds in question by/from the competent judicial authorities.

Table 3.6

	Suspensions				
	2012	2013	2014	2015	2016
Number of transactions	40	64	41	29	31
Total value of transactions (millions of euros)	21.6	61.9	45.5	16.7	18.9

The information received dealt mainly with the redemption of insurance policies, while a smaller proportion involved the cashing in or sale of securities, withdrawals of cash, and transfers abroad.

As with the most common types of transaction, the composition of the reporting entities sending information has changed. Compared with 2015 when banks were preponderant, the category that was most evident in 2016 was insurance companies, with 57 investigations (about 46 per cent of the total), followed by banks with 33 per cent. Requests for suspension orders in 2016 sent by professionals and non-financial operators can be taken as a sign of a greater awareness, even on the part of these categories, of the importance of timely active collaboration.

3.8. Information flows and investigative interest

The UIF receives feedback from the investigative bodies on the level of interest in the STRs sent to them. This communication concerns the overall results of the assessments made of the reports and the financial analyses sent by the UIF.

Besides the indicators of investigative interest,⁶⁶ which are considered during the

⁶⁵ Again in 2016, just as in 2015, 5 transactions with a value of more than €1 million were suspended.

⁶⁶ See note 57.

initial stages of any financial analysis, the feedback system benefits from a flow of information, following the dissemination of the reports, that the Unit receives automatically and that is incorporated into the reports themselves.⁶⁷

Even though they are different in terms of how they were conceived and the time they were received, the indicators and the feedback share the objective of increasing the Unit's knowledge base and its ability to make a more effective selection of cases worthy of further analysis, with positive effects on the overall effectiveness of its work.

In 2016, for about 82 per cent of the reports examined, the risk level attributed by the UIF⁶⁸ and the feedback communicated by the investigative authorities were broadly consistent. For about 97 per cent of the reports given a low final rating by the Unit, this was followed by an indication of no interest from the investigative authorities. Out of all the reports examined and classified by the UIF with a high final rating,⁶⁹ the investigative authorities were interested in about 77 per cent of the cases.

The number of positive feedback items from the Anti-Mafia Investigation Department increased significantly - around 54 per cent of the reports analysed had been sent by the Unit with the highest level of final rating.

These data appear to be in line with statements made in September 2016 by the Director of the Anti-Mafia Investigation Department,⁷⁰ who confirmed the importance of the role played by the UIF in the complex anti-money-laundering system and noted that in the period between January 2015 and August 2016 almost 145,000 STRs sent by the UIF had been dealt with, of which 1,737 were considered worthy of further investigation and 923 were sent to the competent District Antimafia Department because they were of investigative interest.

Lastly, by comparing the feedback and the indicators of investigative interest it emerges that in 2016 almost 31 per cent of the reports that were taken further by the Special Foreign Exchange Unit did not, at the time of initial screening, have any investigative interest as regards the persons involved (no record or convictions). This reflects the real added value of the reports and the analysis work done by the Unit, which not only provides ongoing investigations with financial information of good quality that can help reconstruct complex criminal schemes, but also allows new investigation scenarios to be opened in areas not previously known to the investigative bodies.

As regards the strategy of steadily increasing the amount of information available, the UIF is constantly engaged in improving its information exchanges with the investigative bodies, in line with the regulations and objectives of the intelligence activities assigned to the Unit.

⁶⁷ Since 2015 the Special Foreign Exchange Unit has been able to automatically access the investigative authorities' electronic portal in real time.

⁶⁸ See Section 3.3.

⁶⁹ In relation to classes 3, 4 and 5.

⁷⁰ Hearing before the Sixth Standing Committee on Finance of the Chamber of Deputies of the Italian Parliament, 20 September 2016.

4. PROFILE CHARACTERISTICS AND TYPOLOGIES

The UIF's operational analysis of suspicious transaction reports makes it possible to identify 'profile characteristics,' which are constantly monitored and updated. These are recurring elements that are important for assessing the threats posed by money laundering and terrorist financing such as the improper use of certain financial instruments and payment methods, the geographic location of transactions, the economic sectors at greatest risk, the precise subjective profiles of persons and entities reported and the complex and opaque company structures designed to disguise beneficial ownership.

Using these profile characteristics, it is possible to reconstruct the 'typologies' that define at-risk operational patterns and behaviour profiles. The UIF uses the typologies to classify STRs and to provide updated information to obliged entities to help them detect suspicious transactions. In the spirit of active collaboration, the UIF publishes its results as *Casistiche di riciclaggio* in the *Quaderni dell'Antiriciclaggio* series.⁷¹

Profile characteristics are developed from the analysis performed by the UIF, they are validated on an ongoing basis by comparing them with new data provided by reporting entities, and 'at-risk behaviour' typologies are reconstructed based on them and disseminated to the obliged entities. This creates a virtuous circle that can have a positive effect on the active collaboration system. On the one hand, this circularity helps reporting entities be more selective in detecting anomalies that are indicative of money laundering or terrorist financing. On the other, the analysis process also benefits in that a comparison of reported behaviours that recur frequently, and fit into identified patterns, can facilitate quicker classification and more suitable handling of STRs.

4.1. Profile characteristics

A review of the reports confirmed, again for 2016, the tendency of obliged entities to consider transactions carried out by customers in cash to be suspicious: the percentage of transactions of this type reported in the STRs is still significant,⁷² consistent with the opportunities that using cash provides to hinder traceability in connection with those crimes that pose the greatest harm to the country (such as corruption and tax evasion). In line with previous years, during the analysis phase 31 per cent of all the STRs submitted in 2016 were classified as involving anomalous uses of cash. Again these STRs are often submitted as a precaution, based more on generic anomaly profiles than on actual grounds for suspicion. This can be deduced from the data on the reports marked NFA, the vast majority (almost 70%) of which involve cash transactions.

Cash

⁷¹ See also Section 10.5.

⁷² See Section 2.2.

The increasing attention that reporting entities pay to cash transactions, along with the restrictions on these transactions imposed by the legislature, have contributed to shifting flows of cash derived from illicit sources towards alternative channels for integration into the legal economy. The analysis of the STRs shows frequent, irregular use of prepaid cards, issued in high volumes in the names of recurrent cardholders, some of whom have been found to be part of a network of straw men that can be traced back to a limited number of centres of interest (individuals with economic interests in common).

Prepaid cards

A particularly important example of this are the operations reported in the accounts of a group of companies, linked by common shareholders and members and sharing the same addresses, that were frequently eliminated or liquidated a few years after formation. These accounts were characterized by recurring and reciprocal wire transfers for round figures and featuring generic descriptions referring to invoice payments and it was found that frequent debits were made to these accounts to reload numerous prepaid cards issued by Italian intermediaries in the names of natural persons duly authorized by the company, in their capacities as collaborators and employees. The cards, reloaded with the proceeds of operations likely connected with tax fraud, were used to repeatedly withdraw money from ATMs located in a South American neighbourhood known for its connections to international drug trafficking.

Similar practices were often found with respect to foreign credit cards: in these cases, in addition to suspicions concerning the anomalous use of the cards, further issues arose relating to the difficulties encountered in identifying the cardholders or the persons who made withdrawals from ATMs and in tracing the foreign source of the funds moved. In 2016 the UIF began collaborating with numerous foreign FIUs, chosen on the basis of the quantity of funds withdrawn and the recurrence of elements common to many payment cards (e.g. number and frequency of withdrawals, geographical concentration of ATMs), in order to identify the cardholders and any subjective and objective links between them. In some cases the analysis of the data provided indicated that the cards were used by groups of individuals acting in coordination and having ties to organized crime members.

Foreign credit cards

Reports made by gambling operators flagging anomalous concentrations of collections on tickets issued by video lottery terminals (VLTs) also signalled a potential connection between VLTs and cash flows of doubtful origin. The way in which these devices operate make them particularly vulnerable to improper use: the player starts the game by feeding banknotes directly into the machine and then can interrupt the game at any time, receiving any remaining credit back in the form of a ticket printed by the VLT. In theory, this means that these machines provide an opportunity to launder sums of cash of unknown source by transforming the cash into a bearer ticket, which can in turn be redeemed for payment through wire transfer or banker's draft.

Video lottery terminals VLTs

The STRs submitted by cash custody and transport companies concerning anomalous practices in cash intensive sectors also provided interesting input for analysis. Although these companies offer an extremely limited range of services to commercial operators that routinely handle large volumes of cash, their STRs are important. The field of view open to these reporting entities, while structurally more limited than that of other categories of obliged entities, enables them to notice certain

STRs by cash custody and transport companies

anomalies relating to daily concentration of deposits of banknotes, denominations, pick-up locations and the presence of damaged or counterfeit banknotes that have, in some cases, assisted the UIF⁷³ in the analysis of particularly delicate situations already in the process of being studied.

**Anomalies
indicative of
corporate
crimes**

A number of suspicious transaction reports refer to anomalous behaviours by shareholders, members and directors of companies in the performance of their duties. In-depth study of these situations, supplemented, where necessary, by analysis of the financial statements and ownership structure, made it possible in some cases to associate the behaviours reported with different typologies of corporate crimes. The main cases reported regarded the statutory obligations to cover losses and replenish share capital with which shareholders sometimes only formally complied and instead seized back control of resources intended for the company; these cases probably reflect the impact of the persistence of the economic crisis. Some transactions were carried out to give the shareholders or directors an unfair advantage to the detriment of the company, its creditors and others having an interest in the company. As a result of the behaviours described, in some cases financial statements were found to contain untrue items, making it impossible for the intended readers to appropriately assess the financial positions of the companies involved.

**Formation of
limited liability
companies and
capital increases**

Another situation that arose several times involved formation phase of limited liability companies ('società a responsabilità limitata') or capital increases for such companies, often for fairly significant amounts. In some cases the analysis performed demonstrated that, their directors' certification to the contrary, the authorized and subscribed share capital was not paid up: the banker's drafts, which may have also been drawn on accounts held in the names of persons who are not shareholders, were not cashed (in some cases it was found that the accounts could not be drawn upon), did not exist or had been taken from books of cheques that had been flagged by authorities. In addition to problems tied to the assets not being able to serve their intended guarantee function, these anomalies may also affect the determination of creditworthiness of the companies involved.

**Foreign
fiduciaries and
trusts**

The second-level analysis for STRs related to the voluntary disclosure procedure shined a light on some of the mechanisms used to hide funds abroad. Specifically, the UIF uncovered, in part thanks to information acquired in the course of international collaboration with other FIUs, the use of foreign fiduciaries, controlled by Italian professionals through opaque corporate structures, that manage, on behalf of Italian customers, significant assets held through foreign intermediaries. These fiduciaries appear to be the hub of a complex financial circuit capable of providing, by exploiting asymmetries in national laws, a broad and diverse range of professional and financial services to customers interested in maintaining available funds abroad, in violation of Italian tax laws. The analysis of the cases reported, in fact, allowed the UIF to track down other situations not detected by reporting entities because they involved funds that had not been disclosed. There was also continued use of trusts, frequently set up in tax havens, mainly to hide assets (sometimes enormous sums), making it difficult or impossible to adequately verify beneficial ownership, as shown by the subsequent

⁷³ This is true of the operations of some of the money transfer agents referred to in Section 3.5.2.

participation of owners of funds administered through such trusts in the voluntary disclosure procedure.

During the year the UIF received numerous STRs from online gambling licensees concerning collusion between customers engaged in games of skill, that is, games that depend more upon the skill of the player than on chance. This collusion could be used by players to act in concert to the harm of third parties in tournaments or to disguise transfers of money. A corollary to this activity is digital identity theft, used to open gaming accounts funded through stolen payment cards and used to simulate gaming with the sole purpose of transferring credits between players and their subsequent monetization. The names of the persons mentioned in the STRs had frequently shown up in previous STRs submitted by banks noting the frequency of their wins, the considerable total amounts involved and inconsistencies with the persons' subjective profiles. Often, in fact, these persons declared that they were students, retirees or not engaged in any activity, while at the same time indicating that they were habitual gamblers.

Online gambling

Other problems frequently reported to the UIF by banks regarded the receipt of payments connected with gambling winnings made through recurring payment institutions (PIs) or electronic money institutions (ELMIs) without offices in Italy. These intermediaries offer a wide range of services (online deposits, payments, intrabank transfers, withdrawals and eWallet transactions), often in different currencies, including virtual currencies, accessible through easy-to-use tools that are difficult to monitor, such as smartphones, tablets and personal computers. Customers are guaranteed instant and secure financial transactions, protected from the risk of fraud. The UIF does not know, however, the measures adopted by these intermediaries to identify customers or the effectiveness of the controls they have put in place to combat money laundering and the financing of terrorism. This is due to the general difficulty that the Italian intermediaries involved in these types of operations have in fully accessing information on the nature of the transactions and the true counterparties, with obvious repercussions on the traceability of cash flows.

Payments processed through foreign PIs and ELMIs

The UIF also received numerous STRs on securitizations of large tax credits; the particularly complex structure of these operations seems to make no logical or financial sense. Suspicions were based partly on the wide discrepancy between the value of the original credit and its sale price and the participation of foreign companies within the opaque ownership structure in the subscription of asset backed securities. The subscription was financed through the issue of a bond for a very high amount. The securitization and bond issue, closely intertwined even on the subjective level, ensured high yields, well above market averages, and involved persons who had been the subject of past judicial investigations. The financial analysis revealed how the complex structure of the transactions was presumably designed to mask the real subscribers of the securitized instruments. Foreign companies may also have been used to gain tax advantages for the Italian investors.

Securitization of tax credits

Again in 2016, the large number of reports on transfers of funds to and from abroad prompted the UIF to continue mapping geographical and functional tax havens

Wire transfers to tax havens and offshore centres

and offshore financial centres, to appropriately detect and interpret cash flows involving these locations.⁷⁴ We conducted a preliminary study of the corporate and tax laws of a sample of countries in order to identify possible tax, company and bank secrecy services offered by each. This was followed by a financial analysis focused on suspicious transactions carried out with counterparties located in these risky areas. The analysis of these reports therefore enabled us to identify some recurring operating strategies designed to evade or avoid taxes, mask ownership and operate in a system of little transparency to evade laws or monitoring by judicial authorities. In most cases we found chains of corporate or financial transactions involving several offshore countries, intended to take advantage in a coordinated way of the instruments and institutions of each jurisdiction for easier commission of crimes. The sample of countries analysed is being expanded.

4.2. The typologies

This section contains observations on three typologies of STRs chosen on the basis of their recurrence or their connection to areas identified, during FATF analysis and the National Risk Assessment, as exposed to higher risk.⁷⁵

4.2.1. Tax crimes

From a financial standpoint tax crimes take a great many forms. On the one hand, they are frequently the consequence of criminal intent to obtain undue tax advantages. On the other, tax violations make up just one part of more complex, organized schemes aimed at committing other types of crimes, in some cases conceived and carried out through well-structured criminal organizations. The gap in time that occurs between the various actions that contribute to the offenses examined and the transactions that comprise their financial materialization⁷⁶ contributes to making it particularly difficult for obliged entities to identify them. The analysis experience we have gained has, however, enabled us to focus on some of the typical behaviours that indicate operating strategies that by now are well-established and, to some extent, presage possible tax crimes.

Overall the results of the analysis performed show that tax crimes accounted for almost 36% of total STRs reviewed by analysts, an increase from the previous year when the typology amounted to 24%. Most of the STRs were directly related to voluntary disclosures (58% of the tax crimes reported).

⁷⁴ The topic was previously addressed by Gara M. and De Franceschi P. (2015), [‘Tax havens: operational features, empirical evidence and financial anomalies’](#), UIF, *Quaderni dell’Antiriciclaggio, Collana Analisi e studi*, 3. See also the [UIF Annual Report](#) 2015, page 73.

⁷⁵ See the [UIF Annual Report](#) 2015, Chapter 1.

⁷⁶ For example, the issue of invoices for nonexistent transactions, their payment and their use in filing tax returns.

STRs related to the voluntary disclosure procedure

The STRs related to the voluntary disclosure procedure continued to be extremely varied given that they were made by different kinds of reporting entities, each of which, in performing their duties, was involved in a distinct phase of the voluntary disclosure procedure.

As a whole, most of the reports lacked further cause for analysis, having been submitted as a precaution and having arisen based on a customer's participation in the voluntary disclosure procedure or, even before that, a customer's mere indication of intent to participate. Frequently these reports revealed violations of 'tax monitoring' obligations, a condition for participation in the voluntary disclosure procedure, and tax evasion situations that are exempt from criminal liability. In addition to some uncertainty as to the interpretation of the law, the large number of this type of STR, which are of lesser importance, is attributable to other opaque factors intrinsic to the procedure such as the opening of accounts by new customers solely as a channel for repatriating funds, the lack of documentation accompanying the financial transaction, such as the application for participation in the voluntary disclosure procedure and the accompanying report, and cases in which customers, including new customers, opted for judicial repatriation by producing a waiver.⁷⁷

In other more significant cases, the reporting entities' assessments highlighted inconsistencies between customers' financial profiles and their process of repatriation and subsequent use of the regularized funds (largely fund transfers between connected natural and legal persons, investments in financial instruments and insurance policies, cash withdrawals).

Considering that participation in the voluntary disclosure procedure does not eliminate the illegal source of the assets regularized nor the suspicion of crimes other than those that benefitted from the exemption from criminal liability envisaged by the legislature, in financially analysing these STRs we focused on reconstructing the subjective links, especially involving persons whose profiles indicated greater riskiness, and on identifying possible distorted uses of the procedure, designed to ferret out any money laundering purposes underlying the operation presented.

Under a subjective profile, on many occasions we found a significant use of the voluntary disclosure procedure by persons under investigation for non-tax crimes that are not covered by the exemption from criminal liability, and by politically exposed persons who, through family members, related parties or intermediary companies, are the beneficial owners of assets held abroad.

More generally, the collaboration process uncovered significant use of corporate vehicles, mainly located in countries that are at risk or uncooperative, to mask beneficial ownership. There were numerous cases in which suspicion arose from the declared difficulty or impossibility of the reporting entity of obtaining further information on the source of the repatriated funds and on how the foreign income was generated.

⁷⁷ This refers to the authorization given by the voluntary disclosure procedure participant to the foreign bank in which the financial assets are held to provide requested information to Italian tax authorities starting with the tax period immediately following regularization.

Under an objective profile, the financial analysis revealed cases, although limited in number, in which previous operations by reported persons could constitute grounds both for tax crimes (for example, issuing false invoices) and other crimes (for example, possible cases of misappropriation and corporate crimes) not covered by the voluntary disclosure procedure.

The financial analysis of suspicious transaction reports conducted in 2016 found that some tax crimes (especially those related to false invoicing) are sometimes closely connected with different kinds of criminal acts. As explained in more detail in the December 2016 edition of the UIF's *Casistiche di riciclaggio*,⁷⁸ these crimes were not undertaken just to gain undue tax advantages, but also to put back into legal circulation proceeds from usury or extortion or to move funds into the accounts of Italian commercial firms that are then withdrawn in cash by company members who are subsequently found to belong to international terrorist organizations.

Given the frequent transnational scope of tax fraud, information exchanges with other EU and non-EU FIUs were key to reconstructing complex triangulations of funds, presented as invoice payments, between national and foreign companies that are connected in that they can be traced back to the same centres of interests. International collaboration made it possible to uncover the subjective ties between the different companies involved and to find out that the final use of the funds transferred abroad frequently took the form of cash withdrawals to circumvent regulations.

With respect to known international 'carousel fraud' schemes, the UIF discovered cases of fraud perpetrated by multinational companies through hidden intra-community transactions to take advantage of the reverse charge mechanism and the regulatory arbitrage related to differences in the VAT rates applied in the various EU countries. In some cases, analysis uncovered genuine international networks of firms engaged in complex operating strategies for the ultimate purpose of committing tax.

With specific regard to suspicious transactions involving commercial firms, sometimes brought to the UIF's attention by other kinds of professionals, financial analysis was supplemented, where necessary, with information contained in VAT returns so as to verify compatibility in principle with financial movements in current accounts and with financial reporting information held by chambers of commerce. On the basis of this evidence, in some cases the analysis led to charges of possible tax offenses that follow the submission of tax returns, such as failing to pay taxes (above the criminally punishable threshold), and therefore predicate offenses for money laundering.

4.2.2. Corruption and misappropriation of public funds

The growing alarm elicited in Italy by corruption, given its recurrence and the high social threat it poses, has forced the authorities responsible for preventing and

⁷⁸ http://uif.bancaditalia.it/pubblicazioni/quaderni/2016/quaderni-7-2016/quaderni_7_2016.pdf (only in Italian).

combatting crime to adopt more effective and extensive countermeasures, capable of adequately protecting the various sectors in which such crimes occur. It should be noted that it is extremely difficult to classify the phenomenon in financial terms. In the active collaboration sector, the prompt detection of transactions with connotations of potential corruption is therefore still closely tied to a thorough understanding of their subjective elements and context, a consequent assessment of the attendant risk level and the ability to make the best use of such information.

Continual monitoring by reporting entities of transactions by politically exposed persons, other persons that perform important general government functions and the legal entities to which they belong, or with which they have close ties, is therefore one of the most effective tools for detecting anomalous behaviours needing subsequent financial analysis. Likewise, it is strategically important to properly record the customer's subjective profile or status as a politically exposed persons in the RADAR system in order to facilitate subsequent rapid selection and analysis by the UIF of situations that pose the greatest risk of corruption. From this standpoint, the UIF recently began the process of developing, testing and producing a methodology for classifying and assessing this type of STR. The methodology – which is not yet designed to identify the concrete criminal action that may have been committed – seeks first off to identify STRs relating to potential acts of corruption, hinging upon making good use of 'structured' data in the STRs and text analysis tools. In the context of financial analysis, this methodology would therefore lead to an initial selection, with those situations found to be at greater risk put through more thorough analysis to verify suspicions of corruption.

Experience has shown, however, that in some cases corruption can also be uncovered by starting with other types of criminal actions and tracing them back to persons who, given their status or professional position (holding important positions in general government), might have played a decisive role in aiding the perpetration of unlawful activities that harm society.

Corruption is in fact often facilitated and accompanied by other crimes, such as invoicing fraud, that can be carried out within a criminal operation to achieve a variety of purposes. First, tax fraud can be undertaken to hide considerable financial reserves (such as cash and funds deposited in foreign accounts) that are tapped to engage in corruption. Second, false invoicing can be performed, including through shell companies, to provide apparently legitimate compensation to corrupt public officials or persons and legal entities connected with them, for reasons given such as providing representation, consulting or other services.

In recent years, due to increasing restrictions on the use of cash, there has been a significant evolution in operating methods used by criminal groups to illegally transfer to corrupt public officials financial or other assets. Financial analysis has found that, alongside false invoicing, there are significant cases of corruption carried out through triangulation with foreign parties or apparently legitimized through fictitious sales of artwork or the purchase of luxury goods or real estate with funds made available, behind shields, by the corruptor. In other cases still, the illegal offer of benefits is made by paying for professional or other services for the benefit of the public official to be corrupted.

Finally, as to the profile most closely associated with the misappropriation of public funds, the UIF uncovered elaborate misappropriation mechanisms designed to illegally embezzle funds from public entities undergoing liquidation,⁷⁹ and anomalous operating strategies indicative of possible abuses in the distribution and management of public financing to companies.⁸⁰

In some cases the financial analysis found the existence of close ties between misappropriation and corruption, so much so as to amplify the harmful effects of these crimes. The operating strategies described that aimed, in various forms, to misappropriate public funds were sometimes made possible by the concurrent recourse to corruptive practices that favoured the pursuit of illegal ends to the harm of society. The analysis of the subsequent recycling of the public funds misappropriated led to the discovery of transfers of portions of these funds to the public officials responsible for managing them and to those responsible for the subsequent control phases and to the identities of the entities and persons connected.

4.2.3. Operating typologies associated with organized crime

From a financial standpoint it can be stated that the behaviour of mafia syndicates is not, in principle, different from that of non-organized criminals. In the cases reported, therefore, most of the patterns of anomalous behaviour can be traced to tax crimes, corruption and misappropriation, and other kinds of methods for laundering funds of illegal provenance.

The analysis of the STRs and the studies conducted within the internal Focus Group on Organized Crime⁸¹ confirm or in any case are consistent with the results reported in official publications on the subject matter: mafia organizations act with the economically rational goal of best exploiting innovative market factors, taking on the characteristics of large companies capable of controlling and managing activities in a wide variety of sectors, from economics to finance, from the production to the exchange of goods and services. This versatility does not refer merely to the sectors of activity, but to the simultaneous management of illegal, legal and semi-legal activities as well.

The possibility of exploiting the opportunities offered by the market leads criminal organizations to use corporate, business and productive structures. For this reason, among the cases analysed, we often find anomalous operating strategies involving tax and invoicing fraud, which are shown to be complementary phases of a broader criminal design.

False invoicing makes it possible to transfer enormous sums of money between parties, even crossing national borders to then (frequently) be brought back through a series of transactions designed to hinder the reconstruction of cash flows between network hubs. Observation of the dynamics of mafia-like behaviours reveals with rising

⁷⁹ See Section 3.5.1.

⁸⁰ See [UIF Communication](#) of 8 July 2010.

⁸¹ See Section 3.4.

frequency the increase is such hubs, especially abroad. These circumstances make it necessary to exchange information with the foreign FIUs involved. In this context, the hub and the intermediate actors do not necessarily have with links to criminal organizations or their associates, but may be 'mere' providers of money laundering services for accumulated illegal funds for which there can be various uses, from being used to guarantee lines of credits from banks to transfer additional foreign-to-foreign payments (making it even more difficult to reconstruction cash flows); from cash withdrawals to the repatriation of funds to Italy through transfers explained in general by alleged financial transactions with members as counterparties.

It appears that criminal organizations have thoroughly infiltrated the online gaming, slot machine and sports betting sector through a variety of ways that range from extortion (such as, coercing bars into installing video poker machines) to infiltration using nominees of companies that manage betting shops and gaming venues. Parallel to the legal circuit, the UIF has discovered the growing business of managing illegal sports betting and video poker platforms using servers located in foreign countries.

These phenomena are found with increasing frequency while cooperating with public prosecutor's offices and anti-mafia prosecutor's offices and in the numerous STRs resulting from the greater awareness by intermediaries and operators in the sector owing in part to inspections conducted by the UIF.

We continue to receive reports on alleged irregularities by companies that had been awarded public contracts, whose financial transactions do not appear to comply with the laws on the traceability of payments mainly due to the use of cash. Furthermore, there is no lack of more complex patterns that demonstrate the versatility of the underworld in acting in the financial arena and in using increasingly sophisticated methods that frequently require the collaboration of professionals, entrepreneurs and financial operators, such as participating, often through nominees, in real estate transactions and making financial investments, presumably to conceal assets from any actions involving the assets of individuals.

Observation of the practices of criminal organizations reveals an increase in situations that could be classified as fraud, perpetrated by submitting false documentation demonstrating income in order to receive lines of credit and, in some cases, personal loans. These behaviours feed into a complex, well-developed money laundering scheme, based largely on the use of cash to make instalment payments on mortgage loans and other financing obtained thereby facilitating the placement of financial flows of unknown provenance into legal circulation.

Some of the STRs regarding the repatriation of foreign assets through the voluntary disclosure procedure potentially point to organized criminal activity. In limited cases, politically exposed persons (local/regional administrators) are named in STRs deemed connected or connectable to mafia activity; often these STRs do not indicate in the reasons for suspicion of the anomalous operations of the parties involved, but rather qualify as 'defensive' types of reports (given that the persons are under public investigation).

5. COMBATING THE FINANCING OF TERRORISM

In recent years the terrorist threat has become much more intense, has taken on new forms, and has benefited, financially and otherwise, from close ties to Islamic State of Iraq (ISIL) forces operating in Middle Eastern war zones and to other areas experiencing political instability. It is a looming, multifaceted threat; terrorist organizations that control territory coexist with organizations affiliated with vast networks, smaller cells and individual terrorists.

The different forms are reflected in their funding needs and sources. It is essential to reinforce understanding and monitoring of the most exposed channels, check that traditional safeguards and their scopes of application continue to be suitable, ensure the widest possible sharing of information and experiences in the international and domestic arenas on the understanding that only full agreement on objectives by the States can lead to appropriate prevention of such a complex and serious phenomenon.

A step in this direction was taken by the competent international bodies with their most recent initiatives to strengthen the prevention system.

The ‘Consolidated FATF Strategy on Combatting Terrorist Financing’, published in February 2016, stresses the important role that the capacity to promptly detect suspicious financial transactions plays in preventing terrorist attacks. To accomplish this, it mentions the need to help operators cooperate by developing indicators for the private sector and remove all obstacles to information sharing among authorities, both domestically and internationally. In relation to this issue the FATF initiated a project to more effectively share information among national authorities (‘Domestic Inter-Agency Information-Sharing’) by developing profiles for improving existing cooperation mechanisms and best practices in the area.

At the EU level, the Action Plan adopted by the European Commission⁸² emphasizes the role that FIUs can play in identifying cross-border financial transactions by terrorist networks.

In line with the international authorities’ urgings, the UIF began the process of reviewing and refining its terrorism prevention efforts.

The UIF role in preventing terrorist financing⁸³

The UIF plays a central role in preventing terrorist financing by using mechanisms built on lists of ‘designated’ persons and measures to freeze funds, and by employing a system that, like the anti-money laundering system, is based on the active collaboration of private operators and institutional cooperation among authorities.

Under the first approach, the UIF receives from obliged entities notifications of asset freezes relating to transactions and financial relationships involving designated

⁸² See Section 1.2.

⁸³ The topic was addressed in a speech by the UIF’s Director at the conference on ‘Preventing and combatting channels of terrorist financing’ held at the *Scuola di Polizia Tributaria della Guardia di Finanza* on 2 February 2017.

persons; it facilitates, through its website, the distribution of lists of designated persons; it participates, along with the other competent authorities, in the work of the Financial Security Committee;⁸⁴ it provides technical and IT support to verify intermediaries' compliance and to authorize exemptions by the Financial Security Committee, where permitted.

As to the second, more general, operational scope, the UIF draws on a variety of information sources for the purpose of prevention: suspicious transactions reports transmitted by a wide range of operators with active cooperation obligations; information exchanges with national and foreign authorities; inspections; other authorities' archives, obliged entities' databases and open sources; and aggregate data on financial flows. The UIF's analyses assigns significance and value, from a prevention standpoint, to this vast wealth of data, finding critical subjective and objective links and tracing financial flows even beyond national borders.

The UIF handles the challenges posed by this new landscape by seeking, as it does in its anti-money laundering activity, to supplement the reactive approach, based on examination of suspicious transactions, with a more proactive strategy that makes increasingly advanced use of IT tools and the resulting analyses, even anticipating operating guidelines subsequently developed at international level.

At the end of 2014 the perception of increased risk associated with terrorism prompted the UIF to form a new section specialized in analysing transactions connected with terrorist financing; the section is also responsible for analysing money transfer STRs, given the synergies that could develop between the two sectors of analysis. This choice, which has proven to be particularly useful in light of the subsequent evolution of the phenomenon, was dictated by the need to develop specific experience and competences, create uniform analysis standards and shorten the time needed for in-depth analysis and information sharing.

5.1. Suspicious transactions reports

The significant increase in terrorist financing STRs is indicative of operators' growing awareness of the need to be more vigilant given the upsurge in terrorist threats.

In 2016 the UIF received 619 STRs on suspected terrorist financing (a 127 per cent increase on 2015 and six times higher than 2014).⁸⁵

Two factors were key to this increase. First was the heightened awareness of reporting entities, spurred by external events and driven in part by actions taken by the UIF to improve their capability to detect the specific risk factors and financial signals, even 'weak' ones, that characterize the phenomenon. In addition, more intense prevention and suppression efforts in Italy caused a 'cascade' of STRs, sparked by the publication of news reports or by requests from authorities for information on the

⁸⁴ See Section 8.2.

⁸⁵ The number of STRs involving terrorist financing rose to 741, including those regarding 'money laundering' that were reclassified following analysis. See Section 2.2.

operator's customers. This response can be considered normal given the distinctive characteristics of the process of assessing STRs on terrorist financing. These STRs, unlike those on money laundering, which usually arise in the course of assessing anomalous transactions, are more often motivated by factors relating to the customers themselves that indicate their direct or indirect involvement in terrorist activity.

Some 37 per cent of the STRs on terrorist financing transmitted in 2016 are based on strictly subjective elements (investigated or designated persons). Even where they refer to names already known to law enforcement bodies, the STRs convey information that could prove to be valuable for the UIF's financial analyses and for subsequent investigations, enabling the reconstruction of relationship networks with other persons, intriguing financial traces or other pieces of information useful in investigations.

About one fifth of the STRs is related to anomalies in financial relationships with non-profit organizations, mostly with ties to local immigrant communities. The UIF's financial analyses mainly focus on assessing the consistency of the transactions with the purposes of the associations and with any explanations provided, including exploring financial and operational links with persons associated with them in any way and financially significant counterparties.

From an objective standpoint, the most common financial anomalies involve cash transactions or the transfer of money abroad through the banking system or the money transfer services circuit, especially to geographical areas deemed to be at high risk for terrorism since they are characterized by political instability or border those where conflicts are occurring. The unusual size of the amounts, the frequency of the transactions, the type and location of the counterparties, the nature of the expense in relation to the payment instruments used are all factors that are taken into account in assessing anomalies.

Reticence to provide information, offering of reasons that do not appear to be true and presentation of falsified documents are additional factors that operators should consider.

Particularly in connection to the growth of the foreign terrorist fighters phenomenon, reporting entities appear to be focusing on detecting even financially minor transactions, such as those involving the use of payment cards (i.e. cash withdrawals, payments abroad and online purchases) and, more generally, any sign, even non-financial ones, of sudden changes in customer behaviour that could raise suspicions of involvement in terrorism.

The UIF's analyses draw on all the data, including information that is not strictly financial, to which it has access and uses network analysis techniques to expand its scope and to detect additional, apparently less significant persons and financial relationships.

The goal is to identify connections and any other qualitative information that could aid in ferreting out the existence of possible terrorist organizations, cells or isolated individuals.

5.2. Information and di support for reporting entities

In April of last year the UIF, in line with FATF recommendations, published a notice to help those with active cooperation obligations to better detect suspicious circumstances that could be linked to terrorist financing and the activity of foreign terrorist fighters.

UIF notice

It drew attention to the anomaly indicators issued in 2010 on terrorist financing and the activities, persons and payment methods judged to be especially risky.

Operators were asked to make extensive use of the information available and to align automated selection procedures for anomalous transactions. The notice also drew attention to the various forms that financial support to terrorists may take and to the many channels that are vulnerable to being used in this way, emphasizing the problems associated with trading in goods and resources from geographical areas deemed at risk.

With regard to foreign terrorist fighters, the notice reiterated the importance of recognizing financial traces associated with the preparation stages of trips, transits and returns to the state of origin, such as: missing or very late payment of financing instalments; sudden liquidation of businesses; large cash withdrawals to fully draw down current account balances; financial traces that demonstrate unexplained absences from Italy based on, for example, withdrawals and spending on payment cards; suspicious purchases of tickets, travel services or goods usable in areas of conflict; and suspicious activity on social media.

Payment services operators were asked to monitor the use of cards and access to home banking portals from areas at risk. In this case, too, the small monetary amounts usually involved complicates the detection of criminal behaviours and forces reporting entities to adopt an especially sophisticated approach to collecting information on the customer's subjective profile.

In order to enable operators to have easy and immediate access to the most important publications by international organizations and to help them identify suspicious terrorist financing transactions, on 20 May 2016 the UIF launched a dedicated portal on its website.⁸⁶

Portal for
combating
terrorist financing

5.3. Developments in international cooperation on combatting terrorist financing

The heightening of the terrorist threat has had considerable effects on international cooperation, both as to its intensity and the kind and method of information sharing.

The FIUs took advantage of the methods of cooperation available to the fullest extent and expended great effort in expanding the range of information to be used in

⁸⁶ <https://uif.bancaditalia.it/adempimenti-operatori/portale-contrasto/index.html>

carrying out analyses and searches in all the databases and information sources available in each country.

The usual requests for information, calling for descriptions of the case, the grounds for suspicion and the links to the recipient FIU's country, are scarcely compatible with an effective preventive approach and with the need for a rapid response. It requires a continuous flows of data on persons and activities that could be of interest, usually payments and fund transfers. This information sharing must be activated by the FIUs providing the information through automated procedures, without having to wait for a specific request.

Furthermore, to ensure timeliness and to expand the scope of cooperation, the exchange of information does not require unambiguous links with the FIUs in the countries involved or specific parameters for suspicion, following an 'intelligence-based' approach that makes it possible to analyse and match data for the prevention and early detection of activities of interest, anticipating the awakening of suspicion based on specific facts. For the same reason these exchanges, freed from precise territorial reference restrictions, must take on a multilateral dimension; making the best use of the information means that the wider the exchange network, the greater the added value that can be derived from matches and the relative findings.

The FIUs have therefore developed practices for exchanging information based on automated mechanisms and multilateral information sharing procedures. In particular, as part of the 'ISIL Project' launched by the Egmont Group to study ISIL financing and the financial characteristics of foreign terrorist fighters, a group of FIUs, including the UIF, share information multilaterally on persons and activities of potential interest, in line with the aforementioned criteria.

These information exchanges, which have been under way for over two years, have led to the sharing of a mountain of information on international wire transfer networks and the relative facilitation networks that could be connected to ISIL financial support. The information exchanges conducted in 2016 (536, up around 40 per cent compared with the previous year) refer to more than 18,000 persons (the total as of now is over 30,000).⁸⁷

This is information that the UIF uses systematically to perform its analysis, following the intelligence-based approach, in a way that is coordinated with and complementary to the analysis of STRs. With the consent of the foreign counterparts, the UIF shares information and analysis with the competent national authorities in order to help them identify and locate persons involved in terrorism or terrorist financing. The UIF, in turn, helps the other FIUs participating in the project by sending unsolicited reports and providing evidence on the persons named in the reports it receives.

⁸⁷ The number does not refer just to alleged ISIL members or supporters, but to a broader list of persons that also includes all those linked to ISIL members or supporters by objective or subjective elements (e.g., family relationships or connections through financial transfers).

The UIF participates in the Counter-ISIL Finance Group (CIFG), consisting of the members of the Counter-ISIS Coalition and led by Italy, Saudi Arabia and the United States.

The need to identify ‘sensitive’ activity early and to monitor vast quantities of information, as well as the characteristics of the checks, has led to a considerable shift in the UIF’s practices. It is no longer sufficient that it merely reconstruct anomalous transactions and their subjective links, as in the approach taken in combating money laundering, but it must also identify traces in the financial systems that are used to establish other profiles of interest, such as the position, movements, relationships and behaviour of terrorists and persons linked to them.

Thanks to the synergies between international cooperation and collaboration among domestic investigative bodies, it was possible to detect the financial traces left by terrorists directly involved in attacks perpetrated in Europe. Using information on money transfers and the use of payments cards, investigators were able to quickly reconstruct physical movements, points of logistic support and networks of supporters.

5.4. Domestic collaboration

The counter-terrorism aspects of the collaboration between the UIF and the other competent national authorities have been significantly improved and cooperation has taken on new forms.

There has been a considerable increase in the number of requests for financial analysis made by investigative bodies in the context of investigations or proceedings involving acts of terrorism. On the one hand, sharing adds to the UIF’s wealth of information, and on the other, it leads to additional checks and findings that complete and corroborate the intelligence picture, strengthen accusations, and sometimes lead to the prompt enactment of suppression measures.

Therefore under the framework outlined in the 2015 legislation on the suppression of terrorism,⁸⁸ the National Anti-Mafia Directorate has taken on the important role of focal point for the use of data gathered and analysed by the UIF during investigations conducted in Italy.

The same legislative provisions enable the UIF to provide the results of its analysis and studies that reveal phenomena of terrorist financing to the Counter-terrorism Strategic Analysis Committee (CASA).

5.5. Other financial intelligence initiatives

Inspections and off-site analyses of the primary banking groups and intermediaries of high standing active in the payment services sector are particularly

⁸⁸ Decree Law 7/2015, converted into Law 43/2015.

important within the context of initiatives decided by the UIF to guide, from a prevention and intelligence standpoint, efforts to combat terrorist financing.⁸⁹

Initiatives were undertaken to check operators' databases containing information on parties and transactions for recurring names of persons connected directly or indirectly with terrorism who had been reported to the UIF by the judicial authorities, investigative bodies and, especially, foreign FIUs involved in the abovementioned multilateral exchange of information in connection with the ISIL Project or that share information on a bilateral basis.

The recurrences found through matching were analysed to uncover facts or circumstances that mark financial transactions as significant for the purposes of alleged involvement in terrorist financing.

Specifically, the following were considered: cash withdrawals from bank branches, especially ATMs, located in the Middle East, North Africa or along the Balkan route to Syria; point-of-sale (POS) transactions at businesses located in such countries; money transfers; online payments made through websites to purchase internet communication and chatting services; and prepaid phone card reloads for numbers that differ from those declared in the course of due diligence. The focus was on payments and purchases relating to the physical movements of persons of interest (airline ticket purchases, particularly for third parties; purchases of railway or bus tickets; payments for motorway tolls or petrol).

The UIF's body of information was expanded through the identification and analysis of elements linking persons and financial transactions.

Following the checks, the mountain of data collected was also used by disseminating information on the names of persons of interest to the competent Italian and foreign authorities. Information was sent to the National Anti-Mafia Directorate, public prosecutor's offices and competent investigative bodies, and to the FIUs of the countries involved.

The UIF also monitored and studied the operating sectors and geographical areas that are particularly exposed to the risk of terrorist financing.

In 2016 the UIF developed a screening process for financial flows towards countries in the Middle East and North Africa. The analysis is based on aggregate AML reports (SARA) and sought to identify peaks and anomalies in trends for wire transfers from Italy to the aforementioned regions. Furthermore, besides helping identify individual cases in need of financial analysis and directing the attention of intermediaries to specific operational patterns, the analysis also expanded the understanding of the characteristics and possible profiles of anomaly for flows between Italy and countries with potential financial ties to ISIL.

⁸⁹ See Section 7.1.

6. STRATEGIC ANALYSIS

The international standards set by the Financial Action Task Force (FATF) and the Egmont Group place strategic analysis among the official duties of the FIUs, together with operational analysis to further assess suspected cases of money laundering or financing of terrorism. In keeping with these principles and with national legislation entrusting it with the analysis of financial flows for preventive purposes, the UIF is working to identify and assess phenomena, trends system vulnerabilities.

Strategic analysis draws on the information and the indications obtained through the analysis of suspicious transaction reports and aggregate data and any other relevant factor available to the UIF. The data are processed and combined to help guide the UIF's action, the planning of its activities and the selection of priorities to pursue.

All UIF staff contribute to strategic analysis, drawing on the wealth of information available, enriching it with input from external sources, both open and confidential. It rests on two pillars: the identification of types and patterns of anomalous financial conduct⁹⁰ and the observation and study of financial flows and money laundering,⁹¹ as discussed in this chapter.

An additional purpose of strategic analysis is to assess the risk of money laundering or financing of terrorism activities for the system as a whole or for selected geographical areas, means of payment and economic sectors. Defining risk levels enables the UIF to develop its own vision of the threats to and the vulnerabilities of Italy's anti-money-laundering system. The UIF draws on the results of the strategic analysis while taking part in the preparation of the National Risk Assessment.

By picking out situations and contexts that warrant targeted analysis, strategic analysis enables the UIF to prioritize activities.

The analysis also 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. The quantitative techniques are suitable for handling large masses of data as they combine all the pertinent information for study of the variables of interest.

The data used by the UIF come from the aggregate AML reports (SARA), information derived from operational analysis, cooperation with national and international authorities, and inspections. If needed, additional data sources and data requested from intermediaries are used.

The main sources of information used by the UIF include the Bank of Italy's databases, including banks' automated prudential returns and the Central Credit Register. Commercial and open databases are widely used as well.

⁹⁰ See Chapter 4.

⁹¹ Article 6 (6)(a) and (7)(a), Legislative Decree 231/2007.

6.1. The aggregate data

The analysis of financial flows carried out by the UIF is based on SARA reports. The data are submitted monthly and aggregate all the transactions recorded in the Single Electronic Archive,⁹² including split transactions, for amounts exceeding €15,000. The SARA data are aggregate and anonymous and cover the entire spectrum of payment instruments and transactions.

Many other countries also require that data be sent to their financial intelligence units based on threshold amounts regardless of any other suspicious elements, especially those involving specific categories of transactions, particularly cash transactions.

The main aggregation criteria are determined by the UIF⁹³ and include: the type of payment instrument, the location of the reporting branch, the customer's economic sector and residence, and the location of the counterparty and the latter's financial intermediary (in the case of wire transfers). Both inward and outward transactions are reported; the value of cash transactions is indicated separately.

SARA data

Table 6.1 summarizes the statistics for SARA reports received by the UIF in 2016. Compared with the previous year, the totals have risen by 6 per cent, presumably associated with signs of economic recovery, and exceed €22 trillion. The number of records and transactions have changed little, remaining at around €100 million and €300 million. As in previous years, around 95 per cent of the records and value come from banks.

Changes associated with the institution of the Single Register

Following the completion of the reform of the Single Register for financial intermediaries (see Article 106 of the Consolidated Law on Banking), in 2016 changes were made to the composition of some categories of reporting entities, particularly 'trust companies' and 'other financial intermediaries' that were included in the new Register.⁹⁴ For the purposes of compiling Table 6.1, which refers to the entire year, both categories include reporting entities as defined by the pre-reform legislation and those under the new regulation.

With regard to the individual categories of reporting entities, there was a significant increase in the total amounts reported for trust companies (14 per cent) and banks (7 per cent), and a decline for investment firms and insurance companies (-13 per cent and -12 per cent, respectively).

⁹² Article 40 of Legislative Decree 231/2007.

⁹³ [UIF Measure](#) of 23 December 2013 on the transmission of aggregate data.

⁹⁴ This latter category includes both new registrants in the Single Register and financial intermediaries as indicated by Article 107 of the Consolidated Law on Banking, which, as provided by prior legislation, continued to operate in 2016.

Table 6.1

SARA aggregate AML reports				
2016				
Type of financial intermediary	Number of reporting entities	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	666	95,559,235	21,392	293,101,754
Trust Companies ²	278	176,926	114	678,699
Asset management companies	185	1,356,765	235	5,809,629
Other financial intermediaries ³	176	1,245,843	245	4,115,715
Investment firms	137	190,705	99	5,412,557
Insurance companies	80	1,383,905	127	2,566,683
Payment institutions	60	630,813	76	7,269,645
Electronic money institutions	6	4,342	1	106,547
Total	1,588	100,548,534	22,287	319,061,229

¹ The reporting entity submitting the SARA reports calculates the basic item of the report by grouping the individual transactions according to specific criteria. The SARA data are subject to rectification by the reporting institutions; the statistics given in the table are based on data as at 26 March 2017.

² Includes the trust companies referred to in Article 199 of the Consolidated Law on Finance and in Law 1966/1939.

³ The category includes financial intermediaries entered in the register pursuant to Article 106 of the Consolidated Law on Banking and in the special register referred to in Article 107 of the same law under the legislation in force before the changes introduced by Legislative Decree 141/2010.

The SARA reports include information on cash transactions which is significant for the prevention of money laundering. Besides the amounts debited and credited in current accounts, the reports include cash settlements in other types of transactions (e.g. securities trading and issuance of certificates of deposit).

In 2016 the downward trend in cash transactions observed in recent years continued: transactions of this kind registered in the SARA data during the year decreased by 4 per cent from the previous year.⁹⁵

Again this year the SARA reports revealed a wide gap between total amounts credited (€164 billion) and those debited (€7 billion). The gap arises from the fact that withdrawals, which are usually more split up than deposits, tend to fall below the €15,000 reporting threshold.

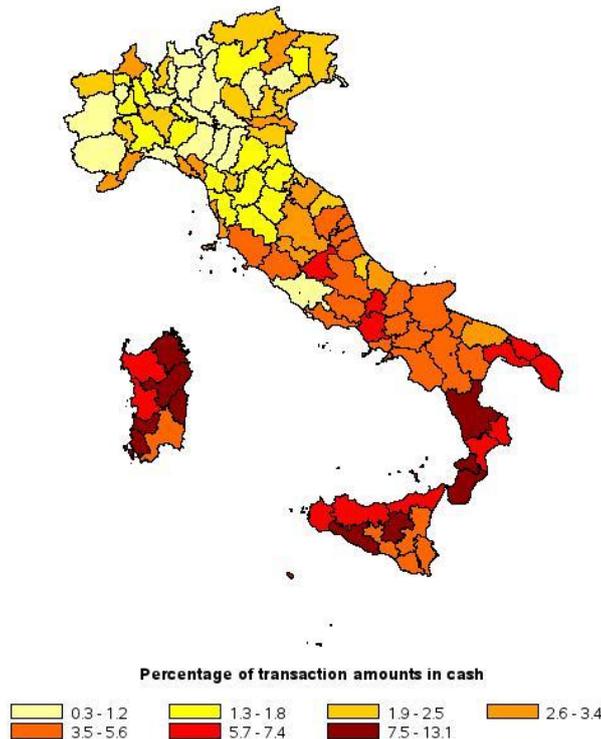
There continues to be a high degree of geographical variability in the use of cash (Figure 6.1): it accounts for less than 4 per cent of total transaction value in many

⁹⁵ The data considered in calculating the year-on-year change do not include transactions below the threshold that are not part of split transactions, owing to the ongoing revision of the data from the reporting system. Split transactions are analogous transactions, each for an amount below €15,000, conducted over a span of seven days that, when added together, exceed this amount. The use of cash is the only case in which non-split transactions below €15,000 are reported to the UIF.

central and northern provinces, but climbs to 13 per cent in parts of the South and the Islands. Albeit to a more limited extent than previous years, some northern border provinces continue to register higher percentages of cash transactions than other areas of Northern Italy.

Figure 6.1

**Use of cash by geographical area
2016**



Notes: Excludes transactions by general government entities and resident banks and financial institutions, not registered in the Single Electronic Archive, 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 as at 24 March 2017.

The use of cash is influenced by structural factors (such as the socio-economic environment, access to and quality of financial services and preferences on payment instruments), but could also be a sign of illegal behaviour. At the beginning of 2016 a study was completed that measures local exposure to money laundering risk by taking into account the ‘natural’ variables that affect the use of cash.⁹⁶

⁹⁶ Ardizzi G., De Franceschis P. and Giammatteo M. (2016), ‘[Cash payment anomalies and money laundering: An econometric analysis of Italian municipalities](#)’, UIF, *Quaderni dell’Antiriciclaggio, Collana Analisi e studi no. 5*. See also the box ‘Anomalies in the use of cash: An econometric analysis of Italian municipalities’ in the UIF [Annual Report](#) for 2014, pages 65-68.

The SARA reports also provide highly detailed information on credit transfers, another payment instrument deserving special scrutiny in the fight against financial crime. Reports on credit transfers are very detailed as they include data on the municipality or foreign country of residence of the counterparties and their financial intermediaries, making it possible to perform a statistical analysis of both the origin and the destination of the funds.

Cases in which the foreign bank is located in a tax haven or non-cooperative jurisdiction are of special interest insofar as fund transfers may be transferred to and from these jurisdictions for reasons that are not strictly economic but rather connected with the lack of transparency that is a hallmark of these legal systems.

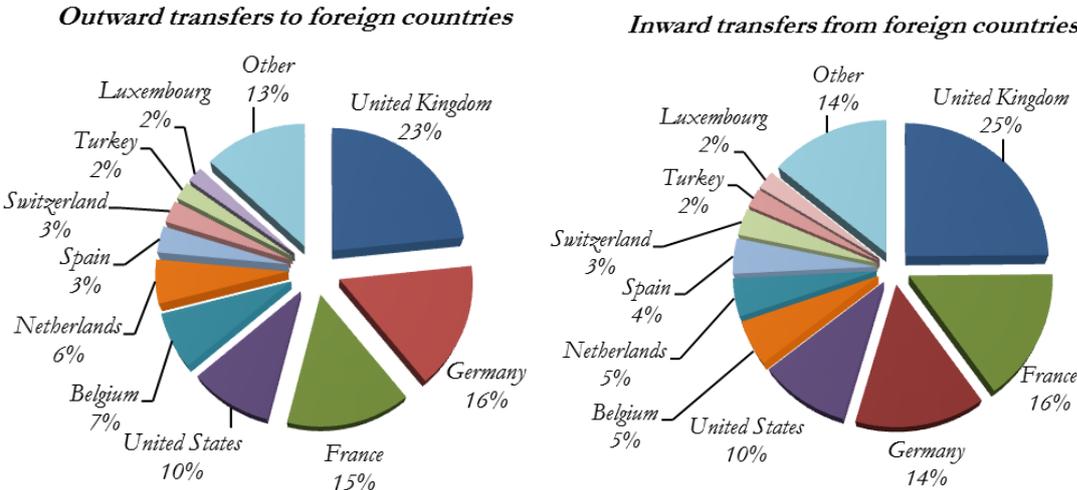
In 2016 the recovery in credit transfers through foreign banks as declared in SARA reports, which began the year before, continued. Both inward and outward transfers grew by around 6 per cent exceeding €1,400 billion and €1,300 billion in value. Figure 6.2 gives the composition of the main countries of origin and destination of the transfers.

Foreign credit transfers

The top ten countries on both the inward and outward sides are Italy's leading European trading partners, the United States and Turkey (in 2016 the latter country was also placed on the list of the top ten destination countries, after being included the year before on the corresponding list for inward flows). The category 'Other' includes all of Italy's other significant non-EU trading partners (China and Hong Kong for outward transfers, Russia and Hong Kong for inward).

Figure 6.2

**Credit transfers to and from foreign countries
2016**



Note: Excludes transactions by general government entities and resident banks and financial institutions, not registered in the Single Electronic Archive, 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 as at 24 March 2017.

In 2016 significant changes were made to the reference lists of countries deemed tax havens or jurisdictions not sufficiently cooperative in sharing information for

Credit transfers to and from tax havens

preventive and law enforcement purposes.⁹⁷ The differences as compared with 2015 reflect the changes in the FATF list of high-risk countries and, especially, the updates to the Consolidated Income Tax Law (TUIR) that eliminated certain blacklists. Overall, total transfers with these categories of countries show a slight increase in outward transfers (3 per cent) and a somewhat larger decline in inward transfers (-5 per cent) compared with the previous year.

Using blacklists to identify tax havens

A category of transactions that garners close scrutiny in the course of analysing financial flows involves transfers with countries or territories considered to be tax havens or non-cooperative jurisdictions in the fight against money laundering. These countries are identified using lists prepared by international organizations and governmental institutions to ensure an objective and transparent process. The use of such 'blacklists' continues to be the standard practice even within the European Union.⁹⁸

In line with this arrangement, the list of tax havens and non-cooperative jurisdictions used by the UIF includes the lists contained in the three ministerial decrees implementing the TUIR and the list of countries considered by FATF to be at high risk for money laundering and terrorist financing.

Starting in 2016, however, the tax obligations relating to tax havens were eliminated or modified, leading to the repeal of most of the decrees.⁹⁹ First of all, the non-deductibility of costs incurred in tax havens was eliminated and replaced by a mere requirement to report purchases made outside of Italy. Subsequently the legal provisions on foreign subsidiaries were amended to eliminate reference to the blacklist, specifying an objective criterion on the basis of which 'the tax systems, even special, of countries or territories are considered to be tax havens when the nominal taxation level is 50 per cent lower than that in Italy.'¹⁰⁰ Most recently, the obligation to file VAT communications with data on transactions involving economic operators headquartered, legally resident or domiciled in tax havens has been eliminated.¹⁰¹

It is difficult to identify tax haven countries based on the above objective criterion for two reasons. First of all, it is difficult to collect sufficient data on the level of national

⁹⁷ 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 August 2016 and FATF's list of high-risk and non-cooperative jurisdictions as at February 2016, and is consistent with the statistics released in the *Analisi e studi* series of the *Quaderni dell'antiriciclaggio* publication, which relate to 2016.

⁹⁸ See Section 1.3.

⁹⁹ Following the abrogation of the decrees, Angola, Kenya, Jamaica and Puerto Rico are no longer considered tax havens. As from 2017, the following countries will also be removed from the lists: Guatemala, US Virgin Islands, Kiribati, New Caledonia, Solomon Islands and St. Helena.

¹⁰⁰ The list does not include European Union countries. The nominal effective tax rate in Italy should be equal to the sum of the corporate income tax (IRES) and the regional tax on productive activity (IRAP) rates. For 2016 these rates were, respectively, 27.5 per cent and 3.9 per cent, for a total equal to 31.4 per cent. Therefore, a country would have to have a nominal rate of below 15.7 per cent to be considered a tax haven.

¹⁰¹ The changes were made by Law 208/2015 (2016 Stability Law) and by Law 225/2016, converting Decree Law 193/2016.

taxation and calculate its overall amount.¹⁰² Furthermore, as indicated by the Italian Revenue Agency, the determination of the foreign tax rate to be compared with that of Italy can vary from situation to situation based on the tax system and sector in which a company operates.

The only list that remains in force is that of countries for which Italian citizens residing in them must demonstrate the genuine nature of transfers for personal income tax (IRPEF) purposes.

Table 6.2 breaks down the value of credit transfers with tax havens and non-cooperative jurisdictions by Italian region of origin or destination.

By Italian region

Table 6.2

Credit transfers to and from tax havens and non-cooperative jurisdictions, by Italian region				
2016				
	Outward credit transfers	% of total	Inward credit transfers	% of total
	(millions of euros)		(millions of euros)	
North-West	44,127	67.7	44,197	59.5
Liguria	1,333	2.0	2,109	2.8
Lombardy	30,492	46.9	33,432	45.1
Piedmont	12,273	18.8	8,561	11.5
Valle d'Aosta	28	0.0	94	0.1
North-East	10,731	16.5	14,068	18.9
Emilia-Romagna	4,081	6.3	5,788	7.8
Friuli-Venezia Giulia	616	0.9	883	1.2
Trentino-Alto Adige	400	0.6	638	0.9
Veneto	5,633	8.7	6,759	9.0
Centre	8,675	13.3	12,269	16.5
Lazio	5,706	8.7	4,372	5.9
Marche	444	0.7	863	1.2
Tuscany	2,413	3.7	6,789	9.1
Umbria	112	0.2	245	0.3
South	1,342	2.1	3,171	4.3
Abruzzo	172	0.3	1,730	2.4
Basilicata	15	0.0	41	0.1
Calabria	49	0.1	91	0.1
Campania	814	1.3	878	1.2
Molise	12	0.0	34	0.0
Puglia	281	0.4	397	0.5
Islands	257	0.4	592	0.8
Sardinia	54	0.1	180	0.2
Sicily	203	0.3	412	0.6
Total for Italy	65,132	100.0	74,297	100.0

Note: Excludes transactions by general government entities and resident banks and financial institutions, not registered in the Single Electronic Archive, 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 as at 24 March 2017.

¹⁰² As a guideline, the amounts reported on the OECD site refer to just 35 countries and no non-EU country shows a tax rate lower than that of Italy. It does not seem that other sources that publish information on taxation can be applied easily or automatically.

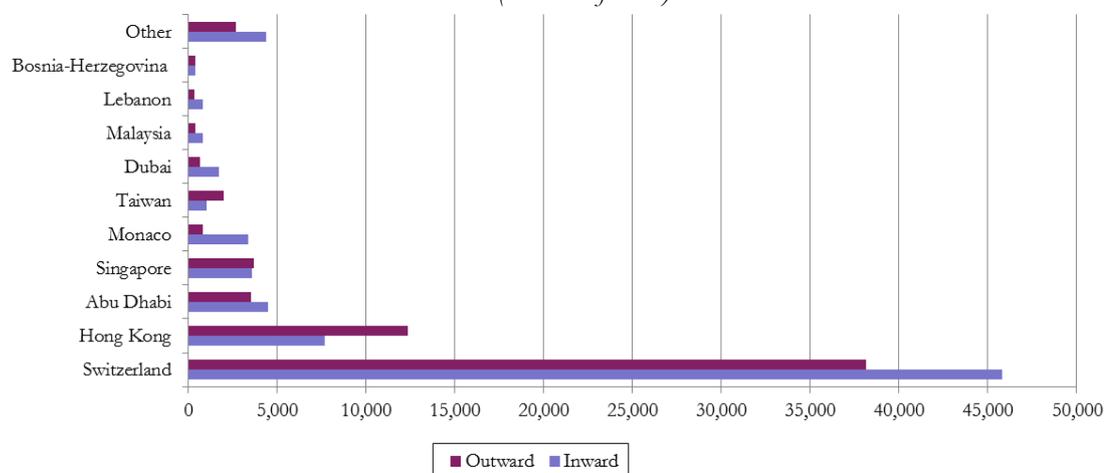
In 2016 the concentration of Italian transfers with tax havens and non-cooperative jurisdictions in the regions of the North-West increased (68 per cent of outward and 60 per cent of inward transfers), essentially owing to the growth for Piedmont. The decrease in the share of the regions of the North-East (17 per cent and 19 per cent) is in large part due to the smaller contribution of Veneto. The shares of Central Italy (around 15 per cent) and the regions of the South (2 per cent and 4 per cent) and the Islands (below 1 per cent) are more stable (see Table 6.2).

The territorial differences in the intensity of flows reflect to a large extent the structural characteristics of the individual areas, such as the size of economic activity and the degree of openness to foreign markets; through econometric analyses that take account of the economic ‘fundamentals’ of the foreign jurisdictions and the Italian geographical area, it is possible to identify any local anomalies (e.g. at the provincial level).¹⁰³

Figure 6.3 shows the primary flows to and from tax havens and non-cooperative jurisdictions. There has been a continual, gradual increase in the concentration by counterparty country of transfers in recent years: in 2016 six countries accounted for more than 90 per cent of the funds transferred (Switzerland, Hong Kong, Abu Dhabi, Singapore, the Principality of Monaco and Taiwan).

Figure 6.3

**Credit transfers to/from tax havens and non-cooperative jurisdictions
(2016)**
(millions of euros)



Note: Excludes transactions by general government entities and resident banks and financial institutions, not registered in the Single Electronic Archive, 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 as at 24 March 2017.

¹⁰³ For econometric evidence on outward flows and on the correlation between these and, respectively, the opaqueness of the destination country for the funds and the measures to combat crime and money laundering by the Italian province of origin, see Cassetta A., Pauselli C., Rizzica L., Tonello M. (2014), ‘Financial flows to tax havens: Determinants and anomalies’, UIF, *Quaderni dell’antiriciclaggio, Collana Analisi e studi*, 1.

In 2016 the UIF continued to collaborate, including using the SARA data for targeted inquiries, with supervisory authorities and other institutions involved in countering money laundering, organized crime and terrorist financing.

6.2. Aggregate data analysis and research

Data quality is a key factor in ensuring the reliability of the analyses of financial flows. To detect possible reporting errors at the moment they are acquired by the UIF, the aggregate data are subject to automatic statistical checks based on quantitative methods, which serve to detect not only incorrect data but also anomalous flows requiring further investigation by the reporting entity.

There are two types of controls: ‘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 financial intermediary with its own reporting pattern over the previous 12 months.

The data identified as anomalous by the control algorithms are sent to the intermediaries, which verify their accuracy and correct any reporting errors.

In 2016, following statistical checks, the UIF sent requests for verification involving around 30,000 aggregate records to 943 intermediaries (of which 618 banks). The share of records relating to erroneous data (rectified by the reporting entities based on the requests received) is small: in most cases they confirmed the data sent (94 per cent of the banks and 97 per cent of the other financial intermediaries). With regard to the data confirmed, in 543 cases (2 per cent of the total) the aggregate data confirmed was connected, as reported by the intermediaries, to suspicious transaction records already submitted to the UIF: this percentage is almost double that of the previous year. In another 291 cases, the intermediary, pursuant to the checks performed, communicated that it was considering filing an STR.

Statistical controls
on data accuracy

The UIF continued its analyses of the phenomena and operations of interest by making use of econometric techniques with the aim of contributing to the pool of knowledge on specific phenomena as well as developing operational guidelines for preventing and combating money laundering. The results of this work are used internally to identify sectors and geographical areas at risk and situations in need of closer scrutiny. The evidence is also shared with other institutions tasked with countering money laundering. The methodology and the general findings are published in the *Quaderni dell’Antiriciclaggio, Collana Analisi e studi*.

One of the main research activities of the UIF in 2016 was to refine, in collaboration with the Bank of Italy, for each bank the quantitative indicators of exposure to money laundering risks, to be deployed in planning off-site compliance

UIF-Bank of Italy
risk indicators...

checks and on-site inspections.¹⁰⁴ The indicators are based on each intermediary's business on a local basis. They help guide the UIF's monitoring of intermediaries and have been incorporated in the new money-laundering risk analysis model developed by the Bank of Italy in programming its supervisory activity, in accordance with FATF recommendations and the Fourth AML/CFT Directive.

... for on-site inspections and off-site assessments

The indicators are based on the main databases of the UIF (SARA, SOS) and the Bank of Italy's supervisory directorates (automated prudential returns): the statistics on the relevant variables (e.g. cash transactions, over-the-counter transactions, transfers with countries deemed at risk and bounced cheques) referring to each intermediary are compared, at the local level, with those of similar intermediaries and provide indications on the exposure of individual intermediary's local business activities to money laundering risks. The methodology was fine-tuned in two respects. First, a specific money laundering classification of banks was introduced to be used to select categories of banks in order to compare their respective local operations. In addition, a synthetic risk indicator was computed to measure each intermediary's overall risk exposure, in order to facilitate the use of the indicators by the UIF and the supervisory directorates of the Bank of Italy for their checking and control procedures.

Screening of sensitive flows

As part of the wide range monitoring of financial flows using SARA data, the UIF continued to examine the flows towards selected Arab and North African countries.

Positions of interest are identified in subsequent phases of analysis at rising levels of detail and detect anomalous peaks in flows relative to specific branches, types of customers and routes. The further analysis of the sample of positions of interest thus identified attains different goals: 1) gaining a better overall understanding of the main determinants and characteristics of the transactions underlying the flows monitored, 2) identifying any vulnerabilities in the prevention and control systems of the intermediaries and the authorities, and 3) detecting potentially anomalous or suspicious behaviours which are then reported to the investigative bodies for follow up.

Matching

The monitoring of SARA data to detect unreported potential anomalies – consistent with the UIF's increasingly proactive stance towards the prevention and fighting of money laundering and terrorist financing – has led to a statistical study to identify, through matching techniques, aggregate data containing financial transactions with characteristics similar to those of previously reported suspicious transactions. The project, currently in the development stage, cross references SARA data with STRs to develop and take advantage of the synergies found in the wealth of information available to the UIF.

Governance of the FIUs

The use of quantitative methods was also key in a study, near completion, of the governance structures and methods of operations of the FIUs of FATF member countries. Specifically the study focuses on the theoretical and empirical analysis of the

¹⁰⁴ See the UIF's [Annual Report](#) for 2014, page 68.

nexus between the governance structures of the FIUs and their independence, proposing appropriate indicators and providing an international comparison. The study was conducted in association with researchers at Università Bocconi.

The features of the FIUs taken into consideration include the intensiveness of financial functions, the effectiveness of investigative powers, and independence and accountability requirements. A ratings system for measuring the effectiveness of FIUs governance and of the tools available was developed based on the single determinants. The preliminary findings - on the basis of data from the third round of the mutual evaluations of the 34 FATF countries for the 2005-2011 period - suggest a statistically significant positive correlation between independence and accountability: the more independent the FIUs are, as measured by the indicators proposed in the study, the greater the external transparency of their operations.

In 2016 the analysis of the use of cash continued and was further expanded. The first econometric analysis of anomalies in Italian municipalities was completed in January and published in *Quaderno Antiriciclaggio, Collana analisi e studi*, 5.¹⁰⁵ The process of refining the model, with innovations to its approach and to the depth of analysis and the consequent anomaly indicators, is at an advanced stage. During the year, the UIF updated and published its 2011 study on the use of high-denomination banknotes as potential money-laundering tools.¹⁰⁶

Study on high-denomination banknotes

The study outlines the risks associated with the improper use of high-denomination banknotes by criminals, showing how the withdrawal of these banknotes is higher in areas bordering tax havens and emphasizing how the strong (albeit weakening) increase in demand for €500 notes observed over the years cannot easily be attributed to normal use. Although the study has been cited on numerous occasions, most recently in the Europol report *Why is cash still king?*, it was initially kept confidential and was only distributed among a limited circle of national and international authorities. The 2011 version of the work is published in the *Quaderno*, with an update based on 2015 data.

Overall, the information available to the UIF confirms the significant risks connected with the potential use of high-denomination banknotes for illegal activities and money laundering. On the basis of a similar line of reasoning, last year the ECB decided that it would suspend the printing of €500 banknotes, presumably at the end of 2018.

Among the studies and research conducted or begun in 2016 there is one, nearing completion, on discrepancies in the bilateral (or mirror) statistics concerning Italy's external trade at a highly detailed level of goods classification for each partner country. The study, conducted with the help of the Bank of Italy's Directorate General for Economics, Statistics and Research, uses an econometric model that,

Study on discrepancies in foreign trade data

¹⁰⁵ See note 96.

¹⁰⁶ Cassetta A., De Filippo A. and Roversi V. (2016), [‘L'utilizzo delle banconote di taglio elevato come potenziale strumento di riciclaggio: lo studio del 2011 con nota di aggiornamento’](#), UIF, *Quaderni dell'Antiriciclaggio, Collana Analisi e studi*, 6.

taking account of the structural causes of the discrepancies, detects anomalies in the data on sectoral bilateral flows potentially connected to the transfer abroad of illegal funds.

Big Data In 2016 the use of econometric techniques in research activities was coupled with the exploration of innovative analysis methods to study in greater depth possible uses for deploying the UIF's data. The UIF is therefore taking part in a project by the Bank of Italy to test the use of big data technology in analysing its databases.

By applying these techniques, the UIF can achieve benefits in terms of more efficiently gaining results from its analysis and of expanding the amount of usable data, such as, for example, unstructured data from open sources.¹⁰⁷ The testing, undertaken by a number of research institutes, focuses mainly on integrating official statistics with new types of information, constructing short-term forecasts (nowcasting) and sentiment indicators (i.e. sentiment analysis).

In the context of the operational implications of the use of quantitative methods, the UIF has begun to make experimental use of the findings reported in the econometric analysis of STR ratings. The analysis, described in the Annual Report for 2015,¹⁰⁸ is another tool available to analysts to assess the importance of the STRs received, taking a risk-based approach.¹⁰⁹

Other activities Finally, the UIF continues to participate in national and international academic debate on economics, law and crime prevention. In 2016 the UIF organized, together with Università Bocconi, the second edition of the workshop on quantitative methods to counter economic crime.

Second UIF-Bocconi workshop on quantitative methods to counter economic crime

The UIF, in partnership with the Baffi-Carefin Centre for Applied Research on International Markets, Banking, Finance and Regulation of Università Bocconi in Milan, hosted the second edition of the workshop on 'Quantitative methods to counter economic crime', held in June 2016 at the university.

The workshop provides an opportunity for academics and institutions to share quantitative analysis techniques that may be used in various areas to prevent and counter economic crimes. In addition to the experts from the UIF and Università Bocconi, the workshop was attended by representatives of the Finance Police and the Italian Revenue Agency, economists from the Bank of Italy's Directorate General for Economics, Statistics and Research and researchers from other universities.

In addition to advanced techniques for detecting anomalous uses of cash at municipality level, the UIF presented the study on FIU governance referred to above. Some Bank of Italy researchers presented a model for estimating undeclared assets held

¹⁰⁷ The term 'big data' refers to all data, usually unstructured, that are voluminous, updated at high speed and of multiple types.

¹⁰⁸ See UIF [Annual Report for 2015](#), page 72.

¹⁰⁹ See Section 3.3.

abroad based on mirror data on portfolio assets and bank deposits: the stock estimated at the end of 2013 for Italy was between €150 million and €200 million. An analysis of the balance sheets of the Italian municipalities whose councils were dissolved due to mafia infiltration between 1998 and 2013, described by a researcher from the London School of Economics, demonstrated that the infiltration of local administrative institutions by organized crime does not have a detectable impact on the level of local public spending, but rather on the composition of such spending through, for example, increased investment in the construction sector. Some researchers at the University of Palermo presented network analysis methods that, in cooperation with the prosecutors in Palermo, are used to examine crime specialization profiles for a sample of persons convicted for organized crime-related offences.

Studies conducted by the UIF were presented at conferences in Italy and abroad on scientific issues of institutional interest. The UIF continued to serve as an associate partner in a project for developing models to assess national money-laundering risk coordinated by Transcrime, the Joint Research Centre on Transnational Crime hosted by Università Cattolica in Milan and funded by the European Union.¹¹⁰

6.3. Gold trade declarations

The law governing the market in gold in Italy provides that transactions involving investment in gold or gold materials for mainly industrial uses (other than jewellery) be declared to the UIF. This requirement applies to the cross-border trade or transfer of gold for amounts of €12,500 or more.¹¹¹

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.

Two types of declarations exist: ‘ex post’ declarations, which are monthly and include all the transactions made in the reference period, and ‘ex ante’ declarations, for physical transfers of gold abroad.

In 2016 the declaration receipt system registered 109 new reporting entities, bringing the total number of reporting entities to 601 (see Table 6.3). The new entrants were largely private persons, i.e. not banks or professional gold dealers, of whom a significant portion are natural persons.

¹¹⁰Identifying and Assessing the Risk of Money Laundering in Europe’ (HOME/2013/ISEC/AG/FINEC/400005193) research project, funded by the ‘Prevention of and Fight against Crime’ EU programme of 2013, which is part of the ‘Financial and Economic Crime’ category.

¹¹¹ Law 7/2000, as amended.

Table 6.3

Categories of reporting entities engaged in transactions in gold			
2016			
Type of reporting entity	Number of reporting entities registered	Number of reporting entities active	Number of declarations ¹
Banks	81	55	8,769
Professional gold dealers	402	356	34,816
Private natural persons	73	34	43
Private legal persons	45	25	220
Total	601	470	43,848

¹ Includes 'ex post' and 'ex ante' declarations.

Statistics on gold trade declarations

As to 'ex post' declarations, there were just under 100,000 gold purchases and sales declared in 2016, more or less the same as a year earlier (see Table 6.4). The total amount declared (around €13 billion) was 6 per cent lower, despite gold prices having risen, owing to the decrease in quantities of gold traded. Physical transfers of gold abroad rose significantly in 2016, both in terms of number of declarations made (from 9 to 53) and amounts traded (€1 million to €13 million).

Table 6.4

'Ex post' declarations of transactions in gold			
2016			
Type of transaction	Number of declarations	Number of transactions	Declared value (millions of euros)
Sale	39,544	100,285	13,452
Gold loan (concession)	1,970	3,623	1,090
Gold loan (restitution)	581	645	68
Other non-financial transactions	160	164	207
Personal imports of gold	53	53	13
Transfer as collateral	2	3	0 ¹
Delivery services for investment in gold	503	504	165
Total	42,813	105,277	14,995

¹ The total amount declared for transfer as collateral was €0.1 million in 2016.

Compared with 2015, the share of industrial gold traded rose considerably (from 36 per cent to 42 per cent) diminishing the share of gold for investment (from 57 per cent to 51 per cent). The share of declarations for composite transactions for which it is not possible to identify the main purpose of the gold transfer remained at 7 per cent.

Among the reporting entities, banks accounted for 25 per cent (28 per cent in 2015) and professional gold dealers for 75 per cent (from 72 per cent in 2015). Although the share of private individuals continues to be marginal (0.5 per cent), there was a marked increase in absolute terms in declarations submitted by persons other than banks and professional gold dealers: the number of declarations submitted rose from 271 to 423, as did the amount involved (from €25 million to €85 million) and the value of gold transferred as collateral in trust (from €2 million to almost €8 million). These developments may be attributable to the repatriation of assets in connection with the voluntary disclosure programme.

The geographical distribution of Italian counterparties remains highly concentrated, with Arezzo, Vicenza and Alessandria, traditionally specializing in gold-working, accounting for 61 per cent of the market for the period, slightly down from the previous year (65 per cent).

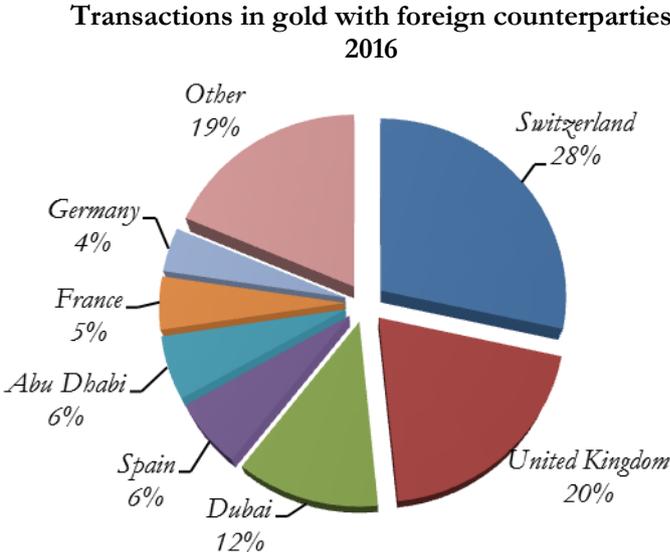
Italian counterparties

In 2016, the total value of transactions with foreign counterparties remained around one third of the total at about €5 billion. The top five countries accounted for 72 per cent of the total (see Figure 6.4).

Foreign counterparties

Switzerland's share decreased again from 31 per cent in 2015 to 28 per cent in 2016. There was a decline as well in the shares of the United Kingdom (from 27 per cent to 20 per cent) and Germany (from 7 per cent to 4 per cent), the opposite of the previous year. There was an increase in amounts transferred to and from counterparties in Dubai (from 9 per cent to 12 per cent) and Abu Dhabi (from 3 per cent to 6 per cent).

Figure 6.4



'Ex ante' declarations are only for physical transfers of gold abroad, which must be submitted before the gold crosses the border. If the transfer does not involve a change in ownership, the 'ex ante' declaration is the only source of information on the transfer.

Statistics on 'ex ante' gold trade declarations

Table 6.5

'Ex ante' declarations¹ (transfers of gold abroad)		
2016		
Type of transaction	Number of declarations/transactions	Declared value (millions of euros)
Sales	996	1,308
Unclassified	30	12
Other non-financial transactions	2	5
Gold loan (restitution)	6	1
Transfer as collateral	1	0 ²
Total	1,035	1,326

¹ 'Ex ante' declarations are included in 'ex post' declarations in cases in which they underlie commercial or financial transactions.

² The amount declared for transfers as collateral totalled €0.4 million in 2016.

Most of the 'ex ante' declarations continue to refer to transactions connected to gold sales, which are therefore included under 'ex post' declarations (99 per cent in terms of total value; see Table 6.5). The total value of 'ex ante' declarations not connected to other transactions is marginal.

The UIF's cooperation with the competent authorities tasked with preventing and countering crime extends to the data in the gold trade declarations. In 2016 the FIU responded to 19 requests for information.

7. CONTROLS

7.1. Inspections

The UIF contributes to preventing and combating money laundering and the financing of terrorism in part through on-site inspections of entities subject to reporting requirements.¹¹² L'accertamento ispettivo è uno strumento non ordinario che si affianca agli approfondimenti cartolari, al fine di verificare il rispetto degli obblighi di collaborazione attiva e di acquisire informazioni rilevanti su operatività e fenomeni.

The UIF conducts general inspections to look more closely at sectors and operations at risk and to check the adequacy of the procedures for reporting suspicious transactions and that the active cooperation obligations are being fulfilled. It also carries out targeted inspections to verify and expand upon specific information acquired during the analysis of STRs or received from foreign FIUs, or else to meet the requirements regarding cooperation with judicial authorities, investigative bodies and the supervisory authorities for the sector.

The UIF carries out inspections on a selective and targeted basis by means of risk-based planning, which takes account of the degree of exposure to the risks of money laundering and the financing of terrorism of the various categories of obliged entities and of the control measures of other authorities.

Since 2016, driven by the persistent terrorist threat, the UIF's inspections involving terrorist financing were also geared towards prevention and intelligence gathering.

In 2016 the UIF carried out 23 on-site inspections (see Table 7.1), of which 15 were general and 8 were targeted, including 6 focused on combatting the financing of terrorism.

Table 7.1

	Inspections				
	2012	2013	2014	2015	2016
Number of inspections	17	21	24	24	23

The planning of the general inspections for 2016 was consistent with the previous year and remained focused on compliance with reporting duties and on gathering information and analysing new sectors.

¹¹² Articles 47 and 53 (4) of Legislative Decree 231/2007.

Again in 2016, the entities to be inspected were chosen on the basis of criteria which could be indicative of deficiencies in the areas of active cooperation or increased exposure to the risks of money laundering and terrorist financing, namely: the absence or low number of STRs; parties repeatedly mentioned in STRs transmitted by other obliged entities in their reports; information provided by investigative bodies or by sector supervisory authorities; detrimental information concerning the reporting entity, or its customers, drawn from statements or public sources. The planning took account of the areas of risk highlighted in the National Risk Assessment conducted by the Financial Security Committee in 2014 and in the Mutual Evaluation of Italy carried out by FATF in 2014-15.¹¹³

In implementing these strategies, the UIF performed additional inspections of operators in the money transfer sector under the umbrella of a specific programme launched the year before, in coordination with the Special Foreign Exchange Unit of the Finance Police and the Bank of Italy, owing to the high risk of money laundering and terrorist financing to which the sector is vulnerable.¹¹⁴

The inspections made at branches of EU payment institutions that operate in Italy through various agents confirmed the vulnerabilities of the distribution network, in part owing to the lack of a suitable European regulatory framework that envisages coordination between national authorities responsible for controls. The UIF's inspection campaign in the money transfer sector and cooperation with the Bank of Italy's Directorate General for Financial Supervision and Regulation led to the issue of restraining orders or the starting of crisis procedures by the competent authorities against operators due to inadequate transaction monitoring systems. In four cases the competent Italian and foreign supervisory authorities revoked authorizations to operate; in one case the intermediary was able to avoid a temporary operational ban by making structural changes to its organization.

Inspections continued to be carried out in the cash-in-transit and in the gaming sectors, both of which are cash intensive and therefore particularly vulnerable to infiltration of funds of dubious origin or destination; so far these sectors lack suitable anti-money laundering regulations.

The inspections of gaming operators reinforced the need for anti-money laundering regulations designed to impose liability on the distribution network made up of providers and firms and to mitigate the risks inherent to certain types of gaming, such as video lottery terminals, owing to the high usage of cash in amounts below reporting thresholds and the inadequate traceability of transactions.

Inspections of some operators in the financial sector, such as trust companies and auditing firms, revealed problems relating to the prevention of money laundering in connection with the acquisition of customers through other professionals, the failure to update customers' subjective risk profiles and the consequent difficulties encountered in ongoing monitoring, and in the use of all information available or obtainable in assessing STRs.

¹¹³ See note 5.

¹¹⁴ See note 8.

In 2016 the UIF started a programme of measures to combat terrorist financing that were aimed at leading banking groups.¹¹⁵ During related on-site inspections, the UIF checked out several accounts held in the names of parties reported by other domestic or foreign authorities that were deemed risky and it verified the characteristics of the financial transactions carried out by these parties. In choosing the banks to be inspected, the UIF took account of: their market shares in the financial services segments deemed most vulnerable to use for these purposes (issue and management of payment cards, money transfers and consumer credit); of the extensiveness of their distribution networks; and of whether they had branches abroad.

To help stimulate the development of an anti-money laundering culture within general government and to verify the effectiveness of the specific anomaly indicators issued in 2015 by the Ministry of the Interior following a proposal by the UIF,¹¹⁶ in early 2016 the very first inspection was conducted of a public institution with responsibilities in a sector that is potentially critical from an anti-money laundering standpoint; given the distinctiveness of the entity inspected and the novelty of the initiative, the inspection was carried out primarily for information-gathering purposes and was designed to provide consultancy and support services to help the institution adopt appropriate tools and procedures for identifying risky transactions.

Based on the inspections carried out in 2016, the UIF transmitted the required reports to the judicial authority on evidence of possible criminal activity and initiated sanction proceedings for administrative violations, sending the records of its findings to the Ministry of Economy and Finance for follow-up.

7.2. Sanction procedures

The anti-money laundering regulatory framework envisages a complex system of administrative sanctions designed to punish violations of its obligations. The UIF ascertains and contests violations of obligations to report suspicious transactions. The Ministry of Economy and Finance conducts the relative proceedings and imposes any sanctions.

Given the wide range of entities subject to reporting requirements, the sanction measures perform a significant enforcement and deterrence function, but are only complementary to those that derive from the overall system of organizational safeguards imposed by legislation, from the controls performed by various authorities and from the risks of a criminal nature.

The UIF calibrates its measures to the strategies adopted during inspections, highlighting the omissions indicative of lack of attention to active cooperation and the true risks of money laundering or the financing of terrorism.

¹¹⁵ See Section 5.5.

¹¹⁶ Decree of the Minister of the Interior of 25 September 2015.

In 2016 a total of 17 proceedings were initiated (14 following on-site inspections and 3 on the basis of off-site assessments) for the application of pecuniary administrative sanctions for failing to report suspicious transactions (see Table 7.2). In all the UIF contested unreported suspicious transactions for a total value of around €168 million.¹¹⁷ It also began a sanction proceeding for violation of the obligation to transmit aggregate data.¹¹⁸

During the same year eight sanction proceedings were conducted for violations of the obligation to freeze funds and financial resources in accordance with the law on the financing of terrorism;¹¹⁹ specifically the UIF initiated four proceedings following inspections and, for the other four, the UIF carried out the investigation and transmitted its report to the MEF.¹²⁰

With reference to the law on gold trading,¹²¹ the UIF ran investigations for five sanction proceedings in 2016 for failure to make the required declaration of transactions involving gold transfers or trades with a value of €12,500 or more.

Table 7.2

Administrative irregularities					
	2012	2013	2014	2015	2016
Failure to report a suspicious transaction	39	29	11	32	17
Failure to transmit aggregate data	-	-	-	-	1
Failure to report a transaction in gold	7	7	8	7	5
Failure to freeze funds and financial resources	-	7	8	10	8

In relation to investigations concerning sanctions for the second and third categories of violation in the table, the UIF arranged hearings for those parties that requested one and submitted reports of its findings to the MEF for the possible application of sanctions.

¹¹⁷ The amount reported, considerably higher than that of the previous year (€51 million), is attributable to the large number of unreported transactions that were discovered during the course of two inspections.

¹¹⁸ See Chapter 6.

¹¹⁹ See Section 8.2.1.

¹²⁰ Article 31 of Presidential Decree 148/1988.

¹²¹ See Section 6.3.

8. COOPERATION WITH OTHER AUTHORITIES

8.1. Cooperation with the judicial authorities

International and European principles and rules seek large-scale cooperation among the authorities responsible for preventing and combating money laundering and terrorist financing. Using a variety of channels and networks for exchanging information, national legislation offers fruitful opportunities for coordinating and synergizing prevention and suppression actions, giving rise to various sorts of collaboration with investigative bodies and the judiciary, within the limits of the law.

Without prejudice to its reporting obligation pursuant to Article 331 of the Code of Criminal Procedure – in relation to crimes uncovered in the performance of its duties - the UIF provides information gathered in the course of its in-depth analyses and inspections that could be useful for launching or pursuing investigations into money laundering, self-laundering, their predicate crimes and terrorist financing. Judicial authorities use the UIF’s information and analysis to prosecute criminal offences and confiscate illegal assets.

In turn, the judiciary and investigative bodies share information with the UIF. Thanks to this exchange, the UIF can work more effectively, expanding its knowledge of criminal typologies and practices.

In 2016 the UIF continued to cooperate very closely with investigative bodies and judicial authorities, including on various investigations that came to the public’s attention, developing new forms of cooperation in response to the terrorist threat.

The total number of information exchanges is in line with that reported in 2015 (see Table 8.1).

Table 8.1

Cooperation with the judicial authorities					
	2012	2013	2014	2015	2016
Information requests by judicial authorities	247	216	265	259	241
Responses	217	445	393	432	473

The UIF carried out analyses in support of investigations into criminal organizations, including cross-border ones, corruption, fraud and misappropriation of funds from public bodies and money laundering. The UIF’s contribution was also sought in connection with extortion, usury, organized crime, unauthorized banking and financial activities, tax offences and bankruptcy-related crimes and combating the financing of terrorism.

Specifically, the UIF cooperated in investigations involving terrorism led by the Carabinieri’s Special Operations Group at the instruction of the judicial authorities. The

UIF made important contributions to organized crime investigations conducted by the judiciary with the assistance of the State Police’s Central Operations Service.

Reports

The number of complaints made pursuant to Article 331 of the Code of Criminal Procedure decreased compared with 2015 to a level equal to around double the figure for 2014. The number of informative reports for investigative purposes is essentially the same as in 2015 (see Table 8.2).

Table 8.2

Reports to the judicial authorities			
	2014	2015	2016
Complaints under Article 331 of the Code	85	233	157
<i>of which:</i>			
<i>Submitted to judicial authorities</i>	7	5	2
<i>Made in connection with the technical reports sent to investigative bodies</i>	78	228	155
Informative reports for investigative purposes	23	17	16

In 2016 the UIF continued to share its experience and technical expertise with public prosecutor’s offices, taking account of their respective roles in the AML-CFT framework. Cooperation with prosecutors in Rome, Milan, Naples and Palermo was particularly strong.

National Anti-Mafia Directorate panel of experts

The UIF continued to work with the National Anti-Mafia Directorate¹²² and through it with a number of District Anti-Mafia Departments, as well as with police forces appointed to conduct investigations.

A permanent panel of experts was set up at the National Anti-Mafia Directorate, which also includes the Customs and Monopolies Agency. The panel addresses common problems and promotes financial and pre-investigative analysis. The results of such analyses can be compared and the data shared during periodic meetings.

SAFE

Drawing from the positive experience of using protected digital communications with some public prosecutor’s offices, the UIF is preparing to launch a new system for managing information exchanges (SAFE) that will encompass other national authorities and foreign FIUs as well. The initiative seeks to expand the use of digital channels and to computerize all information exchange (electronic files).

Memorandums of understanding between the UIF and the Milan and Rome public prosecutor’s offices

The UIF signed two memorandums of understanding with the public prosecutor’s offices of Milan (27 January 2017) and Rome (9 May 2017) to make more

¹²² Decree Law 7/2015, converted into Law 43/2015.

effective and efficient their close collaboration in the areas of preventing and combating financial crimes, terrorist financing and money laundering of illegal funds by fully implementing the rules and regulations on information sharing.

The memorandums establish the framework for cooperation between the public prosecutor's offices and the UIF and endorse existing best practices, regulate the sharing of information of mutual interest, and call for identifying subject areas in which to conduct joint analysis of facts and information.

They regulate the ways in which the documentation can be used in order to protect the confidentiality of the information and the persons involved in prevention efforts and to allow the electronic exchange of data. Reciprocal training initiatives are also envisaged.

They also encourage further cooperation in the face of increasingly sophisticated criminal, and even terrorist, threats, reinforcing synergies to intercept the financial resources that facilitate such threats.

The UIF participates in courses for trainee magistrates organized by the *Scuola Superiore della Magistratura* to promote the opportunities provided by mutual cooperation by illustrating the work of the UIF.

In this respect, following similar initiatives undertaken with the public prosecutor's office of Milan in recent years, relations with the public prosecutor's office of Rome were strengthened through the reciprocal attendance of internal training seminars to share knowledge of the duties and tools of prevention and suppression activities. A closer dialogue between the various participants and a sharing of knowledge of methods and information help maximize the degree of utilization and effectiveness of the measures adopted by the authorities responsible for preventing and combating money laundering and terrorist financing.

8.2. Cooperation with the Ministry of Economy and Finance and the Financial Security Committee and other forms of cooperation

The UIF cooperates with the Ministry of Economy and Finance, providing support in formulating prevention policies, drafting the rules, creating links with international organizations, and in the area of sanctions.

It participates in the work of the Financial Security Committee, set up within the Ministry, performing analysis and coordination in the area of preventing the use of the financial and economic system for money laundering or the financing of terrorism. All the authorities involved in the prevention system are represented on the Committee, which serves as a focal point for developing strategies to deal with known threats, including those resulting from the national assessment of money laundering and financing of terrorism risks. The Committee manages the adoption of international sanctions, liaising with all the relevant administrations and entities in the sector.

In the course of its work the Committee uses a network of experts, made up of designated representatives, including one from the UIF. The network carries out

analysis and coordination, summarizes the questions on the agenda of the Committee's meetings, collects data to support the Committee's work by contributing to the drafting of documents on topics requiring the group's approval, and studies the topics brought to the Committee's attention.

In November 2015 the Financial Security Committee (FSC) set up a working group to prepare the action plan, indicating priority levels and implementation times, to be undertaken to address the shortcomings noted in the FATF's mutual evaluation of Italy's system for preventing and combating money laundering and terrorist financing.¹²³ On 15 March 2016 the FSC approved the 'Action Plan', which must be periodically updated to monitor the planned activities. This monitoring is carried out by the network of experts under a specific mandate.

As to the UIF's activity, the Action Plan identifies, among the critical issues to be solved, the lack of access by the UIF to investigative data to enable it to perform its analyses, as required by FATF standards, and the limited number of police forces (Special Foreign Exchange Unit and Anti-Mafia Investigation Department) and institutions that receive selected information from the UIF drawn from suspicious transactions reports and the relative analyses. The recent FATF evaluation stressed that in this context it is not possible to develop adequate cooperation with other police forces and with interested agencies and authorities, such as the Revenue Agency and the National Anti-Corruption Authority (ANAC).

The FSC is responsible for preparing the National Risk Assessment (NRA) of money laundering and terrorist financing. According to the methodology approved in 2014, the NRA must be updated in 2017. The UIF, like the other authorities that take part in the FSC, cooperates in the envisaged activities.

If a joint examination of questions raised by operators is required or if it is necessary to answer questions on the interpretation of AML/CFT regulations, the UIF cooperates with the authorities participating in the panel of experts set up for this purpose at the MEF.

8.2.1. Lists of 'designated' persons and measures to freeze funds

The UIF monitors the implementation of measures to freeze funds and financial resources;¹²⁴ targeted financial sanctions essentially serve to combat the financing of terrorism and the activities of countries that threaten international peace and security.

The UIF therefore also collects information and financial data on funds and financial resources subject to freezing and assists in the dissemination and updating of lists of designated persons. All obliged entities have 30 days in which to notify the UIF

¹²³ See note 5.

¹²⁴ Article 10(1) of Legislative Decree 109/2007.

of the adoption of measures to freeze the funds of designated persons, and communicate any other news or information pertaining to such persons.¹²⁵

In 2016 the UIF received 27 notifications of asset freezes relating to natural or legal persons on the lists of those subject to financial sanctions. Most of the cases referred to updates of transactions on accounts held by designated Iranian and Syrian banks which have been specifically authorized by the Financial Security Committee under the conditions provided for under EU law.

The drastic reduction in the amounts attributable to Iranians that were frozen compared with the previous year (€8.5 million compared with about €1.7 billion in 2015) is due to the lifting of most of the financial sanctions against Iran starting on Implementation Day (16 January 2016)¹²⁶ and the delisting of numerous entities, including most of the Iranian banks that maintain current accounts at Italian banks. There was a decline as well in the freezing of funds that can be traced to designated persons belonging to ISIL or Al-Qaeda (list annexed to Council Regulation (EC) 881/2002), owing to the delisting of a number of persons who hold accounts with Italian intermediaries since the investigative elements collected against them had not been confirmed.

Table 8.3

Measures to freeze funds at 31/12/2016					
	Accounts and transactions	Persons	Amounts frozen		
			EUR	USD	CHF
ISIL e Al-Qaeda	42	30	64,147	1,408	50
Iran	14	3	1,041,799	-	37,593
Libya	7	4	125,503	132,357	-
Syria	28	5	18,502,436	240,825	149,872
Ukraine/Russia	4	1	16,139	-	-
TOTAL	95	43	19,750,024	374,589	187,516

With regard to the fight against the financing of the proliferation of weapons of mass destruction, the European Union recently adopted new financial sanctions against North Korea, introducing a system of requiring authorization for certain categories of fund transfers and requiring financial intermediaries to report to the FIUs suspicious transactions that could be linked to possible violations.

The EU also imposed additional restrictions on relations with the government of North Korea, such as a prohibition on making available for use real property (except as

¹²⁵ Article 7 of Legislative Decree 109/2007.

¹²⁶ Council Regulation (EU) 2015/1861.

related to the conduct of diplomatic or consular missions) and the obligation to close bank accounts held by diplomatic or consular missions and their representatives (although a single account in the country may be allowed with the prior authorization, in the case of Italy, of the FSC). As part of its participation in the work of the FSC, the UIF helped by performing the assessments assigned to it concerning compliance with this legislation.

8.3. Cooperation with supervisory authorities and other institutions

The legislation promotes cooperation between the various competent authorities and institutions at national level, by providing that, notwithstanding official secrecy, supervisory authorities cooperate with one another and with the UIF, the Finance Police and the Anti-Mafia Investigation Department (DIA), including by exchanging information, so as to aid them in performing their respective roles. Explicit obligations to report to the UIF are established by these supervisory authorities, governmental entities concerned and professional bodies.

Information
exchange with the
Bank of Italy

The exchange of information between the UIF and the Bank of Italy's supervisory directorates continued to be vigorous and constructive. The directorates disclosed to the UIF reports of possible failure in active cooperation on the part of obliged entities, discovered mainly through inspections. The reports were investigated by the UIF and, in some cases, resulted in the initiation of administrative proceedings to impose sanctions for failure to report a suspicious transaction.

The UIF, in turn, sent the supervisory directorates reports on dysfunctions at some financial intermediaries relating to their organizational structure, customer due diligence and recording of data in the single database. The exchange of information following inspections in the money transfer sector was particularly important.¹²⁷

... with CONSOB

There was continued cooperation with Consob. The exchange of information involved notifications to the UIF of failures to submit STRs uncovered in the course of its inspections and analyses of market abuse. The UIF sent information to Consob relating primarily to anomalous transactions by financial consultants.

... and with l'IVASS

In 2016 cooperation with IVASS became closer. Information was exchanged mainly regarding the acquisition of equity in insurance companies in order to verify the lack of grounds for suspicion of connections with money laundering or the financing of terrorism.

The requests for information sent from IVASS often originated with its foreign counterparts in connection with local supervisory authorities. Given the confidentiality requirements applicable to shared data, the UIF transmitted to the FIUs of the countries involved the data contained in its archives for use in any money laundering analysis profiles, providing its consent to inform local insurance supervisory authorities,

¹²⁷ See Section 7.1.

in accordance with the restrictions imposed by domestic and international laws. IVASS was informed of these procedures for cooperating with the foreign authorities involved.

Based on the analyses carried out by the UIF on trust companies and gaming operators, information was shared with the relevant offices of the Ministry of Economic Development and the Customs Agency.

**Ministry of
Economic
Development and
the Customs and
Monopolies
Agency**

The UIF continued to work with ANAC in 2016 to define strategies and tools for preventing and combating corruption. Specifically, the UIF contributed to the drafting of the 2016 National Anti-Corruption Plan.

**National Anti-
Corruption
Authority**

The Plan is an important tool for encouraging the adoption of shared methodologies and practices by general government entities to prevent behaviour that could undermine the legality and impartiality of administrative action.

In 2016 the UIF continued to advise the Ministry of Justice, providing its opinions on the codes of conduct for preventing crime drawn up by representative associations.¹²⁸ Nell'ambito dell'apposito tavolo tecnico costituito presso il Ministero, la UIF ha curato altresì l'elaborazione di una nuova metodologia per la redazione dei predetti codici di comportamento in materia di responsabilità amministrativa degli enti.

**Ministry of
Justice**

Specifically, the UIF helped draft the guidelines for evaluating codes of conduct and verifying new organizational ideas to make checking procedures more efficient in terms of entities' responsibilities.

¹²⁸ Article 25-*octies* of Legislative Decree 231/2001.

9. INTERNATIONAL COOPERATION

9.1. Exchange of information with foreign FIUs

Within the international anti-money laundering regulatory framework, FIUs are given centralized responsibility for the tasks connected to receiving and analysing suspicious transaction reports and the related exchange of information with their foreign counterparties. The latter function is essential for the analysis of financial flows that, more and more, extend beyond national borders, and are therefore of interest to several jurisdictions.

At global level, cooperation between FIUs is governed by the Egmont Group standards within the framework of the FATF Recommendations. The standards require FIUs to provide, either spontaneously or on request, and in a timely, constructive and effective manner, the utmost cooperation at international level in the field of money laundering, associated predicate offences, and the financing of terrorism. The FIUs' capacity to exchange information is autonomous and direct, with no need for international treaties between governments. Whenever a Memorandum of Understanding is required for cooperation with a FIU, this must be negotiated and signed in a timely manner.

In accordance with the principle of 'multidisciplinarity', for the purposes of domestic analysis and reciprocal exchanges the FIUs must have access to 'financial, investigative and administrative' information. In addition, international standards and the Fourth AML/CFT Directive provide that FIUs deal with the requests for information by exercising the same powers available to them for domestic analysis.

The exchange of information between FIUs takes place using rapid and secure electronic communication systems. At international level, the Egmont Group manages and develops the Egmont Secure Web, an encrypted platform for the exchange of information between FIUs.

At EU level, a decentralized communications infrastructure called FIU.NET was launched, permitting a structured, bilateral or multilateral exchange of information and, at the same time, offering standardization and immediate and secure data exchange.

Since 1 January 2016, FIU.NET has been hosted by Europol. On the basis of a Common Understanding, Europol must ensure the full functional equivalence with the previous system and the development of more sophisticated forms of cooperation. The European FIUs continue to participate in the governance and decision-making processes relating to FIU.NET through an Advisory Group appointed by the FIU Platform and called upon to issue opinions and proposals vis-à-vis the competent Europol decision-making bodies.

Exchanges of information have proven essential in reconstructing the use of funds and financial instruments in other countries on the part of persons under investigation in Italy and to detect the interpositioning of companies, trusts and other foreign-based trust schemes. International cooperation has also allowed us to detect

schemes based on establishing company structures and carrying out transactions in several countries in order to exploit loopholes in the safeguards and controls.

The information network between FIUs has proven essential in countering the financing of terrorism.¹²⁹

Overall, in 2016 the UIF exchanged information with 87 FIUs, of which 27 from EU countries.

As part of its remit to analyse STRs, the UIF sends requests for information to foreign FIUs whenever subjective or objective links with other countries come to light. The requests usually seek to reconstruct the origin or use of funds transferred to or from other jurisdictions, to identify movable or immovable assets abroad, and to clarify the beneficial ownership of companies or entities established in other countries.

The cooperation of the UIF with its foreign counterparties is of fundamental importance to the analysis of STRs and to detect cases of economic crime and money laundering on a transnational scale. The exchange of information enables the UIF to provide investigative bodies and judicial authorities with additional information to support their criminal investigations and proceedings. The information thus obtained proves very useful for the development of investigations and criminal proceedings and the use of letters rogatory. Experience has shown that, thanks to this cooperation network with its foreign counterparties, the UIF is able to intercept and quickly recover any cash flows channelled towards other jurisdictions.

The number of requests for information sent by the UIF totalled 544. The number of requests made for the purpose of analysing STRs continued its upward trend, driven by the detection of significant foreign links (Table 9.1).

Requests sent to foreign FIUs

Table 9.1

Requests sent to FIUs in other countries					
	2012	2013	2014	2015	2016
Information required for the judicial authority	137	124	146	217	204
Information required for internal analysis	80	56	242	323	340
Total	217	180	388	540	544

The use of ‘known/unknown’ requests whose sole objective is to determine the existence of reports on given persons or entities in other countries has been gradually reduced in favour of justified requests, which are better suited to support analysis; greater use of the more sophisticated matching tool available within FIU.NET will yield broader and more systematic information on name matches with other European FIUs.

¹²⁹ See Section 5.3.

**Requests
received from
foreign FIUs**

In 2016 the UIF received a total 3,314 requests and spontaneous communications from FIUs in other countries, marking a sharp increase on previous years (up by 54 per cent on 2015 and by 250 per cent on 2014), mainly owing to exchanges of information on ISIL and to cross-border reports. The flow of information coming from European FIUs through the FIU.NET confirmed this is a channel of significant and growing importance. Over the course of the year, 1,568 responses, including feedback on communications, were sent by the UIF to foreign counterparties (up by 28 per cent compared with the previous year), and 1,430 communications originating from international cooperation with other FIUs were sent, with their consent, to the NSPV and DIA (up by 65 per cent on the previous year) in support of investigations. (see Table 9.2).

The UIF conducts specific analyses on the cases that emerge from the requests for information and the communications sent from other countries to examine the links with Italy and identify aspects of interest to it. The requests and communications received made it possible to identify and look more closely into transactions that were not reported because they were not deemed anomalous in light of the information available to the Italian obliged entities.

Table 9.2

Requests/spontaneous communications received and responses provided					
	2012	2013	2014	2015	2016
Egmont network	429	519	486	1,078	1,259
<i>Requests/spontaneous communications</i>	429	519	486	695	723
<i>Exchanges re ISIL</i>				383	536
FIU.NET	294	274	453	1,075	2,055
<i>Requests/spontaneous communications</i>	294	274	453	518	580
<i>Cross-border report</i>				557	1,475
Total	723	793	939	2,153	3,314
Responses provided*	805	1,066	1,144	1,223	1,568
Communications to investigative bodies	380	557	713	868	1,430

(*)Refers to responses to requests for information and to feedback on communications, given when necessary.

Since 2015 the Egmont channel has also been used for the 'ISIL project'¹³⁰ with a view to sharing and examining more closely information on persons or entities and on support networks identified through objective elements (e.g. places of origin or destination, connections between the persons or entities involved, or prior information including that available from open sources), before actual suspicion emerges. The data are transmitted simultaneously to all the potentially concerned FIUs, including in cases in which there are no specific links between the detected activities and the relevant jurisdictions. This makes it possible to share preventive intelligence and foster the exchange of information to identify further anomalous elements.

Multilateral exchanges on ISIL

In 2016 there were 536 multilateral exchanges of information connected to the ISIL project, marking a 40 per cent increase on the previous year, when 383 exchanges were recorded.¹³¹

Alongside the exchanges of requests and spontaneous communications between FIUs, and in order to implement some cooperation practices already under way, the Fourth AML/CFT Directive introduced the obligation to automatically exchange suspicious transaction reports displaying cross-border characteristics: the FIUs must submit promptly to the relevant European counterparties any request 'which concerns another Member State'.¹³² This mechanism aims at mitigating the potential distortions caused by the territoriality criterion, which mandates that suspicious transactions be reported to the FIU of the country in which the reporting entity is based even if the transactions are carried out abroad under the freedom to provide services.

In 2016, the automatic exchange of suspicious transactions with cross-border characteristics through FIU.NET¹ grew by 165 per cent, from 557 to 1,457.

Automatic exchanges of reports

The automatic transmission mechanism envisaged by the Fourth Directive has a particularly wide scope. To enable its effective and uniform implementation, the FIU Platform launched a project, in which the UIF participates, to develop common criteria to determine the relevant territorial link to which the data must be automatically transmitted in order to define the information useful for analysis purposes and avoid excessive reporting flows.

According to criteria currently being developed, cross-border reports include, first of all, those made by entities operating under the freedom to provide services.

For the other reports, the cross-border nature is determined in accordance with criteria that apply to the concrete case.

First, the subjective and objective links are considered; examples of the former are the place of residence or the existence of investigations in other countries, while examples of the latter are the foreign country of origin or destination of the financial flows or the country in which financial accounts are held or relationships maintained. Subsequently, the analysis focuses on the possible involvement in illicit activities carried

¹³⁰ See the box 'Multilateral exchanges to counter ISIL' in the UIF [Annual Report](#) on activities carried out in 2015.

¹³¹ See Section 5.3.

¹³² Article 53(1) of the Fourth AML/CFT Directive.

out in another country, the presence of elements of risk in specialized databases, and the importance for other countries of the case under examination on the basis of a discretionary assessment.

The project envisages a trial stage to assess the adequacy of the criteria and procedures to select and exchange cross-border reports on FIU.NET.

Joint analyses at international level

The Fourth AML/CFT Directive assigned to the FIU Platform the task of fostering joint analyses on cross-border suspicious transactions. These analyses seek to promote operational cooperation that goes beyond the traditional exchange of information and is based on the in-depth analysis of common elements, shared and mutually verified conclusions, and the definition of the results and output to be used by the FIUs concerned as part of the dissemination tasks they carry out pursuant to their own regulatory framework.

In 2016 the Platform launched its first joint project to analyse the financial aspects of the exploitation of migrant flows in the two forms of the trafficking in human beings and the smuggling of migrants.¹³³

Trafficking in human beings seeks to obtain a profit from the exploitation of human beings, who come to be considered as a commodity (e.g. through prostitution or unreported employment); conversely, in the case of the smuggling of migrants, it is the latter who are the 'clients' and purchase the (illicit) service of being transported into a foreign country.

Joint analyses have focused on transactions carried out through the money transfer network in accordance with a subjective approach analogous to that adopted to look into cases of financing of terrorism. Names which can be traced back to trafficking in migrants were cross-checked using the FIU.NET matching tools; these results and the findings of more in-depth analyses were shared among the participating FIUs.

The project, which constituted the first instance of joint analysis, provided the opportunity to detail the methodological aspects relating to the sharing of information and documentation, the manner in which more in-depth studies are carried out, and the preparation of shared findings.

Against the backdrop of growing and more intense volumes of exchanges, in 2016 the UIF continued its effort to refine its work processes and enhance the efficiency and effectiveness of the cooperation it provides. Besides developing suitable criteria for taking account of priorities on the basis of the characteristics of the cases it examines and for making the best possible use of the sources of information available, work is under way to define IT procedures that will, at the same time, enable integration with the UIF's databases and expedite the reception, assessment and processing stages.

¹³³ The exercise took account of the FATF's studies on these types of illegal activity (FATF, [Money Laundering Risks Arising from Trafficking of Human Beings and Smuggling of Migrants](#), 2011).

9.2. The challenges of international cooperation between FIUs

International cooperation between FIUs continues to be affected by limitations that reduce its effectiveness on both the money laundering and terrorist financing fronts. These difficulties stem from the insufficient information-gathering powers available to the UIF's foreign counterparties, but also from the influence of ongoing criminal investigations or proceedings in the concerned countries. Moreover, significant limitations arise with respect to the usability of the information obtained for investigation purposes. The necessary and prior consent of the requesting FIU is often subjected to numerous conditions.

Cooperation is hindered by several factors, including differences between FIUs in terms of nature, organization, institutional set-up and regulatory framework. This is often associated with frequent confusion between the financial analysis activity and the investigation activity (with the first being absorbed into the second in the case of FIUs that are law enforcement agencies, a dearth of adequate information-gathering powers, and insufficient ability to exchange information.

Significant obstacles to the FIUs' activity also arise from their differing levels of autonomy and independence. In many cases, limitations to the FIUs' access to information, an influence on their operational activity, and insufficient ability to cooperate broadly with foreign counterparties stem from a dependence on other entities with respect to both organization and the fulfilment of their tasks.

The Mapping Exercise: the implementation of EU rules on FIUs

EU anti-money laundering rules lay out minimum requirements and provisions focusing on general aspects, leaving it to national lawmakers to define the respective regulatory scopes. Discretionary margins in the transposition of the EU rules can result in substantive differences between the various national solutions that are adopted. Though the Fourth AML/CFT Directive marked a significant step towards a more detailed regulation of the FIUs' features and activities, significant differences remain at national level, with repercussions on the effectiveness of domestic action and international cooperation.

In 2016 the EU FIUs Platform conducted an exercise, promoted and coordinated by the UIF, to survey the obstacles that continue to prevent the FIUs from carrying out effectively their domestic tasks and their cooperation with one another.¹³⁴

The conclusions are laid out in a comprehensive report in which an analysis of the critical issues detected is accompanied by an in-depth study of the corresponding causes, concluding with proposals to solve them. The report was approved by the FIU Platform in December 2016.

With respect to the nature of the problems detected, the report outlines several

¹³⁴ *Mapping Exercise and Gap Analysis on FIUs' Powers and Obstacles for Obtaining and Exchanging Information.*

lines of action to strengthen the national anti-money laundering systems through a more effective transposition of EU rules; the adoption of more detailed and stringent provisions or guidelines at EU level to promote effective and converging national approaches; and the definition, on the part of the FIUs, of more homogeneous and effective methods and practices.

In a context of flexible rules, European FIUs display significant differences in the institutional nature and organizational features. It is, however, possible to identify some reference models: an 'administrative' model, an 'investigative' model, and a 'mixed' one. This variety has a direct impact on the characteristics of the tasks that are performed, the information available, and the ability to provide cooperation. Care must be taken to avoid that the flexibility permitted regarding the nature and organization of the FIUs does not lead to shortcomings in the effectiveness of domestic action and difficulties when engaging in international dialogue.

European FIUs are placed within broader organizations, on which they often depend for several organizational aspects and their day-to-day running. The requirements of autonomy and independence set out by the EU rules must be specified more clearly with respect to the FIUs' ability to have adequate resources at their disposal as well as to exercise their powers and functions without interference or influence, especially on the part of the organization to which they belong.

Similar needs for greater regulatory detail and convergence in operational practices concern the main aspects of the FIUs' activity: analysis, dissemination, information-gathering powers, and international cooperation.

The analysis function is exercised in different ways. It is frequently mistaken for the investigation function, leading to a loss of autonomy; the FIU, therefore, sees its effectiveness limited and comes to lack sufficient operational scope as well as the corresponding powers it can exercise. The nature, objectives and tools of this activity must be set out in greater detail to foster a converging approach and, therefore, guarantee the quality of international cooperation.

The task of disseminating the results of the analyses to the national authorities that are competent to and follow up on this must be defined according to sufficiently broad and standardized practices. The pro-active nature of the dissemination must be stressed, avoiding solutions based on the mere access to the FIUs' databases by other authorities. It is also necessary to ensure that the dissemination can be carried out vis-à-vis all the other domestic authorities that can follow up on the relevant information.

The FIUs' ability to obtain information from obliged entities, i.e. their information-gathering powers, still suffers from significant limitations. First of all, it is necessary to ensure that the existing European rules are transposed in full, eliminating conditions and limitations. There are still obstacles, often connected to the FIUs' nature, to accessing or using banking, financial or investigative information. European rules which, up to now, have only provided for the FIUs to have access to 'financial, administrative and law enforcement information', should also spell out which data are necessarily included in these general categories.

The ability to provide international cooperation is also directly affected by the criticalities concerning the FIUs' institutional structure. The access to information and

its sharing is often subject to authorization by third parties; the exchange of information is sometimes forbidden when it concerns criminal investigations or proceedings. Moreover, there are many scenarios under which FIUs do not have adequate access to databases or other sources. There are also significant limitations to the possibility of using the information received. The report underscores the need for more stringent and detailed European rules, as a necessary step to remove limits and conditions on the exchange of information and increase the possibility of using the shared information, reducing the number of cases in which consent to use it can be denied.

The Mapping Exercise enjoyed widespread prominence. The ECOFIN Council pointed to it as the instrument to identify and solve the existing deficiencies in the FIUs' activities. The European Commission actively supported the project, indicating that it will submit new measures in 2017 to bolster the EU FIUs' activity and cooperation on the basis of the findings of the Mapping Exercise. The final report was made available to member states so that its insights could be used for the transposition of the Fourth AML/CFT Directive. The report on 'Fighting Tax Crimes – Cooperation between Financial Intelligence Units' was published by the European Parliament in 2017 as part of its additional analysis of the Panama Papers. In its assessment of the effectiveness of the FIUs' domestic and international action, the report makes repeated reference to the findings of the Mapping Exercise.

A mapping exercise to survey the FIUs' characteristics and activities and identify the discrepancies and problems that hamper their effectiveness was also carried out by the G7 countries at the initiative of the Italian rotating presidency. The final report highlights the main features and operational practices of G7 FIUs and identifies areas in which improvements must be pursued at global level.

9.3. Relations with foreign counterparties technical assistance

Bilateral cooperation based on mutual recognition between the FIUs of several countries and, in most cases, on being part of the Egmont Group, is bolstered through ad hoc interaction and discussion with the individual counterparties.

In December 2016 the UIF organized and hosted a meeting of Italian-speaking FIUs which brought together the Financial Intelligence Units of Switzerland, the Republic of San Marino, and the Vatican City State. The initiative, which followed a similar meeting hosted by the Swiss FIU in 2015, was intended to foster mutual cooperation owing to the numerous phenomena of common interest and the frequent exchanges of information relating to the interconnectedness and geographical proximity of the countries.

**Meeting
between
Italian-
speaking FIUs**

The meeting provided the opportunity to engage in a dialogue on the money laundering and terrorism financing risks in the respective countries and, in light of them, identify cross-border threats and vulnerabilities. Moreover, a session was devoted to the exchange of information relating to the 'voluntary disclosure' programme and the initiatives that could be adopted to enhance the efficiency of these exchanges.

Technical assistance

Over the course of 2016 the UIF continued its international technical assistance activities, both through bilateral initiatives and in multilateral forums. The number of requests for intervention at regulatory, operational and methodological level has increased since the publication of the Mutual Evaluation Report on Italy, which highlights the sophisticated nature and the effectiveness of the UIF's activity and tools, both at domestic and international level.¹³⁵

The UIF hosted delegations from foreign countries that are engaged in internal re-organization and in bolstering some specific functions, and shared its experience in financial analysis and its knowledge of regulatory aspects, international standards and best practices, and the methodologies used in analyses and studies.

Over the course of 2016 UIF officials met with delegations from the FIUs or other competent authorities of South Korea, Turkey, Tunisia, Iran, Cuba and other Caribbean countries. Furthermore, the UIF participated in a workshop on anti-money laundering organized by the Bank of Italy as part of the technical assistance it provides to the supervisory authorities of other countries.

9.4. Participation in international organizations

Given the importance of international cooperation for combating money laundering and terrorism effectively, several governmental and technical bodies were set up over time, whose scope varies from global to regional. The activity of these bodies is especially intense in relation to the different types of risks that emerge at global level and to the need to adapt and harmonize the measures to prevent and combat these phenomena.

The UIF, either on its own or as part of delegations composed of members of several national authorities, participates in the activity of these international or EU bodies.

The FATF's activities

As part of the Italian delegation coordinated by the Ministry of Economy and Finance, over the course of 2016 the UIF participated regularly in the work of the FATF, both in the Working Groups and in the Plenary meeting. UIF experts were part of the Mutual Evaluation teams for Switzerland, Canada and Austria and contributed to a number of other work streams.

A special effort went into the new round of Mutual Evaluations, namely through discussion on the reports, analysing the technical compliance and effectiveness of the national systems, looking in depth into the interpretative questions arising from the application of the FATF standards and methodology, all with a view to ensuring consistent assessments and preparing amendments or additions to the Recommendations when needed.

The discussion mainly centred around the terrorist financing offence (Recommendation 5), the obligation to maintain comprehensive statistics on matters

¹³⁵ See note 5.

relevant to the functioning of the AML system (Recommendation 33), the beneficial ownership transparency of legal persons and arrangements (Recommendation 24 and 25), and the various forms money laundering can take (self-laundering, stand-alone laundering and third-party laundering). Additionally, the scope of the obligation to report suspicious transactions ‘promptly’ (Recommendation 20) was examined.

Ample attention was given to the analysis of ISIL-related terrorist financing phenomena, including by developing specific indicators and amending the standards relating to their criminalization to align them to the 2015 United Nations resolutions. Guidance on correspondent banking services was discussed in order to strike a balance between prevention and inclusion by limiting ‘de-risking’, i.e. the termination of business relationships with risky counterparties.

Work began on domestic inter-agency information sharing and initiatives to monitor the company structures that could be employed for fiduciary purposes and the use of virtual currency and other innovative payment instruments for illicit transactions.

The main objective of domestic inter-agency information sharing is to define the instruments to be used at national level to assess the effectiveness of existing cooperation mechanisms and to identify new benchmarks. The adoption of this approach is intended to broaden the scope of the national authorities involved in cooperation mechanisms and to identify the respective best practices. The role of the private sector in increasing the amount of information available to the national authorities is also assessed.

The activity of the Forum of Heads of FATF FIUs in carrying out in-depth analyses of issues of specific interest to the FIUs was boosted. The Forum is currently engaged in assessing FIUs’ access to sources of information that are relevant for analysis and cooperation, their contribution to Mutual Evaluations, and existing obstacles to the countering of terrorist financing. Moreover, work is under way on proposals to enhance FIUs’ role and activities; the results of the EU Mapping Exercise provide useful insights in this respect.

The Joint FATF/G20 Anti-Corruption Working Group convened for the sixth time as a side event to the October 2016 FATF meetings, focusing entirely on the issue of beneficial ownership transparency.

**Joint FATF-G20
Anti-Corruption
Working Group**

The OECD Task Force on Tax Crimes and Other Crimes has directed its attention to beneficial ownership transparency with the objective of preparing a Global Reference Guide on Criminal Financial Investigations to update and broaden the Report on Effective Inter-Agency Co-operation in Fighting Tax Crimes and Other Financial Crimes (the Rome Report) and to explore the role that tax authorities can have in this field, working together with the other relevant authorities.

**Task Force on
Tax Crimes and
Other Crimes**

The Guide will make it possible to compare national systems, measure progress, and identify successful case studies and best practices with reference not only to cooperation between tax authorities but also, more broadly, to the fight against financial crime.

Another area in which the UIF has participated in OECD work is analysing the role of tax authorities in combating international terrorism using a multi-agency and

Egmont Group

multi-national approach in keeping with the ‘Whole-of-Government’ concept on which the work of the Task Force on Tax Crimes and Other Crimes is based.

The UIF also contributes to the work of the Egmont Group,¹³⁶ in all of its various forms, and promotes its policies.

In 2016 the Egmont Group conducted a survey on the implementation of the ‘prior consent rule’ for the use of information exchanged by FIUs for intelligence purposes; it worked on upgrading the Support and Compliance procedure governing cases of non-compliance; it analysed the findings of a survey on the national legislation governing cooperation between national FIUs and law enforcement authorities and continued the discussion on the ‘urgent checklist’ identifying the measures that FIUs should take in the aftermath of terrorist attacks. The ISIL project continued, focusing both on the development of multilateral exchanges of information on cases of terrorist financing and on reconstructing an updated classification of the various forms of financial support to ISIL and to foreign terrorist fighters.

In 2016 the Egmont Centre of FIU Excellence and Leadership (ECOFEL) project was launched; it is funded by the Government of the United Kingdom and is part of a broader programme to counter corruption. The project is managed separately from the organization’s other activities and seeks to promote coordination between FIUs to enhance their competencies and their analysis and cooperation capabilities in specific, strategic sectors.

This year the Egmont Group has also dealt with some problem areas in the regulatory framework that were highlighted in the Mutual Evaluation for Italy, especially those relating to the fact the UIF cannot access investigative information. The counter-arguments presented by the UIF made it possible to close the procedure, underscoring how the legislative shortcomings detected by the FATF did not have repercussions on international cooperation.

The EU FIUs Platform

UIF officials play an active part in the functioning of the EU FIUs Platform, which is chaired by the European Commission and made up of representatives of the Financial Intelligence Units of member states. The Platform, active since 2006, is now explicitly recognized by the Fourth AML/CFT Directive, which grants it a broad scope for transposing and implementing EU rules of interest to FIUs.¹³⁷

In 2016 the Platform launched initiatives to facilitate the transposition of the Fourth AML/CFT Directive, especially in terms of identifying uniform criteria and ways to carry out operational tasks and upgrade FIUs’ procedures and practices.¹³⁸ To this end, a work plan was prepared broken down into numerous projects inspired by the findings of the Mapping Exercise. The Platform is also defining uniform criteria for the automatic exchange of information on cross-border cases. One of the priorities is the development of joint analyses on major cases of cross-border interest.¹³⁹

¹³⁶ Following the admission of two new members in February 2017, there are now 152 FIUs that belong to the Egmont Group.

¹³⁷ Article 51 of the Fourth AML/CFT Directive.

¹³⁸ See Section 1.2.

¹³⁹ See the box in Section 9.1.

10. ORGANIZATION AND RESOURCES

10.1. Organization

The UIF is headed by the Director, who is assisted by the Deputy Director and two Directorates: the Suspicious Transactions Directorate, which is in charge of the financial analysis of suspicious transaction reports, and the Analysis and Institutional Relations Directorate, which is responsible for analysing financial flows and cooperating with judicial authorities and other domestic and foreign authorities.

The Director is assisted by several staff managers and by the Advisory Committee for the Review of Irregularities, which is responsible for analysing suspected irregularities uncovered by the UIF in order to initiate sanction procedures, forward reports to judicial and sectoral supervisory authorities and take any other necessary steps.

As required by law, the Unit is also assisted by a Committee of Experts, appointed for three years by a Ministry of Economy and Finance decree after consultation with the Governor of the Bank of Italy. On 9 March 2017 a new committee was appointed. The committee is a valuable forum for discussion that lends continued support to the UIF's activity and provides insights on major issues.

10.2. Performance indicators

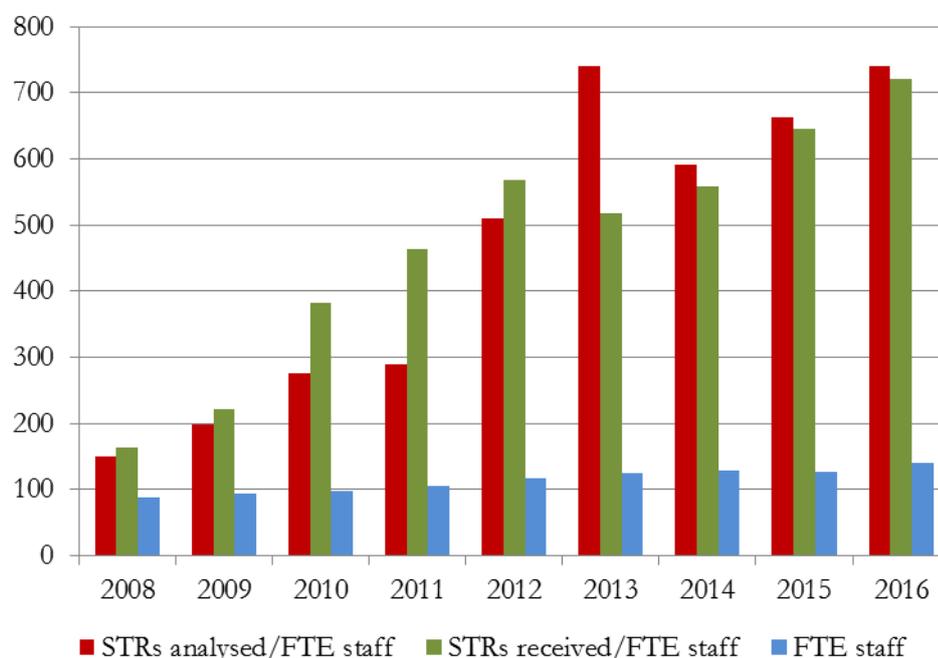
The Unit further improved its performance in 2016.

The UIF was able to deal with the increased workload arising especially from the sharp and continuous rise in reporting flows thanks to a more rational organization of its divisions and new and more advanced technical and IT tools.

Despite the increased workload, the end-of-year stock of reports still to be examined continued to fall;¹⁴⁰ this was made possible by the increase, albeit limited, in the number of employees assigned to the UIF and, especially, a constant rise in productivity; the number of STRs processed per full-time equivalent staff has constantly and significantly increased over time (see Figure 10.1).

¹⁴⁰ See Section 3.1.

Figure 10.1

Ratio of STRs received and analysed to full-time equivalent staff (FTE)

Increased performance in quantitative terms went hand in hand with a greater attention to precision and depth in the UIF's analyses, fostered by the staff's technical and managerial skills and strong commitment. The staff's diversified and high-quality skill set allowed the UIF to implement strategies to enhance not only the efficiency but also the effectiveness of its action thanks to intelligence-oriented approaches. The UIF's contribution was appreciated both at international level, where, among other activities, the UIF coordinated the Mapping Exercise on the characteristics of European FIUs,¹⁴¹ and at domestic level thanks to its cooperation with other authorities. The cases in which the UIF contributed to very complex investigations on financial matters are more and more numerous and high-profile. Additional steps need to be taken in order to further improve the UIF's overall ability to meet the new objectives set by the recently adopted anti-money laundering rules and face up to the more complex challenges arising from the evolution of money laundering techniques and tools.

10.3. Human resources

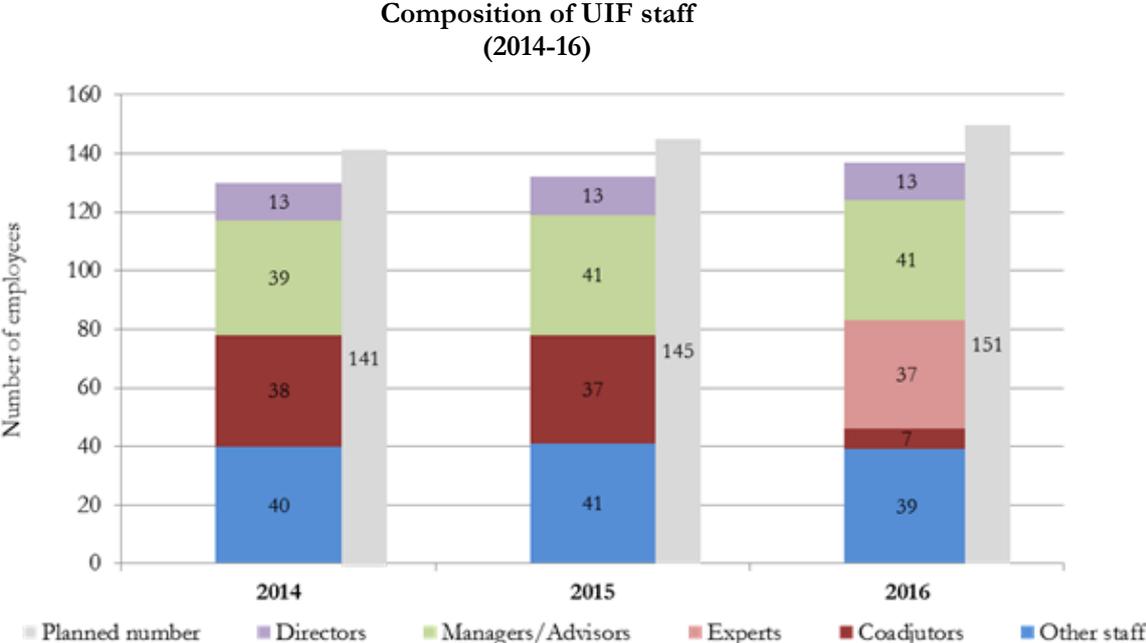
In 2016 the number of UIF staff increased from 132 to 137 as a result of the exit of 10 and the addition of 15 members, of which 9 new hires (Figure 10.2). Over the course of the year the UIF held its first public competition to hire five 'experts' with a background in law, economics or business and accounting; successful candidates took up their duties in autumn 2016. The Bank of Italy's new career path system, which

¹⁴¹ See the box in Section 9.2.

entered into force on 1 July 2016, introduced the new professional category of ‘expert’, which includes all the employees holding ‘coadjutor’ status that were able to demonstrate their managerial skills through an interview process; all the coadjutors working at the UIF who applied were promoted, confirming the excellent quality of its staff.

There continues to be a significant gap between the UIF’s current staff and the full level of 151 planned for 2016. At 31 December, there were 82 employees assigned to the Suspicious Transactions Directorate and 51 to the Analysis and Institutional Relations Directorate.

Figure 10.2



The focus has continued to be on employees’ professional skills, especially with respect to some main topics (econometric models, cybersecurity and big data). Training is managed in part in cooperation with other domestic and international institutions. The UIF’s staff also participated in training initiatives organized by the Bank of Italy, the ESCB and other sectoral authorities.

10.4. Information technology resources

Over the course of 2016 the development of IT systems was directed towards tools and communication systems to support domestic and international cooperation.¹⁴² The projects that have been completed or are nearing completion all pursued the

¹⁴² Sections 2.3 and 9.1.

objective of fostering the use and dissemination of the body of information available to the UIF by automating and integrating into internal procedures the management of documentation that has been sent and received.

Exchange of information with FIUs and judicial authorities

Of special significance is the SAFE project¹⁴³ for managing exchanges of information with judicial authorities and foreign FIUs, which will be launched before the end of 2017.

The project will use electronic channels to acquire information and digitalize the entire request processing cycle, achieving a greater level of automation, a sharp reduction in manual processes, a significant drop in the use of paper, and ultimately a more efficient outcome.

Exchange of information with reporting entities

The project regarding the exchange of information with reporting entities is of great importance. In performing STRs' financial analyses, UIF analysts often need to request additional documentation and information from obliged entities.¹⁴⁴ The communication normally takes place on channels other than the platform used to submit STRs, and the documents are, by and large, acquired in any possible format. This practice requires further measures to protect confidentiality in addition to those that are ensured by the platform. Moreover, it does not enable automatic integration of the additional information into the existing STRs' database.

To overcome these limitations, a project regarding the exchange and management of confidential documentation was planned for 2017 in order to enable the process to run on the STR submission platform and the use of security measures consistent with the confidentiality level of the exchanged information. The project will have to identify and implement solutions to standardize the exchanged data, for both the requests sent by the UIF and the responses submitted by the reporting entities.

Automatic classification of reports

The continuous and vigorous growth in the availability of unstructured data on the internet has spurred research to study new mechanisms, automated as much as possible, to recognize, classify and interpret the information contained in this kind of data. This is the direction in which the technology behind semantic engines is moving to extract knowledge from high volumes of unstructured data (e.g. from textual documents, emails or social media).

One of the most promising lines of development in this field is that of machine learning and deep learning, which seeks to construct forecasting models that are able to make decisions based on the data and not on static IT instructions.

The open-source deep-learning engines that have recently become available have stimulated the interest of the UIF which, in conjunction with the Bank of Italy's IT function, has launched trials to examine the applicability of these algorithms to STR classification.

The project seeks to develop an engine which, after an initial 'training' period in which STRs already examined by experts are analysed, is then able to classify STRs

¹⁴³ Section 8.1.

¹⁴⁴ This information may be requested pursuant to Article 6(6)(c) of Legislative Decree 231/2007.

regarding a number of different aspects (e.g. calculate a rating or assign to a given category) autonomously, in real time and with a good level of accuracy. Such automated classifications would aid first-level analysis, speeding up the preliminary steps in STR processing.

Work is under way to define a project to enrich the management features of the registry of the reporting entities to make it easier to amend previously communicated information. The project aims to identify solutions that apply to all the UIF applications that already use that registry (RADAR, SARA and ORO). It also seeks to manage events that influence the reporting entity's history (e.g. mergers, takeovers or closures) and are useful for processing reports properly.

Management of the Registry of reporting entities

Finally, measures are being put in place to improve further the matching between the names recorded in the different databases used by the UIF in order to reduce the number of doubtful pairings (which must be dealt with manually), by assigning a unique identification to the various names corresponding to one person or entity, and make it easier to use the information. In this respect, an initiative is in place to set up, or purchase, a new and more advanced matching system and integrate it into the existing procedures. The new system will have to improve the processing of foreign names that present special features compared with Western ones (e.g. Arabic or Chinese names) and, therefore, require different matching criteria from those commonly used.

Improvement of personal data matching

To facilitate bulk quantitative analysis of the information contained in the STR database while at the same time guaranteeing their confidentiality, a project is under way to anonymize such database. The anonymization process will keep the matches but will encrypt them.

Anonymization of the STR database

10.5. Information to the public

The UIF is increasingly engaged in dialogue with the public at large and all other entities and institutions involved in preventing and combating money laundering and the financing of terrorism.

The Annual Report, through which the UIF informs the Government and Parliament and, indirectly, the general public of its activities, is officially presented every year 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 and its official presentation are both translated into English. The original version in Italian and its translation into English are both available on the UIF's website.¹⁴⁵

Over the course of 2016 the UIF's website¹⁴⁶ was regularly updated to reflect new information. In addition to describing its work, it provides an overview of the entire Italian and international anti-money laundering and counter-terrorism system, offering complete and up-to-date information on regulatory and institutional matters, projects

Website

¹⁴⁵ <https://uif.bancaditalia.it/publicazioni/rapporto-annuale/index.html>.

¹⁴⁶ <https://uif.bancaditalia.it/>.

and research. Moreover, a new section entitled ‘Terrorist financing information portal’ has been added.¹⁴⁷

Dialogue with obliged entities

The Unit continues to encourage and foster debates and meetings with representatives and members of the main categories of reporting entities. The objective is to raise awareness of the purposes and possible uses of the various types of reports submitted to the UIF by providing feedback¹⁴⁸ that is used to make system-level comparisons and facilitate closer dialogue with a view to improving the standards of active cooperation.

Publications study and research

To this end, the UIF issues publications and its members participate in studies and research on regulations and scenarios for combating all types of financial crime.

The UIF continues to publish *Quaderni dell’antiriciclaggio*, divided into two series: *Collana Dati statistici* and *Collana Analisi e studi*, in both printed and electronic form. The first, published every six months, contains statistical data on the reports received and concise accounts of the Unit’s activities. *Collana Analisi e studi*, launched in March 2014, comprises papers on selected themes regarding money laundering and terrorist financing. In 2016, three new editions were published. In January, issue No. 5 of *Quaderni* was published featuring an econometric analysis of cash payment anomalies and money laundering in Italian municipalities;¹⁴⁹ in December, issue No. 6 was devoted to the potential use of high-denomination banknotes for money laundering,¹⁵⁰ while issue No. 7 examined various cases of money laundering and terrorist financing.¹⁵¹

UIF representatives took part in a number of major conferences in Italy and abroad on scientific topics of institutional interest, presenting studies conducted by the Unit.¹⁵²

In 2016 the UIF participated in numerous conferences, seminars and meetings to enhance awareness and understanding among the public, market operators and other authorities involved in the fight against money laundering and the financing of terrorism.

The Unit provided speakers at more than 40 training programmes for other authorities and trade associations, including those organized by the Finance Police and Carabinieri Academies (Scuola di polizia tributaria della Guardia di Finanza and Istituto Superiore dei Carabinieri) and the European Union Agency for Law Enforcement Training (CEPOL).¹⁵³ Of special significance was the participation in the second half of 2016 in a cycle of training workshops whose target audience was judges working in the ‘anti-corruption pool’ set up at the Court of Rome. Finally, cooperation with universities was enhanced, particularly with Università Bocconi.

¹⁴⁷ See Section 5.2.

¹⁴⁸ See Section 2.3.

¹⁴⁹ <http://uif.bancaditalia.it/pubblicazioni/quaderni/2016/quaderni-5-2016/index.html>

¹⁵⁰ <http://uif.bancaditalia.it/pubblicazioni/quaderni/2016/quaderni-6-2016/index.html>

¹⁵¹ <http://uif.bancaditalia.it/pubblicazioni/quaderni/2016/quaderni-7-2016/index.html>

¹⁵² See Section 6.2.

¹⁵³ CEPOL is an agency of the European Union dedicated to developing, implementing and coordinating training for law enforcement officials.

ACTIVITIES

Information gathering

- 101,065 suspicious transaction reports
- 100,548,534 aggregate data received
- 42,813 monthly 'ex post' declarations on gold transactions
- 1,326 'ex ante' declarations on gold transactions

Analysis and dissemination

- 103,995 suspicious transaction reports examined
- 93,096 reports transmitted to investigative bodies for further inquiry, of which 43,161 assessed as 'high' or 'medium-high' risk

Cooperation with investigative bodies and national authorities

- 473 responses to requests from judicial authorities
- 157 crime reports
- 31 suspensions of suspicious transactions
- 95 'freezing of assets' orders in relation to terrorist financing or threats to peace and international security

Other cooperation initiatives

- Cooperation with ANAC to draft the National Anti-Corruption Plan
- Opinion provided to the Ministry of Justice concerning the codes of conduct proposed by representatives of the entities in charge of combating crime
- Signing a memorandum of understanding with the National Council of the Order of Accountants and Bookkeepers
- Signing of memorandums of understanding between the UIF with the Public Prosecutor's Offices of Milan (27 January 2017) and Rome (9 May 2017)

Cooperation with other FIUs

- 3,314 requests and spontaneous communications from FIUs in other countries
- 1,568 responses sent to FIUs in other countries
- 544 requests sent to FIUs in other countries

Raising awareness about money laundering and terrorist financing

- Speakers at more than 40 conferences and workshops on money laundering at universities and other institutions
- Speakers at workshops for trainee magistrates, organized by the *Scuola Superiore della Magistratura*

- 3 contributions to the *Analisi e studi* series of the publication *Quaderni dell'antiriciclaggio*
- Launch of the 'Terrorist financing information portal' on the UIF's website

Regulatory activity

- Communication on countering international terrorist financing (18 April 2016)
- Communication regarding the transition to the new register pursuant to Article 106 of the Consolidated Law on Banking and aggregate SARA reports (5 May 2016)
- Communication on over-the-counter transactions with foreign investment companies (1 August 2016)

Upgrading of the IT infrastructure

- Launch of a new system to collect and process reports for money transfer operators
- Inception of a project for automatically classifying suspicious transaction reports using machine learning and deep learning techniques
- Introduction of a system for managing the exchange of data with judicial authorities and foreign FIUs with greater automation in the management of external requests
- Adoption of a new system to provide feedback to reporting entities

GLOSSARY

Anti-Mafia Investigation Department (Direzione Investigativa Antimafia - DIA)

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

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

Economic and Financial Affairs Council (ECOFIN)

The Economic and Financial Affairs Council is a configuration of the Council of the European Union (the Council of the European Union is a single legal entity but it meets in ten different 'configurations' depending on the subject matter discussed). ECOFIN is made up of the economics and finance ministers of all member states and, on occasion, national budget ministers. It meets once a month and is responsible for economic policy, taxation matters, financial markets and capital movements, and economic relations with countries outside the EU. It prepares and, together with the European Parliament, adopts the EU's annual budget and coordinates EU positions for international meetings, such as the G20, the International Monetary Fund and the World Bank. It is also responsible for the financial aspects of international negotiations on measures to tackle climate change.

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

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).

European FIU Platform

An EU body chaired by the European Commission and composed of the EU's FIUs. Article 51 of the Fourth AML Directive formally recognized the role of the platform, in operation since 2006, and described its mandate in terms of developing stronger cooperation, exchanging opinions, and providing assistance in matters relating to the implementation of EU rules that apply to FIUs and reporting entities.

Financial Action Task Force (FATF)

An intergovernmental organization within the OECD whose purpose is to develop and promote strategies for countering money laundering and terrorist financing at national and international level. Its decisions are approved by the OECD. During its initial mandate, beginning in 1989, the Task Force issued the 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 and counter-terrorism measures beyond the OECD's membership,

cooperating with other international organizations and conducting inquiries into emerging trends and money laundering typologies.

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 a 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 Anti-Mafia Investigation Department (DIA), an officer of the Carabinieri, and a representative of the National Anti-Mafia Directorate (DNA). 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 remit. 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 remit, 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 other than 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)

Moneyval is 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, also taking account of FATF 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 reports directly to the Committee of Ministers, to which it submits an annual report.

OAM

The Organization of Agents and Mediators (created pursuant to Article 128-*undecies* of Legislative Decree 385/1993) is exclusively and autonomously responsible for the management of the lists of financial agents and brokers

Office of Foreign Assets Control (OFAC)

Under the US Treasury Department, the Office was established 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.

Politically Exposed Persons

Natural persons resident in member states or in non-member states that hold or have held important public offices and their direct family members or people with whom they maintain close ties as defined by the standards set out in the technical note to Legislative Decree 231/2007.

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 Archive (Archivio unico informatico - AUI)

Pursuant to Legislative Decree 231/2007, Article 1(2)(b), the Single Electronic Archive 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 the measures issued by the Bank of Italy.

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

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 Anti-Mafia Investigation Department, 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 18 November 2015). The decree of the Minister for the Economy and Finance of 23 January 2002 no longer applies because the relevant articles of the Consolidated Income Tax Law (TUIR) providing for it was repealed. The blacklist comprises the following jurisdictions: Abu Dhabi, Ajman, Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, Bonaire, Sint Eustatius and Saba, British Virgin Islands, Brunei, Cayman Islands, Cook Islands, Costa Rica, Curaçao, Djibouti (formerly the Afars and Issas), Dominica, Dubai, Ecuador, French Polynesia, Fujairah, Gibraltar, Grenada, Guatemala, Guernsey, Hong Kong, Isle of Man, Marshall Islands, Jersey, Kiribati, Lebanon, Liberia, Liechtenstein, Macao, Maldives, Malaysia, Mauritius, Monaco, Montserrat, Nauru, New Caledonia, Niue, Oman, Panama, the Philippines, Ras El Khaimah, Saint Helena, Saint Kitts and Nevis, Saint Lucia, Sint Maarten (the Dutch part only), 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. In addition, the blacklist includes the countries that are not compliant with the rules against money laundering and terrorist financing, according to the FATF's 'Public Statement February 2016' and 'Improving Global AML/CFT compliance: On-going process February 2016': Afghanistan, Bosnia and Herzegovina, Guyana, Iran, Iraq, Laos, Myanmar, North Korea, Papua New Guinea, Syria, Uganda, Vanuatu and Yemen.

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

ANAC	National Anti-Corruption Authority (<i>Autorità Nazionale Anticorruzione</i>)
ATM	Automated Teller Machine
CDP	Cassa Depositi e Prestiti SpA
CNDCEC	National Council of the Order of Accountants and Bookkeepers (<i>Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili</i>)
CNN	National Council of Notaries (<i>Consiglio Nazionale del Notariato</i>)
CONSOB	Companies and Stock Exchange Commission (<i>Commissione Nazionale per le Società e la Borsa</i>)
DIA	Anti-Mafia Investigation Department (<i>Direzione Investigativa Antimafia</i>)
DNA	National Anti-Mafia Directorate (<i>Direzione Nazionale Antimafia e Antiterrorismo</i>)
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
ELMI	Electronic Money Institutions
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSC	Financial Security Committee
ISIL	Islamic State of Iraq and the Levant
IVASS	Insurance Supervisory Authority (<i>Istituto per la Vigilanza sulle Assicurazioni</i>)
MEF	Ministry of Economy and Finance
NRA	National Risk Assessment
NSPV	Special Foreign Exchange Unit of the Finance Police (<i>Nucleo Speciale di Polizia Valutaria</i>)
OAM	Organization of Agents and Mediators (<i>Organismo degli Agenti e dei Mediatori</i>)
OECD	Organisation for Economic Co-operation and Development

PI	Payment Institution
RADAR	<i>Raccolta e Analisi Dati AntiRiciclaggio</i>
SARA	<i>Segnalazioni AntiRiciclaggio Aggregate</i>
STR	Suspicious Transaction Report
TUB	Consolidated Law on Banking (<i>Testo Unico Bancario – Legislative Decree 385/1993</i>)
TUIR	Consolidated Income Tax Law (<i>Testo Unico delle Imposte sui Redditi – Decree of the President of the Republic 917/1986</i>)
UIF	Italy’s Financial Intelligence Unit (<i>Unità di Informazione Finanziaria</i>)
VAT	Value-added tax