



# Financial Intelligence Unit

# Annual Report 2011

*(Abridged edition)*

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# CONTENTS

SUMMARY	1
1. INTERNATIONAL ACTIVITY	4
1.1 Financial Action Task Force (FATF)	4
1.2 Egmont Group	5
1.3 Initiatives in Europe	6
2 NATIONAL LEGISLATION	7
2.1 Primary legislation	7
2.1.1 <i>The amendments to Legislative Decree 231/2007</i>	7
2.1.2 <i>Further provisions concerning the use of cash</i>	7
2.2 Secondary legislation	8
2.2.1 <i>Ministerial decrees</i>	8
2.2.2 <i>Bank of Italy regulations</i>	8
2.3 FIU communications	9
2.3.1 <i>Models of anomalous conduct</i>	9
2.3.2 <i>Other FIU communications</i>	9
2.3.3 <i>Instructions for the content of reports on suspicious transactions</i>	10
2.3.4 <i>Provisions regarding the transmission of aggregate data</i>	10
3 ACTION REGARDING SUSPICIOUS TRANSACTIONS	12
3.1 Trends	12
3.1.1 <i>The new RADAR system for collecting and analyzing anti-money-laundering data</i>	14
3.2 Financial analysis of STRs. Suspensions	15
4 PREVENTING AND COMBATING MONEY LAUNDERING	19
4.1 Reports from financial intermediaries and other persons engaged in financial activity	19
4.1.1 <i>Geographical distribution</i>	20
4.2 Reports from non-financial enterprises and professionals	23
4.3 Typology of transactions reported	25
4.4 Particular reports	26
5 PREVENTING AND COMBATING THE FINANCING OF TERRORISM AND THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION	28
5.1 Suspicious transaction reports	28
5.2 Terrorism lists and freeze provisions	31

<b>6. ANALYSIS OF AGGREGATE DATA AND RESEARCH ACTIVITY</b>	33
<b>6.1 Analysis of data for anti-money-laundering purposes</b>	33
<b>7.1 Inspections</b>	36
<b>7.2 Administrative irregularities</b>	37
<b>8 INTERNATIONAL COOPERATION</b>	38
<b>8.1 Cooperation with foreign FIUs</b>	38
<b>9.1. Collaboration with the judicial authorities</b>	40
<b>9.2 Collaboration with other national authorities</b>	41
<b>10.1 Human resources and organization</b>	42
<b>10.2 Technology resources: information technology</b>	42

## SUMMARY

In 2011 the Financial Intelligence Unit (FIU) continued its intense activity, both at international level, in the fora in which the instruments for preventing and combating money laundering and terrorist financing are continuously improved, and at domestic level, where the flow of incoming suspicious transaction reports (STRs) increased considerably, confirming the trend seen in previous years.

At international level work was directed towards strengthening the body of standards and rules for preventing and combating the laundering of money of illicit origin and the financing of terrorism and the proliferation of weapons of mass destruction.

In particular, under the Italian Presidency, the Financial Action Task Force (FATF) completed the revision of its 40 + 9 Recommendations by approving, in February 2012, new *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*, set out in 40 Recommendations.

Work was undertaken in the European Union to identify the main outstanding issues in the application of the EU AML/CFT rules. In light of the results of the analyses under way and the new FATF standards, work will shortly begin on the revision of the third anti-money laundering directive (Directive 2005/60/EC) and the other EU provisions in this field.

At domestic level, the FIU has taken steps to cope with the persistent growth in the volume of STRs. In 2011 a total of 49,075 reports were received, an increase of 31.5% on the previous year.

Faced with this considerable growth in the flow of STRs, the Unit further strengthened its analytical capacity, thus bringing to 30,596 (+13.4% on the previous year) the number of reports processed and eventually disseminated to the competent investigative bodies (Special Foreign Exchange Unit of the Finance Police and the Bureau of Antimafia Investigation).

In cooperation with the other authorities involved in the domestic anti-money-laundering system, the FIU has drafted and is currently implementing measures aimed at coping with the flow of reports. To this end the Unit has undertaken a far-reaching revision of operational procedures, methods and instruments, while the breadth and depth of analyses are correlated with the level of risk associated with each report. A contribution to the efficiency of the process is made by the new Internet-based system developed for collecting and handling STRs. Even more ambitious objectives have been set for the future, through the implementation of a data warehouse, permitting more effective use of the information available.

With a view to fostering the awareness of persons subject to the obligations established by anti-money-laundering legislation (obliged persons), in 2011 FIU staff again participated in numerous training initiatives organized by business associations, which provided valuable opportunities for analyzing, comparing and sharing methods and experiences. In addition, in 2012, activities have been undertaken aimed at improving the quality of reports through a cycle of meetings with individual entities subject to reporting requirements, so as to foster knowledge of all the potentialities of the new reporting system.

Cash transactions and wire transfers continue to be the most reported types of suspicious transactions. Over time the restrictions on the use of cash introduced in anti-money-laundering legislation have taken on growing importance as a means of fighting tax evasion and bringing payments of the underground economy out into the light. The upper limit for payments in cash – initially fixed at €5,000 by Decree Law 78/2010 – was lowered first to €2,500 by Decree Law 138/2011 and then to the present value of €1,000 by Decree Law 201/2011.

To facilitate the detection of suspicious transactions to be reported, the FIU is charged with defining models of anomalous economic and financial conduct, with reference to specific lines of business and cases. In 2011 consideration was given to leasing fraud and usury. The communication on usury issued on 9 August 2011 updates the previous one issued in September 2009 and takes account of the results of the analyses carried out, both on- and off-site, on suspicious transactions related to this crime. More recently, on 16 March 2012, the FIU published the model of anomalous conduct for factoring fraud. The involvement of numerous economic agents in contracts of this type increases the risk of their being misused for criminal purposes and, consequently, of intermediaries active in the sector being exposed to the risk of money laundering.

In its activity of preventing and combating money laundering and terrorist financing, the FIU also analyzes financial flows with a view to detecting anomalies related, for example, to particular geographical areas, economic sectors and payment instruments. For these purposes the FIU uses the Aggregate Anti-Money-Laundering Reports received monthly from banks and other obliged financial intermediaries. Important changes were made to these reports during the year in order to increase their level of detail and usefulness for analysis.

The FIU continued to carry out on-site controls, both to obtain additional financial information on reported suspicious transactions and unreported ones of which the Unit nonetheless became aware and to verify compliance with the provisions on preventing and combating money laundering and terrorist financing. In this context, inspections can reveal significant operational dysfunctions and procedural anomalies and provide helpful indications, in particular to the competent supervisory functions of the Bank of Italy.

In 2011 the FIU carried out 20 inspections, of which 12 were targeted at specific situations and 8 were broader in scope. Especially important were the inspections carried out at trust companies to verify compliance with the anti-money-laundering

obligations in the repatriation of funds illegally held abroad under a tax amnesty scheme. Notable, among the types of suspicious transactions identified, was the anomalous use of payment cards, sometimes issued by foreign intermediaries, to withdraw very substantial volumes of cash from ATMs.

As in previous years, the Unit cooperated intensively with the magistracy. In particular, there was a significant increase in requests for information from the judicial authorities: a total of 170 requests were received from public prosecutor's offices and Antimafia offices, compared with 118 in 2010. In responding to these requests, the Unit carried out the necessary investigations and made suspicious transaction reports available, together with the related technical reports and information obtained from foreign FIUs, in conformity with the relevant confidentiality requirements.

The cooperation with the judicial authorities proved especially valuable, as the financial analysis conducted on cases being investigated allowed the FIU to learn about new money-laundering techniques and procedures. The FIU has made good use of the information acquired through this cooperation in preparing the new models of anomalous conduct in connection with usury and leasing.

An intense exchange of information with foreign FIUs continued in 2011, both for the analysis of reports on suspicious transactions and for cooperation with the Italian judicial authorities.

More generally, the year 2011 saw a further intensification of the Unit's cooperation with the other authorities engaged in preventing money laundering and related criminal activities, in a climate of growing mutual appreciation and unity of intent.

## 1. INTERNATIONAL ACTIVITY

In 2011 efforts were intensified in the competent international fora to strengthen the body of standards and rules for preventing and combating the laundering of money of illicit origin, terrorist financing and the proliferation of weapons of mass destruction.

The Financial Action Task Force (FATF) completed the revision of the 40 + 9 Recommendations and in February 2012 approved new *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*, set out in 40 Recommendations. The new standards constitute a more complete and effective system for the prevention of economic crime.

Major innovations were also introduced – with the cooperation of the Egmont Group and with account taken of the standards it has drawn up – in the matters of specific interest to FIUs with a view to making their action more effective, both domestically and internationally, in a context of growing mutual cooperation.

Within the European Union work has begun on identifying the critical problems in applying the Community anti-money-laundering rules. In the light of the results of the analyses under way and of the new FATF standards, work will shortly begin on the revision of the third anti-money laundering directive (Directive 2005/60/EC) and the other Community provisions in this field.

At the same time cooperation between the authorities of the different countries has increased in intensity and taken new forms. As regards FIUs in particular, the volume of information exchange grew significantly, thanks also to the action of the Egmont Group, which recorded a further increase in the number of member Units.

### 1.1 Financial Action Task Force (FATF)

#### The revision of the FATF standards

After a laborious revision lasting more than two years, the FATF approved a new set of Recommendations during the Plenary Meeting held in February 2012. Taking account of the experience gained in applying the standards introduced in 2003, the problems encountered in the third round of assessments of national anti-money-laundering systems and the evolution of the risks involved, Innovations have been introduced to strengthen the overall effectiveness of the action to prevent money laundering, terrorist financing and the proliferation of weapons of mass destruction.

#### Fine tuning of the risk-based approach

The risk-based approach has been extended and rationalized; in the previous system it had still been marked by some uncertainties and ambiguities that had made it difficult to apply effectively in every country. The consideration given to risks now



more clearly underlies, on a global basis, the regulatory framework, the action of the competent authorities and the compliance of obliged persons.

The new Recommendations hone the customer due diligence requirements by clarifying how they are to be adapted to the nature of the risk and providing for their more intense application in cases of greater exposure. In this respect, not only foreign but also domestic politically exposed persons (PEPs) must now be subject to obligatory enhanced customer due diligence. More stringent measures have also been introduced to ensure the transparency of companies and entities and to identify the natural persons who control them (the beneficial owners).

**Customer due diligence**

The body of the Recommendations now contains the anti-terrorism standards first introduced in the Special Recommendations approved in 2001. Measures have also been adopted aimed specifically at combating the financing of the proliferation of weapons of mass destruction in accordance with the resolutions adopted by the Security Council of the United Nations.

**Combating terrorism financing and the proliferation of weapons of mass destruction**

The basic themes of the Recommendations include the strengthening of the FIUs and the mechanisms for their international cooperation.

The standards applying to FIUs set out to adjust the earlier summary and not very harmonized indications about the very definition of FIUs, the activities a FIU is required to perform and the information that must be used. The more specific rules that have been introduced encourage convergence on uniform practices and methods, notwithstanding the different organizational models adopted at national level. The broadening of the powers that can be exercised and of the information available for analysis will have beneficial effects on the scale and effectiveness of information exchange at international level.

**Standards for FIUs**

## **1.2 Egmont Group**

In 2011 seven FIUs became members of the Egmont Group, taking the membership to 127. The organization's global extension, which has grown continuously since it was launched in 1995, is reflected in the Recommendations of the FATF, which now call for FIUs to take the steps needed to become members of the Group and adhere to its standards.

The Egmont Group participated actively in the revision of the FATF Recommendations regarding FIUs. Many of the innovations introduced in the Recommendations stem from the Egmont standards and the analysis conducted by the Group on Units' characteristics and operating practices.

As regards the rules on international cooperation, the Egmont Group paid special attention to the new standards for so-called diagonal information exchange, i.e. between foreign non-counterpart authorities.

The Egmont Group is also particularly committed to preparing its own updated standards for FIUs. Among the subjects under discussion there is the possibility of including a provision – not contained in the new FATF Recommendations, although foreseen by the Warsaw Convention of 2005<sup>1</sup> – extending cooperation to the suspension of suspicious transactions at the request of foreign counterparts.

### 1.3 Initiatives in Europe

The anti-money-laundering legislation of the EU countries shows a high degree of uniformity thanks to the common Community framework. Relations among the competent authorities are especially close and their interactions frequent, due in part to the sharing of rules and instruments.

An analysis of the application of the third anti-money laundering directive completed by the European Commission in 2010 revealed numerous discrepancies between the legal systems of the member states, notwithstanding the high degree of harmonization achieved for the most important matters. New Community rules will be prepared to cope with the problems that have emerged and to take account of the new FATF Recommendations.

#### Council of Europe and Moneyval

The Council of Europe is engaged in the international fight against money laundering, primarily by promoting the application of the Convention it adopted in 2005. The questions concerning the application of the Convention are examined by the competent Conference of the Parties.

Especially important is the activity of Moneyval, an FATF-style regional body set up within the Council of Europe, whose membership includes European countries that are not members of the FATF.

The Moneyval Committee continued the Fourth Round of evaluations of the adequacy and effectiveness of member countries' legal frameworks for preventing money laundering and terrorist financing. As part of this process the evaluation report on the Republic of San Marino was adopted in September 2011 and a start made on the evaluation of the Vatican City State, which participates in Moneyval as an observer.

Members of the FIU's staff provide support for the work of Moneyval and the Conference of the Parties referred to above. In addition, an FIU staff member participated as a financial expert in the valuation of the Principality of Andorra.

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<sup>1</sup> Convention of the Council of Europe on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism, 16 May 2005.

## 2 NATIONAL LEGISLATION

### 2.1 Primary legislation

#### *2.1.1 The amendments to Legislative Decree 231/2007*

In 2011 Legislative Decree 231/2007 – the basic legislative text governing the anti-money-laundering system – was amended to curb the use of cash, the amount of which in circulation in Italy continues to exceed the European average.

In particular, the limit for the transfer of cash and bearer securities between individuals introduced by Article 49 of Legislative Decree 231/2007 was reduced from €5,000 to €2,500.<sup>2</sup>

Subsequently, the limit referred to in Article 49 of Legislative Decree 231/2007 was further reduced from €2,500 to €1,000.<sup>3</sup>

However, a waiver to Article 49 of Legislative Decree 231/2007 was introduced for purchases of tourism-related goods and services made by non-European individuals at retail outlets and the like and at travel agencies.<sup>4</sup> The waiver applies provided the seller of the goods and services fulfils some requirements serving to ensure that the buyer is identified and the cash flow traceable.

#### *2.1.2 Further provisions concerning the use of cash*

Decree Law 201/2011, amended by Decree Law 1/2012 and converted by Law 27/2012, contains some additional provisions intended to curb the use of cash and, at the same time, to encourage the use of traceable means of payment by reducing their cost.

In particular, the decree establishes that payments in connection with the outlays of the public administration and related entities are to be made electronically.<sup>5</sup>

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<sup>2</sup> Article 2(4) of Decree Law 138/2011, converted by Law 148/2011, containing urgent measures for financial stabilization and growth.

<sup>3</sup> Article 12 of Decree Law 201/2011, converted by Law 214/2011, containing urgent measures for growth, equity and the consolidation of the public finances (the so-called Save Italy Decree).

<sup>4</sup> Article 3 of Decree Law 16/2012.

<sup>5</sup> Article 2(4-ter) of Decree Law 138/2011, introduced by Article 12(2) of Decree Law 201/2011.

Such payments must be made by crediting the current or payment accounts of the beneficiary or using other electronic payment instruments chosen by the latter. In no case may cash payments exceed €1,000.

Decree Law 201/2011 also makes it obligatory for financial operators to notify the tax registry office of all the movements on the accounts held with them.

In particular, the decree states that financial operators must periodically notify the tax registry office of the movements on all the accounts held with them and any other information concerning such accounts needed to carry out tax controls. An exception is made for transactions of less than €1,500 carried out using a postal current account in-payment form (Article 11(2)).

Decree Law 201/2011 also addresses two issues regarding the exchange of old “liras” not yet converted into euros and the regulation of assets repatriated or regularized under the so-called “tax shield” referred to in Article 13-*bis* of Decree Law 78/2009. As regards the former, Decree Law 201/2011 brought forward the time limit for liras to cease to be exchangeable in order to combat money laundering. As regards assets still maintained under the “tax shield”, the decree provides for an annual stamp duty of 4 per thousand (Article 19). For 2012 the rate is set at 10 per thousand and for 2013 at 13.5 per thousand.

## **2.2 Secondary legislation**

### ***2.2.1 Ministerial decrees***

In 2011 some ministerial decrees were issued concerning the anomaly indicators for non-financial operators, the list of equivalent countries and the use of cash.

A decree issued by the Ministry of the Interior, acting on a proposal from the Unit, on 17 February 2011 (*Gazzetta Ufficiale* no. 48 of 28 February 2011) contains anomaly indicators for some categories of non-financial operator (see Annual Report for 2010). The decree is organized along the lines of the earlier measures adopted by the Ministry of Justice and the Bank of Italy and covering, respectively, professionals (16 April 2010) and financial intermediaries (24 August 2010).

A decree issued by the Ministry for the Economy and Finance on 28 September 2011, amended the one issued by the same ministry on 12 August 2008 on the identification of the non-EU jurisdictions that have introduced requirements equivalent to those provided for by Directive 2005/60/EC.

### ***2.2.2 Bank of Italy regulations***

On 10 March 2011 the Bank of Italy issued the implementing measures regarding organizational features, procedures and internal controls aimed at

preventing the utilization of intermediaries and other entities engaged in financial activity for purposes of money laundering and terrorist financing.

The criteria for evaluating the risk of money laundering and terrorist financing include some parameters (client position, activity, economic interests, conduct, business in sectors considered to be at risk) already present in the Bank of Italy regulation on the anomaly indicators for intermediaries and in the models of anomalous conduct issued by the Unit.

## **2.3 FIU communications**

### ***2.3.1 Models of anomalous conduct***

In order to facilitate the identification of suspicious transactions to report, the FIU is required to disseminate models of anomalous conduct from an economic and financial perspective with reference to specific operational sectors and phenomena (Article 6(7)(b) of Legislative Decree 231/2007).

In 2011 consideration was given to the cases of leasing fraud and usury.

The communication dated 9 August 2011 on usury updated the model issued on 24 September 2009 to take account of the results of the inspections performed and the off-site controls carried out on suspicious transactions related to this crime.

In addition, on 16 March 2012 the Unit published the model of anomalous conduct for the risk of factoring fraud. On 23 April 2012 it published the models of anomalous conduct for transactions involving international tax fraud and invoicing fraud, to facilitate the assessment of transactions possibly linked to tax evasion. Insofar as they are compatible, the models, prepared in cooperation with the Finance Police, also apply to professionals.

### ***2.3.2 Other FIU statements***

A statement dated 3 March 2011 – regarding the “Guidelines” for the post-earthquake reconstruction of public- and private-sector buildings in Abruzzo issued in 2010 by the Committee for the Surveillance of Large Works – takes account of the intervening legal and operational developments in the traceability of financial flows for the purpose of combating organized crime.

The statement invites intermediaries to make a careful assessment of the transactions on accounts used for works referred to in the Committee’s “Guidelines” and to take note of every anomaly that might signal a suspicious transaction. Elements that can be of help in making such assessments include the models of anomalous conduct issued by the FIU on 13 October 2009 and 18 July 2010 regarding, respectively, the use of accounts dedicated to reconstruction works in

Abruzzo and possible abuses in the disbursement and management of public-sector loans to firms.

A statement dated 9 February 2011, on transactions and dealings with politically exposed persons (PEPs), was issued in response to the turbulence in North Africa to draw the attention of persons subject to suspicious-transaction reporting requirements to the enhanced customer due diligence for PEPs introduced by Article 28(5) of Legislative Decree 231/2007.

A similar communication was issued on 1 March 2011 with reference to transactions and dealings with members of the Gaddafi family and the Libyan Government following the Resolution adopted by the UN Security Council on 26 February 2011 (1970/2011). Among other things, the resolution provides for the adoption of measures to freeze the assets and economic resources owned, directly or indirectly, by members of the Gaddafi family.

On 27 February the Unit issued a notice regarding the anomalous use of payment cards for cash withdrawals to increase intermediaries' awareness of this phenomenon.

### ***2.3.3 Instructions for the content of reports on suspicious transactions***

On 4 May 2011, pursuant to Article 6(6)(e-*bis*) of Legislative Decree 231/2007, the FIU issued instructions on the data and information to be included in STRs (*Gazzetta Ufficiale* no. 110 of 13 May 2011).

The instructions govern the new system for collecting and handling STRs, named RADAR and launched on 16 May 2011 to support the entire cycle of acquisition, analysis and transmission of reports, to improve the quality of the financial analyses of the reports and the timeliness of the information flows.

The new report format – the same for all reporting entities and entirely electronic – increases the amount of structured information available. Reporters are called upon to provide a more detailed and complete description of transactions, the parties involved and the relations/links between them. They are also required to set out, in a separate descriptive section, the reasons for the suspicion. More and more structured information in STRs will help to facilitate the Unit's analysis and research.

### ***2.3.4 Provisions regarding the transmission of aggregate data***

A measure adopted by the Unit on 22 December 2011 contains provisions implementing Article 40 of Legislative Decree 231/2007 on the transmission of aggregate data. It repeals the earlier measure of 27 April 2010.

The new provisions came into force with the January 2012 reports, to be sent by all reporting entities, still on a monthly basis, exclusively by means of electronic, Internet-based transmission procedures.

The main innovations concern the information on the client's residence and economic activity and the branch at which the transaction was initiated. For credit transfers the information must include the location of the counterparty's intermediary and, where known, the residence of the counterparty.

## 3 ACTION REGARDING SUSPICIOUS TRANSACTIONS

### 3.1 Trends

#### The flow of reports

The Unit receives the reports of transactions suspected of involving money laundering or the financing of terrorism, conducts the financial analysis of these reports and transmits them, accompanied by the results of the technical analysis, to the Special Foreign Exchange Unit of the Finance Police and the Bureau of Antimafia Investigation for investigation if appropriate.

In 2011 the number of suspicious transaction reports continued to grow, less fast than in the preceding years but still at a rapid pace. In fact, while in 2010 the number of reports received increased by 16,255 or 77.2% compared with 2010, in 2011 it increased by 11,754 or 43.1%, to 49,075 (Table 3.1).

The large increase in incoming reports was accompanied by a rise in the number of reports examined and transmitted to the investigative bodies with the results of the technical analysis. In 2011 a total of 30,596 reports were analyzed and transmitted to the Special Foreign Exchange Unit of the Finance Police and the Bureau of Antimafia Investigation, an increase of 13.4% on the previous year.

Notwithstanding the continuous increases in productivity achieved by the Unit, the rapid and persistent growth in the number of incoming reports has caused the backlog of reports for processing to swell, from 6,912 at the end of 2009 to 17,270 at the end of 2010 and 35,749 at the end of 2011.

The Unit has identified and is activating the appropriate regulatory and organizational measures to cope with the growing inflow of new reports and reduce the backlog of those to be processed.

In particular, in order to come up with an effective response to these problems the Unit is thoroughly revising its operating procedures, on the one hand, by exploiting the possibilities offered by the new RADAR system for collecting and handling STRs over the Internet and, on the other, with the start of the new data warehouse project,<sup>6</sup> which will allow the Unit's stock of information to be exploited better. In addition, a new method is being tested to facilitate the risk-based selection of reports and permit prioritized and more thorough analysis, so as to increase the Unit's overall productivity and improve the methods of financial analysis.

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<sup>6</sup> See Section 10.2.



Table 3.1

Half-yearly flows of suspicious transaction reports

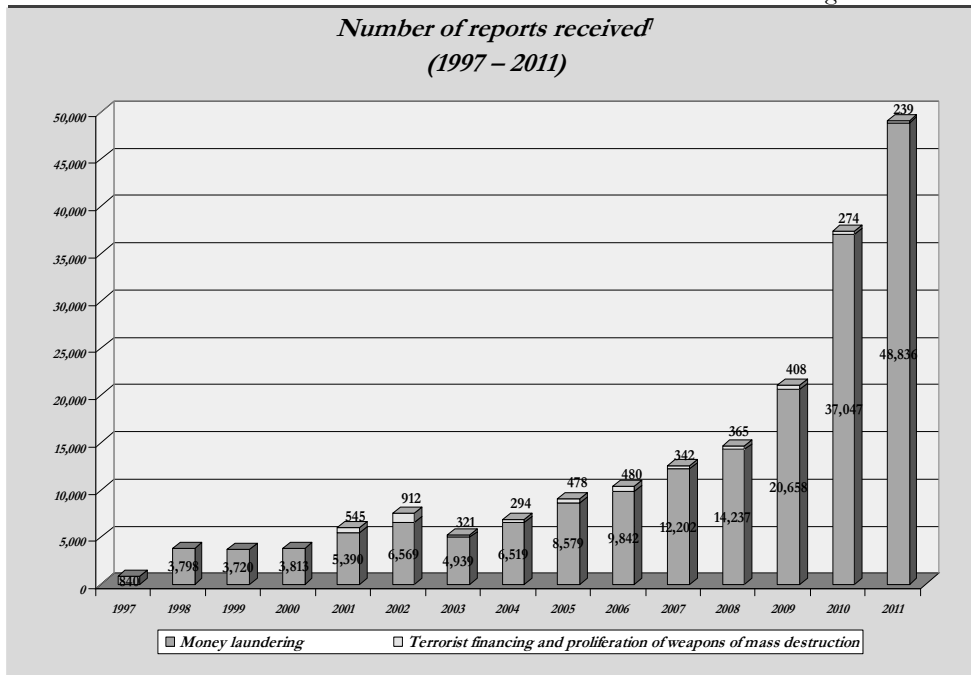
		Number		Percentage change on year-earlier period	
		Received	Transmitted	Received	Transmitted
2009	1st half	9,936	8,909	44.8%	49.7%
	2nd half	11,130	9,929	43.8%	33.5%
	<b>Year</b>	<b>21,066</b>	<b>18,838</b>	<b>44.3%</b>	<b>40.7%</b>
2010	1st half	15,097	12,556	51.9%	41.0%
	2nd half	22,224	14,407	99.6%	45.1%
	<b>Year</b>	<b>37,321</b>	<b>26,963</b>	<b>77.2%</b>	<b>43.1%</b>
2011	1st half	23,883	15,663	58.2%	24.7%
	2nd half	25,192	14,934	13.4%	3.6%
	<b>Year</b>	<b>49,075</b>	<b>30,596</b>	<b>31.5%</b>	<b>13.4%</b>

The volume of reports received in the first quarter of 2012 (about 16,300, up by more than 30% on the first quarter of 2011) points to a continuation of the strong upward trend in STRs.

Since 1997 more than 190,000 reports have been received (Figure 3.1).

Time series of the flows of reports

Figure 3.1



<sup>7</sup> As a consequence of reclassifications of transaction reports introduced during the year, there may be some small differences between the data for the reporting categories indicated in earlier annual reports and those given in this report.

The increase in the number of STRs enriches the Unit's database, to the advantage of the entire system, including the exchange of information with foreign FIUs and cooperation with financial supervisory authorities.

**Problems with the system**

Overall the quality of STRs has improved over the years, but the growth in the number of reports has not always been accompanied by sufficiently selective screening by the assessment filters used by some intermediaries, which often appear to have acted on a purely precautionary basis. In order to increase reporters' awareness, in 2011 FIU staff again participated in numerous training initiatives promoted by trade associations, which provided valuable opportunities for analyzing and comparing methods and experiences.

### ***3.1.1 The new RADAR system for collecting and analyzing anti-money-laundering data***

From its inception the Unit has revised and automated its procedures. Among other things this led to the introduction in May 2011 of the new information system known as RADAR, a turning point in the activity carried out by the Unit.

The provisions governing the new system were issued on 4 May 2011 and are published on the Bank of Italy's website.

The new system brings numerous innovations for obliged persons, first of all the transmission of STRs over the Internet, now the only channel for exchanges between the Unit, reporting entities and the investigative bodies, which ensures rapid communications between the main participants in the anti-money-laundering system. The transmission of reports over the Internet allows reporting entities to overcome the rigidity of the previous system, based on just a few workstations for the sending of reports and the use of IT media that prevented the production chain from achieving satisfactorily fluid and timely transmission flows.

The adoption of a single report format for all types of reporting entity is intended to promote homogeneous information objectives, albeit with different levels of detail depending on reporting entities' different characteristics and businesses.

The new report format overcomes the shortcomings of the previous one, allowing reporting entities to include all the subjective and objective elements needed for a clear understanding of what is being reported, with no significant quantity restrictions. There is also a clearer separation between the data provided in structured form – transactions, the parties involved and the relations/links between them – and unstructured information describing the business and the reasons for the suspicion.

The new system requires reporting entities to indicate in advance whether the disclosure is based on suspicion of money laundering, terrorist financing or proliferation of WMDs, and to specify whether it corresponds to one of the models of anomalous conduct disseminated by the Unit pursuant to Article 6(7) of

Legislative Decree 231/2007. The advance classification of the suspicion and type of phenomenon also makes it easier for obliged persons to select the right categories.

Another innovation is the requirement for reporting entities to assess the level of risk attaching to the reported transaction based on internal assessment criteria and to indicate the risk profile assigned to the person reported on the basis of adequate evaluation.

The innovations referred to above are intended both to promote easier and more secure reporting and to have positive effects on the Unit's handling and evaluation processes. Upon receipt of a report, the system automatically assigns a rating to the STR, on the basis of the data included in the report and of the match with the Unit's other databases. The system assigns a "degree of urgency" that helps the Unit to identify the STRs to be given priority, without prejudice to the possibility of reclassifying reports in the light of additional information brought to light during the financial analysis process. Moreover, the system allows reporting entities to enhance the content of reports by attaching documents in electronic form.

### 3.2 Financial analysis of STRs. Suspensions

The Unit's analysis is intended to enhance the information content of STRs by drawing on a variety of sources both within the Unit and outside. **Preliminary searches**

All the reports received – whose ID data are automatically checked against the information already present in the Unit's databases – are quickly subjected to a first-level analysis serving to identify those that are manifestly unfounded, in order to foster an immediate response to those that are less complicated and establish an appropriate method of analysis for the others. In particular, reports that can easily be matched with common cases are rapidly dealt with by the end of the first-level analysis and transmitted to the competent investigative bodies together with the technical analysis record. More complex or important reports are subjected to a second-level financial analysis which, according to the circumstances, may involve activities such as direct contact with the reporting entities or other obliged persons, searching other data bases, information exchange with foreign FIUs and on-site investigations.

The objective of the second-level analysis is to establish the financial context in which the person or entity covered by the report operates, identify the origin and destination of the funds involved in the transaction, confirm or refute the reporting entity's suspicion, help identifying other crimes in addition to money laundering, to the advantage of the subsequent treatment of the case by the Special Foreign Exchange Unit of the Finance Police and the Bureau of Antimafia Investigation. This investigative activity is described in the technical analysis record that accompanies the reports transmitted to the investigative bodies.

Pursuant to Article 6(7)(c) of Legislative Decree 231/2007, the Unit – also in response to requests from the Special Foreign Exchange Unit of the Finance Police. **The exercise of supervisory powers**

the Bureau of Antimafia Investigation and the judicial authorities – may suspend transactions that are suspected of involving money laundering or terrorist financing for up to five working days.

In 2011, acting on 354 suspension proposals, the Unit, in agreement with the competent investigative bodies, suspended 45 transactions for a total value of about €90 million, with one transaction accounting for about \$70 million (Table 3.2).

Table 3.2

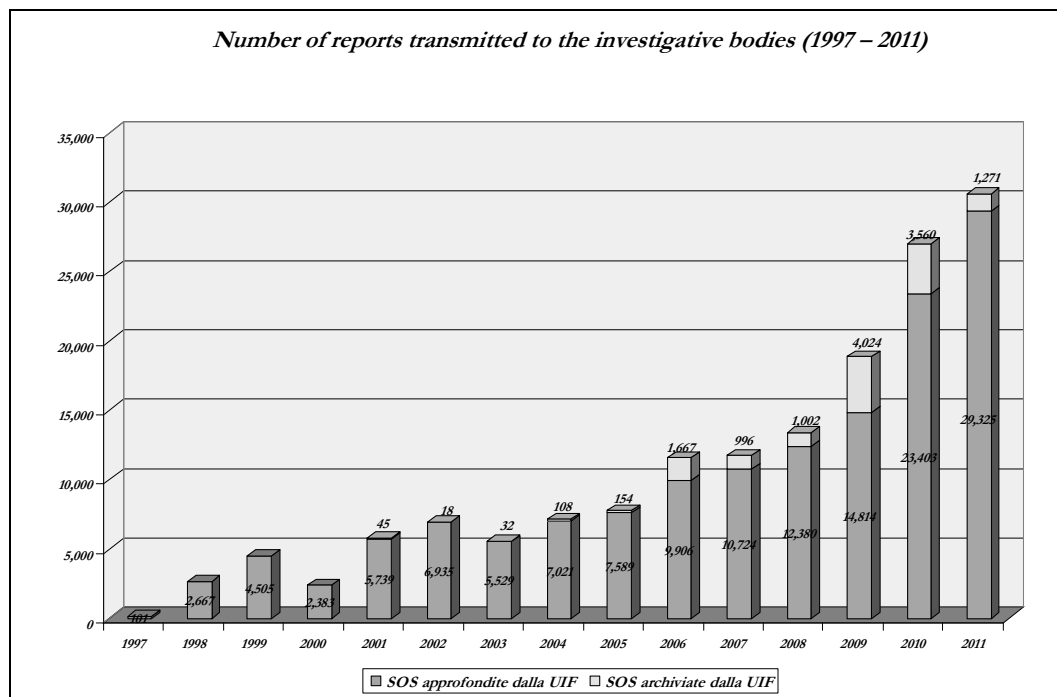
<i>Suspensions and value of suspended transactions (millions of euros)</i>		
	<i>Number of suspended transactions</i>	<i>Total value of the suspended transactions</i>
1997	1	0.08
1998	4	5.87
1999	9	9.82
2001	3	1.28
2002	6	0.61*
2003	5	6.55
2004	17	6.29*
2005	9	35.72
2006	12	7.31
2007	13	12.13
2008	27	10.41
2009	14	29.66
2010	34	64.87
<b>2011</b>	<b>45</b>	<b>90.33</b>
<b>Total</b>	<b>199</b>	<b>280.93</b>

\* Includes suspensions involving safe deposit boxes.

**Transmission of reports to the investigative bodies**

Last year 30,596 reports were transmitted to the Special Foreign Exchange Unit of the Finance Police and the Bureau of Antimafia Investigation. Overall more than 150,000 reports have been transmitted since 1997 (Figure 3.2).

Figure 3.2



The continuing increase in the number of reports analyzed and transmitted to the investigative bodies was made possible by a series of carefully devised and progressively introduced improvements to the organization of work. Further scope for improvement, in terms of both timeliness and processing quality, are expected from the development of new methods of managing, analyzing and processing STRs that are being developed following the entry into operation of the RADAR system for collecting and analyzing anti-money-laundering data.

STRs are transmitted to both the investigative bodies. The Bureau of Antimafia Investigation examines them for the presence of evidence of organized crime. The analysis of the Special Foreign Exchange Unit of the Finance Police seeks to identify the reports to be examined in more detail using its special powers and informs the FIU of the reports it has dispatched to territorially competent units. On the basis of additional information available at local level, these can request the assignment of special powers to carry out further investigation.

**Outcomes of investigations**

The outcomes of the inquiry are notified to the FIU under Article 48(2) of Legislative Decree 231/2007 when reports are not followed by further investigation.

According to the Finance Police, of the more than 18,000 reports for which further investigations were completed in the period 2010-11, a total of 8,365 (or about 46%) were incorporated into penal proceedings already under way at a public

prosecutor's office or gave rise to new proceedings for money laundering and/or the utilization of the proceeds of criminal activities, usury, unauthorized financial activity, swindles, tax fraud and administrative infractions of anti-money-laundering and foreign exchange provisions.

**Dismissals** Pursuant to Article 47(1)(c) of Legislative Decree 231/2007, the FIU dismisses reports that it deems to be unfounded, while keeping records thereof for ten years to allow the investigative bodies to consult them.

Reports that have been dismissed are nonetheless transmitted to the Special Foreign Exchange Unit of the Finance Police and the Bureau of Antimafia Investigation, since they may be valuable to them in the light of information that may be in their possession. Moreover, the Unit may undertake further analysis of such records later, should new evidence emerge making the hypothesis of money laundering plausible.

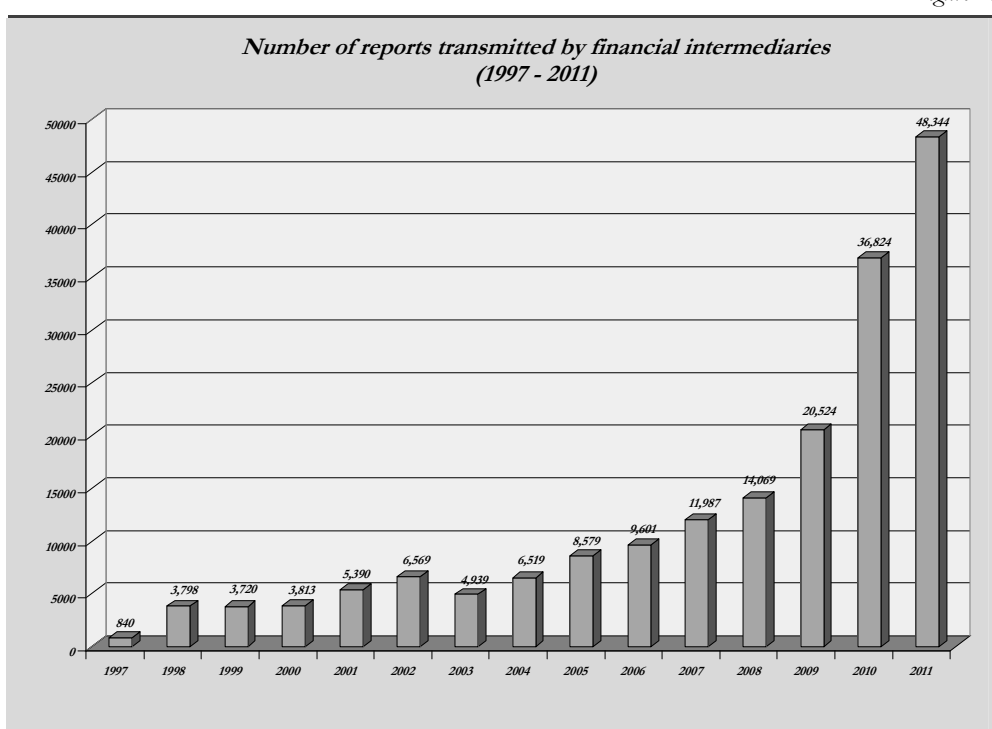
In 2011 the Unit dismissed 1,271 reports that it deemed to be unfounded on the basis of the information in its possession. Pursuant to Article 48(1) of Legislative Decree 231/2007, the dismissal of such reports is notified to the reporting parties.

## 4 PREVENTING AND COMBATING MONEY LAUNDERING

### 4.1 Reports from financial intermediaries and other persons engaged in financial activity

In 2011 financial intermediaries and other entities engaged in financial activity transmitted more than 48,000 reports of transactions suspected of money laundering (Figure 4.1). A total of 185,000 have been transmitted since 1997.

Figure 4.1



Banks and Poste Italiane S.p.A. were again the category that sent the greatest number of reports, slightly more than in 2010. The top ten reporting banks together with Poste Italiane S.p.A. accounted for some 50 % of all the reports sent. **Distribution of reports by type of intermediary**

The share of reports transmitted by financial intermediaries referred to in Articles 106 and 107 of the Consolidated Law on Banking (mainly money-transfer agents) declined from 16.6% in 2010 to 11%, while the share sent by insurance companies edged up from 0.4% to 0.6% (Table 4.1).

Table 4.1

<i>Distribution of number of reports by category of financial intermediary (percentages)</i>											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Banks and Poste Italiane S.p.A.	92	88.6	87.4	90.7	84.1	89	90.3	90	83.5	82.4	<b>87.5</b>
Financial companies (Arts. 106/107 of the Consolidated Law on Banking)	3.5	7.0	9.6	6.3	13.5	8.9	7.5	8.7	15.1	16.6	<b>11</b>
Insurance companies	2.9	3.7	2.3	2.2	1.8	1.6	2.0	1.1	1.1	0.4	<b>0.6</b>
Other	1.6	0.7	0.7	0.8	0.6	0.5	0.2	0.2	0.3	0.6	<b>0.9</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

#### Timeliness of reports

Effective performance of the system for preventing and combating money laundering requires prompt identification of suspicious transactions and transmission of the related reports.

From this standpoint, in 2011 some 26.5% of reports were received within the first month following the transaction involved, 46% within two months and 60% within three months. About 18% of reports were received more than six months after the transaction.

The RADAR system may help to reduce the time for report transmission by obliged persons. Moreover, by eliminating the previous obstacles to the transmission and acquisition of STRs, the new system allows the FIU to make a more accurate estimate of the time required to prepare reports and to identify possible delays.

#### 4.1.1 Geographical distribution

The number of suspicious transaction reports from financial intermediaries increased in 2011 in all the Italian regions except Friuli Venezia Giulia and Molise, where it declined slightly (Table 4.2).

Lombardy and Lazio again led the list, though they accounted for a smaller percentage of the total. The number of reports originating from Campania, Emilia Romagna and Veneto increased in both absolute and relative terms. The number coming from Abruzzo and Marche more than doubled, partly owing to contingencies such as major judicial investigations.

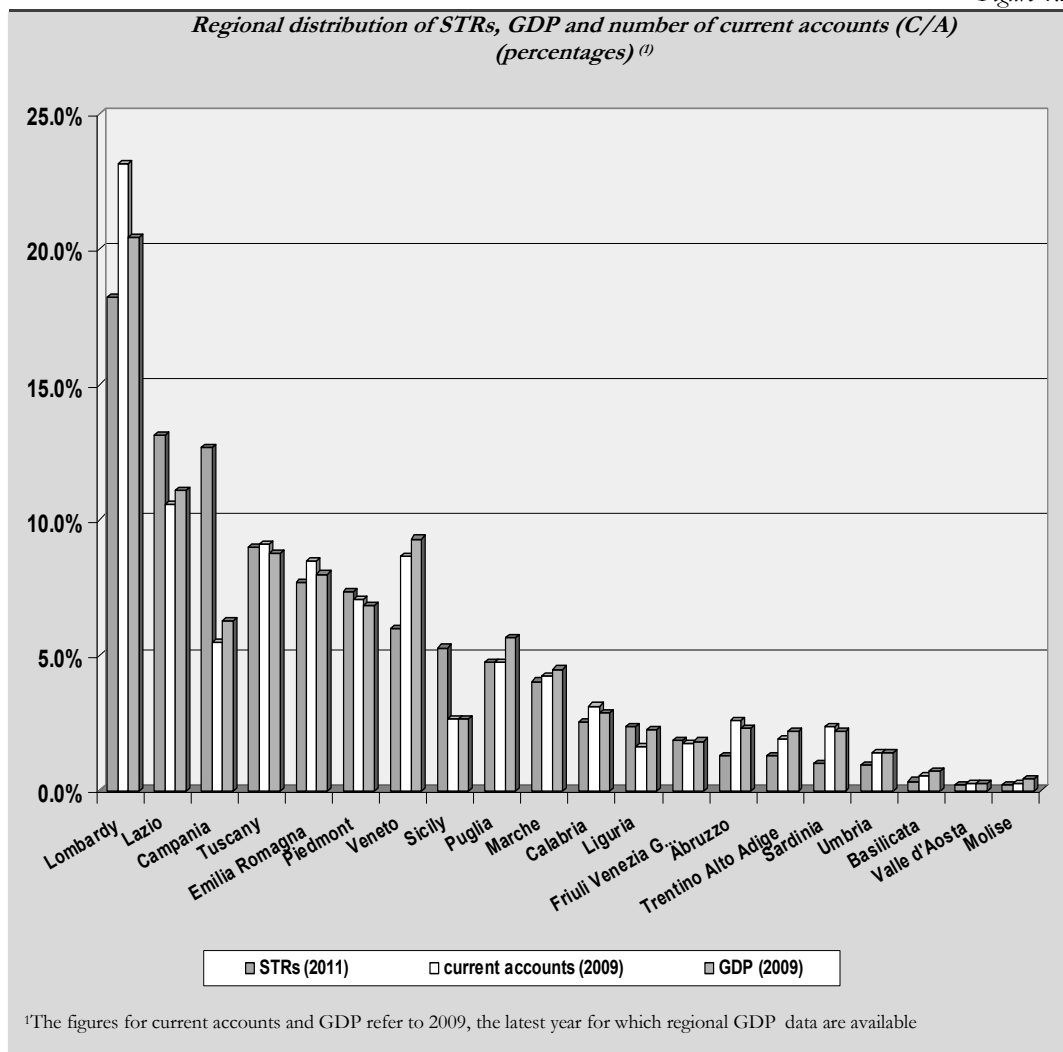


Table 4.2

	2009		2010		2011	
	(No. STRs)	(%)	(No. STRs)	(%)	(No. STRs)	(%)
Lombardy	5,656	27.7	7,805	21.2	8,778	18.16
Lazio	3,044	14.8	5,495	14.9	6,350	13.13
Campania	1,801	8.8	4,440	12.1	6,128	12.69
Emilia Romagna	1,422	6.9	3,151	8.6	4,343	8.98
Piedmont	1,448	7.1	3,030	8.2	3,714	7.68
Tuscany	1,702	8.3	3,291	8.9	3,546	7.34
Veneto	1,244	6.1	1,830	5	2,903	6.01
Marche	460	2.2	1,049	2.8	2,550	5.28
Sicily	633	3.1	1,435	3.9	2,287	4.73
Puglia	703	3.4	1,422	3.9	1,948	4.03
Liguria	338	1.6	715	1.9	1,217	2.52
Calabria	541	2.6	835	2.3	1,135	2.35
Abruzzo	367	1.8	446	1.2	892	1.85
Friuli Venezia Giulia	376	1.8	626	1.7	622	1.29
Sardinia	243	1.2	334	0.9	614	1.27
Trentino Alto Adige	192	0.9	342	0.9	490	1.01
Umbria	164	0.8	270	0.7	455	0.94
Basilicata	84	0.4	131	0.4	171	0.35
Molise	87	0.4	114	0.3	101	0.21
Valle d'Aosta	19	0.1	63	0.2	100	0.21
<b>Total</b>	<b>20,524</b>	<b>100.0</b>	<b>36,824</b>	<b>100.0</b>	<b>48,344</b>	<b>100</b>

As in previous years, there was a high degree of correlation between the regional distribution of reports and selected regional economic and financial indicators (the number of current accounts and GDP); particularly large deviations were found for Campania and Sicily (Figure 4.2)

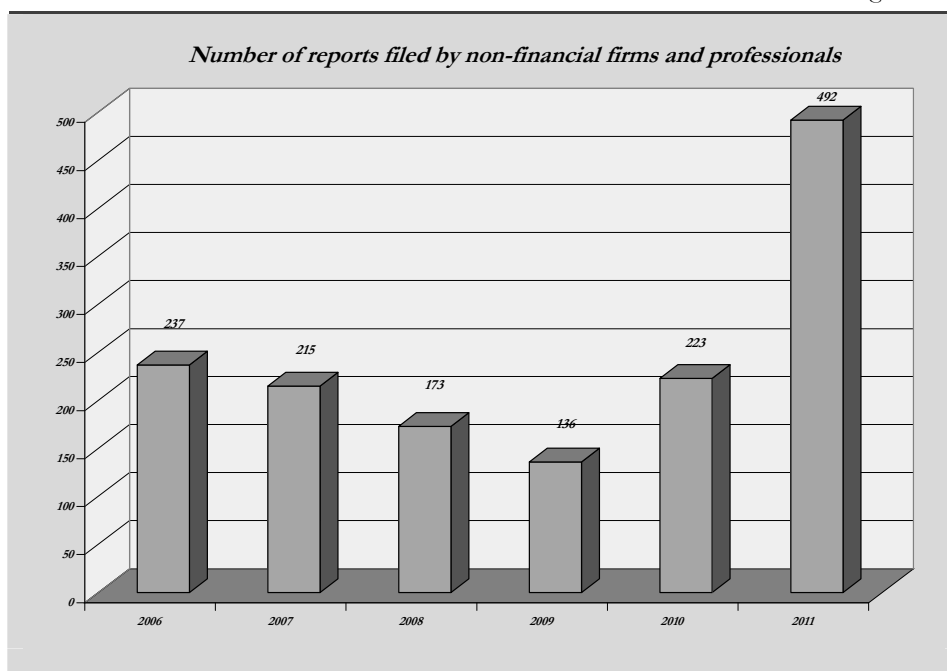
Figure 4.2



## 4.2 Reports from non-financial enterprises and professionals

The number of reports from entities referred to in Articles 12, 13 and 14 of Legislative Decree 231/2007 increased from 223 in 2010 to 492 last year (Figure 4.3).

Figure 4.3



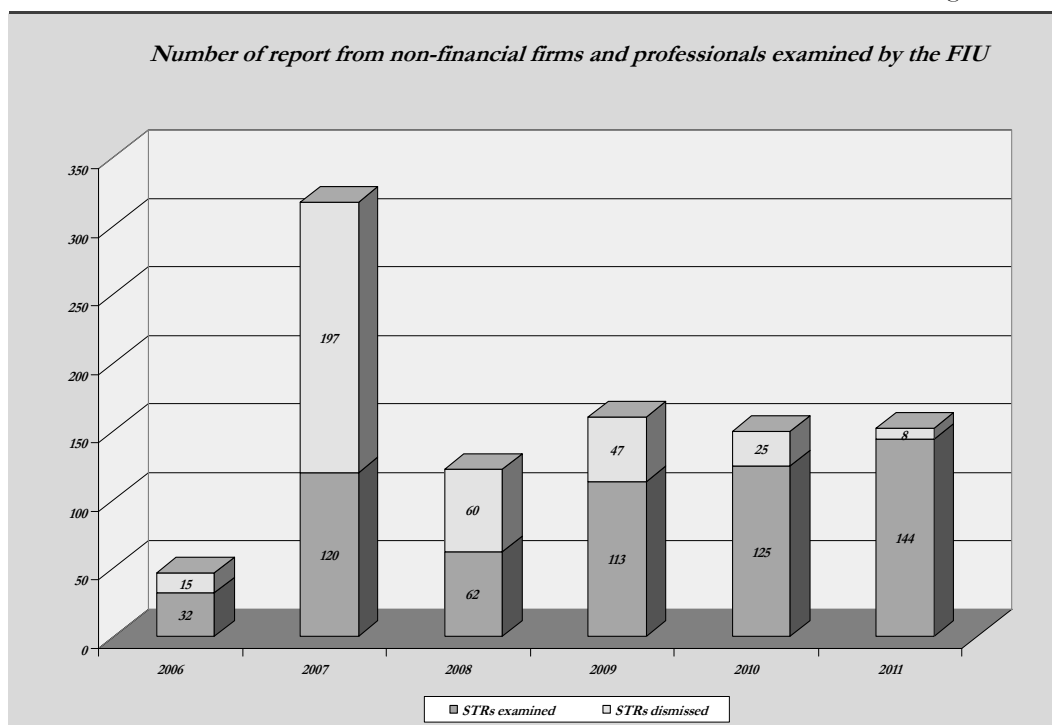
Despite this increase, reports from non-financial firms and professionals continued to make up a modest share of the total received (1% against 0.59% in 2010).

The Unit forwarded 152 of these reports to the investigative bodies, including 8 that it had dismissed as manifestly unfounded<sup>8</sup> (Figure 4.4).

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<sup>8</sup> See Section 3.2 for the reasons why dismissed reports are nonetheless transmitted to the investigative bodies.

Figure 4.4



Notaries, with 195 reports, were again the professional category that sent the most STRs (Table 4.3). As in past years, the most frequent reports originated from the signing of public acts (e.g. property sales and corporate acts such as company formation, transfers of shareholdings and liquidations). In 2011 a flow of reports transmitted by way of the National Council of Notaries was added to those sent by individual notaries. Although this worked to increase the number of reports, it did not improve their quality. Overcoming this weakness requires a deeper involvement on the part of the professional association, which has acted up to now simply as a channel for reports.

Table 4.3

<b>Number of reports by category of reporting party</b>							
	2006	2007	2008	2009	2010	2011	Total
Notaries, National Council of Notaries	170	127	103	69	66	195	730
Casino and betting operators <sup>(1)</sup>	0	0	4	6	34	130	174
Accountants	24	37	17	28	43	52	201
Book-keepers	15	21	19	10	23	30	118
Custody and transport of cash and securities by means of sworn private security guards	0	0	0	6	12	24	42
Registered auditors	2	4	3	7	12	15	43
Lawyers	3	8	6	3	12	12	44
Audit firms	9	2	2	2	6	10	31
Estate agents	6	10	13	3	3	7	42
Financial agents	0	1	2	0	0	0	3
Other	8	5	4	2	12	17	48
<b>Total</b>	237	215	173	136	223	492	1,476

<sup>(1)</sup> The category comprises the three types of person subject to reporting requirements that offer gambling in the different ways envisaged by law (casinos, on-line betting and physical points).

In 2011 there was an increase in compliance with the obligations of active cooperation on the part of casino and betting operators (130 reports, against 34 in 2010), firms engaged in the custody and transport of cash and securities by means of sworn security guards (24 reports, against 12 in 2010) and accountants (52, up from 43 in 2010). The total number of reports filed by non-financial firms and professionals continued to be low in proportion to the vast number of potential reporters. The reluctance to make reports, which is found in many countries, presumably stems from the personalization of customer relations and the long tradition of professional secrecy in these fields.

### 4.3 Typology of transactions reported

Cash transactions and credit transfers continued to be the most frequently reported transactions (Table 4.4). There was a large increase in the number of reports concerning the issuance or negotiation of cashier's cheques and debits for the settlement of cheques.

Table 4.4

<i>Types of transactions reported</i>				
<i>(percentages of total number of transactions reported)</i>				
		<i>2009</i>	<i>2010</i>	<i>2011</i>
Cash transactions		38.7	38.5	37.2
	<i>of which:</i>			
	<i>withdrawals</i>	22.7	21.6	21.1
	<i>inpayments</i>	16	16.9	16.1
Order/receive credit transfer:		22.9	21.5	23.4
	<i>of which:</i>			
	<i>domestic</i>	18.4	16.2	14.2
	<i>foreign</i>	4.5	5.3	9.1
Deposit of credit instruments		9.3	9.5	9.4
Debit for settlement of cheques		5	4.5	8.7
Issuance/Negotiation of cashier's cheques		4.5	4.3	9.5
Money transfers		11.4	14.6	5.6
Transactions in financial instruments		1.7	2.2	2.2
Deposit to/Withdrawal from a savings book		0.6	0.5	0.7
Other		5.9	4.4	3.3
<b>Total</b>		<b>100</b>	<b>100</b>	<b>100</b>

Reports concerning foreign credit transfers continued to trend upwards. The percentage of the total involving these transactions nearly doubled last year. The rules for the repatriation or regularization of foreign assets under the "tax shield" may have played a part.

The share of reports pertaining to money transfers fell by more than a half compared with 2010. A factor in this was the cessation of business of a single intermediary that had sent more than a thousand STRs during the previous year.

The shares of reports pertaining to the other types of transactions remained about the same as in 2010.

## 4.4 Case records

**Tax-related anomalies** Some findings of special interest derive from an examination of the different types of transactions reported as suspicious in 2011, notably those whose likely purpose was tax avoidance or evasion.

Two main types of report can be singled out on the basis of some common characteristics. A first group concerns transactions on current accounts held by sole proprietorships or businesses, often recently formed, that show inflows of traceable means of payment (credit transfers, cheques, etc.) followed by cash withdrawals, often up to the amounts paid in, or orders to make payments abroad. A second group shows a distorted use of personal accounts held by natural persons for transfers plainly relating to a business activity. Usually these accounts are held by employees of the firm or by nominees acting in the name and on behalf of the businessman. In these cases the transactions intended to evade or avoid taxes can lead to the creation of off-balance-sheet funds that may be used for other crimes, such as corruption.

In several cases examined by the Unit, the suspicion that transactions served to avoid or evade taxes were borne out in widely followed judicial proceedings.

**Corruption** Anomalous transactions presumably linked to cases of corruption often emerged from the Unit's reconstruction of financial flows.

Identifying cases of corruption is sometimes tricky, since the way in which the price is paid is often abstractly symptomatic of a host of different types of financial anomaly. The difficulty lies in the increased recourse to modes of payment that give the person corrupted non-financial benefits, which normally do not leave specific traces.

Transfers of sums of money by means of cash, the use of cheques or, more rarely, credit transfers to or from front accounts in permissive regulatory systems and tax havens were found in the reports referable to episodes of corruption. Only by exactly identifying the subjective profile of the reported party was it possible to define the transactions described by the intermediaries with a greater degree of precision. The professional status of the reported parties, the activity they performed and their possible links to the public sphere made it possible to detect signs pointing to corruption.

Two particular types of transaction were found to be used by the reported parties in attempting to disguise transfers of money to the corrupted party: the payment of invoices, sometimes issued by front companies indirectly linked to the final recipient of the sums, for non-existent services, and the payment of fees for fictitious consulting services or professional opinions.

**Other significant cases** A total of 166 STRs pertaining to the "tax shield" were received in 2011, bringing the number of reports transmitted in this regard since 2009 to about 900.

Another sector of interest is that of money transfers, especially with reference to remittances to China, confirming a phenomenon already highlighted in the 2007 Report of the Ministry of the Interior. Analysis of the reports received in this regard shows that there is a real risk of the money transfer channel being used by the Chinese underworld for illicit transactions, in some cases carried out in complicity with Italian criminal organizations, in connection with the import and export of counterfeit goods. The FIU examined the question, analyzing a significant sample of remittances to China intermediated by the main money transfer agencies operating in Italy, and its findings were made available to the investigative bodies and the judicial authorities.

Numerous suspicious transaction reports were received regarding an atypical use of credit cards, consisting in very large cash withdrawals. The Unit also analyzed many reports concerning prepaid cards that were used in anomalous ways.

In 2011 the FIU examined a significant sample of reports concerning anomalies in the public gaming sector, with a view to identifying the most frequent transactions and those most vulnerable to criminal infiltration.

The information received from intermediaries indicates that the following are the main types of suspicious transaction:

- large payments in cash – in excess of the actual receipts from bets – and the intervention of third parties, which could hide an illicit side activity of lending, or circumvention of the legal limits on bets by means of the fraudulent modification of the software of gaming equipment;
- the frequent crediting to accounts held by natural persons of amounts deriving from continual winning bets, with the amounts subsequently withdrawn systematically in cash or used to issue cheques in round figures. Frequent wins claimed by the same person could indicate a hidden market in winning tickets, in which the money launderers buy the tickets from the actual winners at a premium.
- cash purchases of chips that are not used to make bets and for which refund by cheque is requested;
- the topping up of on-line accounts with presumably stolen or cloned credit cards or with means of payment received from third parties.

Some reports regarded especially important and high-profile cases, particularly instances of unauthorized exercise of financial activity and the swindling of investors, illegal betting on football matches, and frauds against the National Social Security Institute (INPS).

## 5 PREVENTING AND COMBATING THE FINANCING OF TERRORISM AND THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

The tasks of the FIU also extend to preventing and combating terrorist financing as a combined effect of the provisions of Legislative Decrees 109/2007 and 231/2007, with particular regard to the reception and examination of suspicious transaction reports. Regulation (EC) No. 423/2007, as amended by Regulation (EC) No. 1110/2008, includes combating the financing of the proliferation of weapons of mass destruction among these tasks. In 2010, Regulation (EC) No. 961/2010 repealed the two earlier regulations and introduced measures restricting financial transactions alongside the obligations to send reports and to impose freezes. As part of the activity to combat the financing of terrorism and proliferation, the FIU's tasks include compiling notifications of freezes and disseminating, on its website and by other means, the lists of persons designated by the competent international authorities.

### 5.1 Suspicious transaction reports

**The flow of reports** The number of reports of transactions suspected of financing international terrorism diminished again in 2011. The FIU received 205 such reports (0.4% of all reports received), down from 222 in 2010 and 366 in 2009<sup>9</sup> (Figure 5.1).

From 2001 through the end of last year the Unit received 4,401 terrorist financing STRs, equal to 2.5% of all the reports it received. After peaking in 2002 following the events of 11 September 2001, the annual flow of such reports fluctuated around 400, with occasional spikes due to the periodic distribution of international lists of terrorism, especially in the wake of terrorist attacks. Generally, however, the percentage of reports regarding terrorist financing has trended downwards.

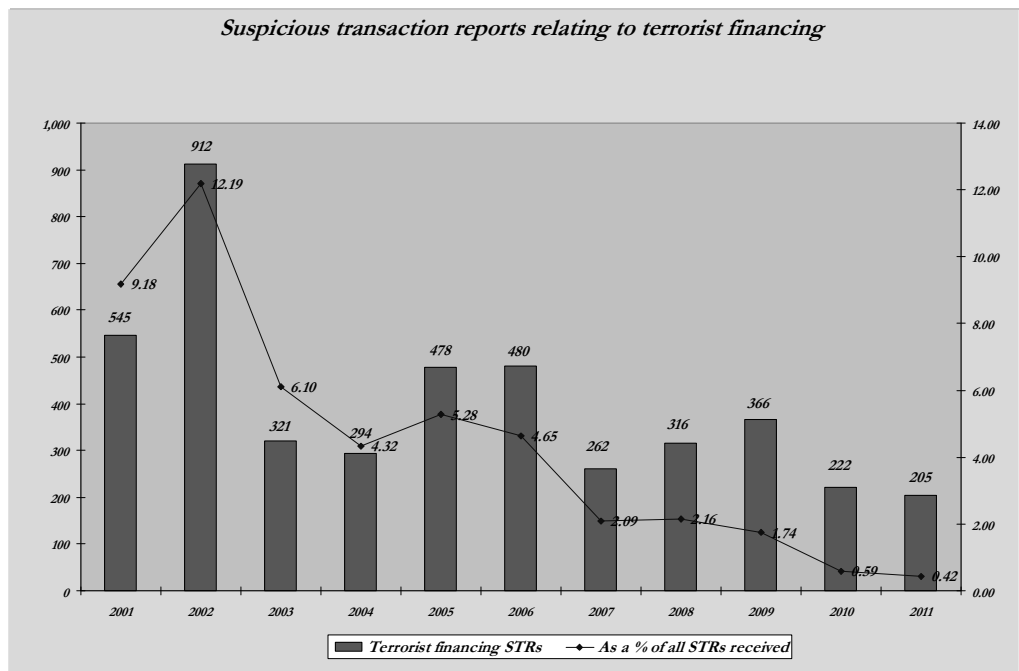
**Origin of STRs** In 2011 list-originated reports again outnumbered those transmitted by intermediaries at their own initiative on the basis of an autonomous assessment of the anomalies detected in transactions set up by their customers.

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<sup>9</sup> Since 2007 data are available on reports of transactions suspected of financing the proliferation of weapons of mass destruction. Accordingly, where relevant, the figures given for 2007 onwards only refer to terrorist financing STRs.



Figure 5.1



As for reporting parties, banks' share of terrorist financing STRs (80%) is approximately the same as for money-laundering STRs. Compared with the latter, insurance companies and financial companies account for a larger share (4.8% and 13.7% respectively). More than 30% of the reports transmitted by banks are not connected to lists of names. For Poste Italiane S.p.A. the corresponding figure is 75%.

In 2011 the Unit transmitted 144 terrorist financing STRs to the investigative bodies, including 62 that it had dismissed as manifestly unfounded (Table 5.1).

Financial analysis of STRs

As noted with regard to money-laundering STRs, dismissed reports are nonetheless transmitted for the possibility that they might become significant after cross-checking with other data in the possession of the investigative bodies.

Table 5.1

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Examined</b>	241	1,193	254	333	433	360	148	291	240	124	82
<b>Dismissed</b>	-	-	-	-	27	113	26	31	217	60	62
<b>Total</b>	241	1,193	254	333	460	473	174	322	457	184	144

The number of reports of suspected financing of the proliferation of weapons of mass destruction fell from 52 in 2010 to 34 last year (Table 5.2). In contrast with the past, most of the reports were not transmitted on the basis of the customer being included in the lists of designated persons circulated by the competent authorities but were rather forwarded at the intermediaries' own initiative, mainly in regard to

Reports of suspected financing of the proliferation of weapons of mass destruction

possible violations of the rules governing transactions in dual-use goods or with counterparties from countries involved in the financing of proliferation.

Table 5.2

<i>Origin of proliferation financing suspicious transaction reports</i>					
	2007	2008	2009	2010	2011
List (A.G., EU, OFAC)	80	41	31	32	13
Intermediary's initiative	-	8	11	20	21
<b>Total</b>	80	49	42	52	34

Table 5.3

<i>Number of proliferation financing suspicious transaction reports transmitted to the investigative bodies</i>					
	2007	2008	2009	2010	2011
STRs examined	31	73	33	21	32
STRs dismissed	8	2	11	-	1
<b>Total</b>	39	75	44	21	33

**Distribution of STRs by region ...**

The geographical distribution of terrorist financing and proliferation financing STRs was basically the same as in the previous years, corresponding roughly to the regional distribution of the immigrant population, taking account of differences in its ethnic and religious composition (Table 5.4).

About 65% of reports come from three regions (Lombardy, followed by Emilia Romagna and Lazio). The number of reports from these three regions diminished in 2011 except for Lazio, where a slight increase was recorded. The percentage of terrorism-related reports originating from the southern regions rose from 3.6% in 2010 to 4.9% in 2011.

Table 5.4

<i>Regional distribution of terrorist financing and proliferation financing reports <sup>(1)</sup> (number and share of total)</i>				
	2009	2010	2011	Share
Lombardy	168	102	87	36.4%
Emilia Romagna	79	60	36	15.1%
Lazio	37	22	32	13.4%
Veneto	23	25	17	7.1%
Liguria	8	13	13	5.4%
Tuscany	24	12	11	4.6%
Piedmont	17	13	11	4.6%
Friuli Venezia Giulia	6	2	7	3.0%
Marche	11	7	6	2.5%
Sicily	5	3	5	2.1%
Trentino Alto Adige	5	3	5	2.1%
Puglia	6	2	3	1.3%
Umbria	2	3	2	0.8%
Calabria	2	2	2	0.8%
Abruzzo	2	2	1	0.4%
Campania	7	2	1	0.4%
Sardinia	5			
Molise		1		
Basilicata	1			
Valle d'Aosta				

(1) Classified by location of the reporting branch.

**... and by the reported party's country of origin**

The distribution of reports according to the reported party's country of origin tends to duplicate that of the official lists of international terrorism (Table 5.5).

The number of persons reported of Pakistani origin diminished, while that of persons of Bangladeshi origin increased. There was also a reduction in the number of reports referring to persons of Iranian origin, against a considerable increase in reports regarding persons of Libyan origin, partly as a result of the measures taken by the international community in respect of Libya and the notifications circulated by the FIU and the Financial Security Committee between February and May 2011.

Table 5.5

<i>Distribution of persons reported for suspected financing of terrorism and proliferation of weapons of mass destruction, by country of origin (number and share of total in 2011)</i>					
	<b>COUNTRY</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Share</b>
<i>South and Central Asia</i>	Bangladesh	37	22	31	9.94%
	Pakistan	87	34	28	8.97%
	India	5	6	2	0.64%
	Afghanistan	3	7	3	0.96%
<i>West Asia</i>	Iran	19	18	11	3.53%
	Syria	5	1	8	2.56%
	Jordan	4	1	2	0.64%
	Lebanon	2	1	-	-
	Iraq	6	2	1	0.32%
	Israel	1	1	-	-
	Saudi Arabia	-	2	-	-
<i>Asia Orientale</i>	Myanmar/Burma	7	2	1	0.32%
<i>North Africa</i>	Libya	5	2	17	5.45%
	Morocco	30	17	12	3.85%
	Egypt	37	2	9	2.88%
	Tunisia	23	11	10	3.22%
	Algeria	9	2	1	0.32%
	Sudan	2	8	2	0.64%
<i>Sub-Saharan Africa</i>	Somalia	5	4	5	1.60%
	Nigeria	-	2	1	0.32%
	Senegal	22	7	-	-
	Ghana	3	4	1	0.32%
<i>Europe</i>	Italy	53	70	120	38.46%
	Former Yugoslavia	1	2	2	0.64%
<i>Other countries</i>		54	43	45	14.42%

## 5.2 Terrorism lists and freeze provisions

In 2011 the FIU received 51 notifications of the freezing of funds of natural or legal persons included in the lists of entities subject to international sanctions. Most of the freezes referred to transactions and relations between Italian intermediaries and designated Libyan or Syrian intermediaries.

At the end of 2011 the resources on which freezes had been imposed amounted to €77 million, belonging to 59 persons. The bulk of these funds (€69 million) referred to transactions and relations with Syrian banks listed in Regulation (EU) No. 204/2011, replaced in January 2012 by Regulation (EU) No. 36/2012 (Table 5.6).

Table 5.6

	<i>Accounts and transactions subject to freezes</i>	<i>Persons subject to freezes</i>	<i>Amounts frozen</i>				
			<i>EUR</i>	<i>USD</i>	<i>GBP</i>	<i>JPY</i>	<i>CHF</i>
<i>Taliban and Al-Qaeda</i>	34	32	186,437.70	11,707.10			50.00
<i>Iran</i>	29	15	4,382,474.72				37,593.47
<i>Libya</i>	18	8	2,128,952.86	772,207,044.31	63.65	3,413.00	39.54
<i>Tunisia</i>	1	1	50,624.55				
<i>Syria</i>	16	2	69,175,861.70	2,530.82			154,104.92
<i>Côte d'Ivoire</i>	3	1	1,700,213.94	34,816.37			
<b>Total</b>	<b>101</b>	<b>59</b>	<b>77,624,565.47</b>	<b>772,256,098.60</b>	<b>63.65</b>	<b>3,413.00</b>	<b>191,787.93</b>

Many freezes of funds and economic resources were ordered following the adoption of financial sanctions in relation to the situation in Libya (Regulation (EU) No. 204/2011 of 2 March 2011). Italian intermediaries and institutional actors froze funds totaling more than €4 billion and \$3 billion, which were subsequently released following the delisting of most of the persons designated. The resources frozen belonging to persons linked to Al-Qaeda concerned 40 natural and legal persons and totaled €190,000. The sanctions against Iran have recently been stiffened by Regulations (EU) Nos. 54 and 56 of 23 January 2012 as a consequence of mounting concern about the nature of the Iranian programme for developing military nuclear technologies.

Within its sphere of competence the Unit verified intermediaries' compliance with the freeze provisions and with the derogations authorized by the Financial Security Committee for the cases mandated by law.

As to public lists of terrorists, the Financial Security Committee completed the revision and updating of the UN lists of natural and legal persons linked to Al-Qaeda and designated at Italy's proposal.

During 2011 the Financial Security Committee examined some 3,000 applications for authorization of funds transfers from or to Iranian persons, pursuant to Article 21 of Regulation (EU) No. 961/2010.

## 6. ANALYSIS OF AGGREGATE DATA AND RESEARCH ACTIVITY

### 6.1 Analysis of data for anti-money-laundering purposes

One of the FIU's chief functions is to analyze financial flows to prevent and counter money laundering and terrorist financing. This analytical activity is directed at detecting individual anomalies and studying broader phenomena referring, for instance, to specific geographical areas, economic sectors or payment instruments. For these purposes the Unit uses the information collected in the course of its own activity and, in particular, the aggregate anti-money-laundering reports it receives each month from the banks and other intermediaries specified by legislation.

Aggregate reports cover transactions (single or split) of €15,000 or more. The individual transactions underlying the aggregate data are recorded in each intermediary's single IT archive under Article 37 of Legislative Decree 231/2007. Reporting intermediaries aggregate the data to be transmitted to the Unit by grouping transactions according to such characteristics as the financial instrument used (credit transfer, cash, etc.), the customer's sector of economic activity, the territorial identification data of the branch of the reporting intermediary, the counterparty and the counterparty's intermediary.

**Aggregate reports**

Banks generate almost all the aggregate data (98% in 2011). While the amounts involved were about the same last year as in 2010, the number of aggregate reports increased, as did the number of underlying transactions (by between 5% and 10%).

The transactions registered in the aggregate reports are headed by cash inpayments and withdrawals. Restrictions on cash transactions and constant monitoring by the authorities of the use of cash are essential tools of the fight against money laundering.

**Cash transactions**

The extent of recourse to cash as a means of payment varies geographically. In particular, the average for the South (7% of all transactions) continues to be higher than that for the rest of Italy (1%). This mainly reflects the different degree of "financialization" of the various parts of the country; recent studies suggest that the informal economy and criminal economic activity, in which there is massive use of cash, account for a significant share of total economic activity throughout Italy.

Along with cash payments, the aggregate data also include credit transfers, a particularly important payment instrument for purposes of fighting financial crime.

**The role of credit transfers in money laundering**

The reporting format for credit transfers is more complex than that for other financial transactions, since it also includes information on the Italian municipality or foreign country of residence of the counterparty and the counterparty's intermediary. Thanks to this important feature, aggregate report data on credit transfers, unlike

those on other payment instruments, can be used to calculate statistics and correlations that take account of the geographical origin and destination of funds.

**Cross-border credit transfers**

In 2011 the Unit continued to monitor cross-border credit transfers involving counterparties or financial intermediaries resident in geographical areas deemed “sensitive” from the standpoint of anti-money-laundering action. Table 6.1 lists the main countries of origin and destination of payments made by credit transfer.

Table 6.1

**Credit transfers to/from foreign countries  
2011**

<b>Outgoing credit transfers</b>			<b>Incoming credit transfers</b>		
<b>Country</b>	<b>Amount (€ mn)</b>	<b>% of total</b>	<b>Country</b>	<b>Amount (€ mn)</b>	<b>% of total</b>
UK	330,789	24.6%	UK	343,185	25.8%
Germany	243,715	18.1%	Germany	210,001	15.8%
USA	140,523	10.4%	France	149,999	11.3%
France	137,058	10.2%	USA	140,952	10.6%
Spain	111,751	8.3%	Spain	108,721	8.2%
Netherlands	68,076	5.1%	Netherlands	59,460	4.5%
Belgium	57,484	4.3%	Belgium	46,138	3.5%
Switzerland	40,784	3.0%	Switzerland	40,597	3.1%
Austria	32,161	2.4%	Luxembourg	33,982	2.6%
Luxembourg	29,400	2.2%	Austria	21,260	1.6%
Croatia	12,801	1.0%	Croatia	13,088	1.0%
China	11,043	0.8%	Poland	9,904	0.7%
Poland	10,931	0.8%	Turkey	9,772	0.7%
Turkey	8,495	0.6%	Ireland	9,076	0.7%
Sweden	8,394	0.6%	Sweden	9,011	0.7%
Ireland	7,524	0.6%	Russia	6,041	0.5%
Serbia	5,831	0.4%	Serbia	5,890	0.4%
Hong Kong	5,266	0.4%	Hong Kong	5,536	0.4%
Hungary	4,860	0.4%	Canada	5,083	0.4%
Japan	4,651	0.3%	Hungary	4,976	0.4%
Others	74,822	5.6%	Others	96,024	7.2%

The flows remain concentrated in respect of countries that are important for trade (several EU countries, the United States, China, Turkey and Japan) or finance (Switzerland, Luxembourg and Hong Kong). Compared with 2010 the figures show a jump for some Balkan countries (Croatia and Serbia) with which Italy strengthened its economic and trade relations.

**Favourable tax regimes: flows by jurisdiction**

Of special interest in the context of the fight against financial crime are the flows of credit transfers from and to jurisdictions that are non-cooperative or have favourable tax regimes, indicated in Table 6.2, and, more generally, involving counterparties or financial intermediaries resident in regions deemed “sensitive” for the fight against money laundering. The capital movements with these jurisdictions are highly concentrated: the first nine countries on the list account for about 95% of the total. Switzerland is by far the most important, with some 65%-70% of the total flows. It is trailed at a distance by several financial centres in the Far East (Hong Kong, Singapore and Taiwan), the United Arab Emirates (Abu Dhabi and Dubai), the Principality of Monaco, and San Marino.

Table 6.2

*Credit transfers to/from countries with favourable tax regimes*

2011

<i>Outgoing credit transfers</i>			<i>Incoming credit transfers</i>		
<i>Jurisdiction</i>	<i>Amount</i> (€ mn)	<i>% of total</i>	<i>Jurisdiction</i>	<i>Amount</i> (€ mn)	<i>% of total</i>
Switzerland	40,784	68.6%	Switzerland	40,597	65.5%
Hong Kong	5,266	8.9%	Hong Kong	5,536	8.9%
Singapore	3,270	5.5%	Singapore	3,491	5.6%
Taiwan	1,852	3.1%	Abu Dhabi	2,578	4.2%
San Marino	1,700	2.9%	Monaco	1,724	2.8%
Abu Dhabi	1,379	2.3%	San Marino	1,619	2.6%
Monaco	1,368	2.3%	Dubai	1,408	2.3%
Dubai	715	1.2%	Lebanon	994	1.6%
Lebanon	506	0.9%	Taiwan	745	1.2%
Others	2,571	4.3%	Others	3,329	5.3%

Turning to the distribution of these flows by Italian region, the scale of the phenomenon tends to reflect the size of the regional economy and its corresponding openness to foreign trade and business relations. Most of the credit transfers to countries with favourable tax regimes originated from North-West Italy (more than 60% of the total, 49% from Lombardy alone). The bulk of the remainder originated from the regions of the North-East and Centre, while the share originating from the South was far smaller (almost nil in the case of the islands). The picture is similar for incoming credit transfers from the same jurisdictions.

Aggregate report data are also used to conduct examinations and to respond to requests from other institutions involved in preventing and combating organized crime and terrorist financing (the Finance Police, the Bureau of Antimafia Investigation and the judicial authorities).

Important changes to the procedures for transmitting aggregate data and to the contents of reports were introduced by the FIU on 22 December 2011. With effect from 12 March 2012, reports must be transmitted electronically via a special Internet portal. In addition, the reporting format has been modified to include data in the single IT archive whose use can enhance the analytical potential of the aggregate reports.

**The new system for transmitting aggregate data**

## 7. CONTROLS

### 7.1 Inspections

The Unit conducts mainly “targeted” inspections, i.e. they tend to be triggered in high-risk contexts and are often carried out in concert with the judicial authorities. Checks are directed primarily to reconstructing and analyzing suspicious financial flows and identifying failures to transmit a report, based on samples of counterparties and transactions selected by the inspector. Inspections also verify compliance with the provisions against money laundering and terrorist financing, above all with the requirements of active cooperation. During inspections operational dysfunctions and procedural anomalies can be detected and evidence found to be reported to the Bank of Italy regarding the intermediary’s compliance with the anti-money-laundering rules.

In 2011 the Unit made 20 inspections: 12 targeted inspections under Article 47 of Legislative Decree 231/2007 and 8 broader inspections under Article 53(4).

Eleven of the inspections involved banks, 7 with administrative headquarters in Lombardy and one each in Piedmont, Veneto, Tuscany and Lombardy. The inspected banks comprised 7 banks of national interest, 2 branches of foreign banks, 1 mutual bank and 1 specialized bank.

An inspection of a leasing company confirmed the previous year’s finding that little attention is paid to anti-money-laundering safeguards in the finance leasing sector.

An inspection was carried out at an electronic money institution for the first time. It found deficiencies in active cooperation, with particular reference to the remittances made by a plurality of persons belonging to the Chinese community in favour of recurring beneficiaries, and in money transfer operations, in regard to some links that were detected between electronic money and online gambling and betting.

Inspections were also conducted at 7 trust companies – 4 in Lazio and 1 each in Liguria, Emilia Romagna and Marche – 5 of which belonged to banking groups.

During the inspections it carried out in 2011 the Unit found cases of anomalous use of payment cards, sometimes issued by foreign intermediaries, to make cash withdrawals at ATMs. The arrangement allowed several card-holders to obtain large amounts of cash, albeit for high fees.



## 7.2 Administrative irregularities

On-site and off-site controls turned up not only potentially criminal offences, which were reported to the judicial authorities, but also administrative irregularities, for which the Unit initiated the sanction procedures within the scope of its authority, subsequently transmitting the acts to the Ministry for the Economy and Finance for further investigation on the basis of hearings of those involved and for the application of sanctions as appropriate.

Last year 62 sanction proceedings for failure to make suspicious transaction reports were initiated (29 in 2010), of which 50 following inspections.

The information that the Unit acquired through its inspections was transmitted, where deemed relevant, to the Bank of Italy in its capacity as the sector's supervisory authority. Specifically, 28 communications were made to the Banking and Financial Supervision Area (27 in 2010) concerning dysfunctions in organization, customer due diligence or compliance with data recording and retention requirements.

With reference to Law 7/2000 ("New rules for the gold market") and pursuant to Article 31 of Presidential Decree 148/1988, in 2011 the Unit carried out the examinations for 11 sanction proceedings (9 in 2010) for failure to comply with the notification requirement for the transfer, purchase and sale of gold in amounts exceeding €12,500. The Unit handled the hearings of the persons involved and forwarded reports on the cases to the Ministry for the Economy and Finance, which has the power to impose sanctions.

## 8 INTERNATIONAL COOPERATION

### 8.1 Cooperation with foreign FIUs

The exchange of information with foreign FIUs remained intense in 2011, both to follow up on reports received and to enable the Unit to cooperate fruitfully with the Italian judicial authorities.

Last year the Unit received 696 requests for information from foreign FIUs, of which 467 via the Egmont Secure Web and 229 via the FIU.NET channel, which was used more frequently than in the past. It sent 632 communications to foreign FIUs, of which 440 through the Egmont channel and 192 over FIU.NET.

In the same period the Unit sent 172 requests for information to other FIUs, of which 128 relating to cooperation with Italian prosecutors and 33 in connection with the analysis of suspicious transaction reports.

The FIUs from which the greatest number of requests were received last year include those of Luxembourg, France, the Slovak Republic, Belgium, Slovenia and San Marino. The FIUs to which the Unit most frequently sent requests were those of Luxembourg, San Marino, Spain, Cyprus and Switzerland.

In handling requests, the Unit responds directly to foreign counterparts, supplying information from its own database. Where appropriate, with their explicit consent in conformity with international standards, the Unit also informs the competent Italian investigative authorities (the Bureau of Antimafia Investigation and the Special Foreign Exchange Unit of the Finance Police).

Several initiatives have been undertaken, especially in European venues, to make cooperation more effective and expand its scope. In the context of the FIU.NET Project, a specific application was developed, which enables the FIUs, subject to encryption of their own databases, to automatically perform cross-checks in order to identify recurrences. To protect confidentiality, the methods used for this matching procedure avoid an initial exchange of names and permit prior identification of the foreign counterparts possessing information on the specific persons of interest, effectively orienting the subsequent exchange of information.

Experimental matching exercises in which the Unit participated together with the FIUs of Belgium, Cyprus, Estonia, Finland, Malta, the Netherlands, Poland, Slovenia, Sweden and the United Kingdom revealed a large number of multiple occurrences. Indeed, in some priority cases the Unit's examination and analysis process was triggered by information exchange with foreign FIUs. The number of multiple occurrences demonstrates the potential of this instrument, efficient utilization of which is now under study by the European FIUs.

Exchange of information with foreign FIUs is also an important means of enhancing the resources available to the Unit in performing its institutional tasks.

Unsolicited communications from foreign FIUs enabled the Unit to detect cases of fraud against the State and instances of unlawful appropriation, which were promptly notified to the Italian judicial authorities. The cooperation provided by foreign FIUs made it possible to identify the funds involved and to adopt precautionary measures.

Beyond the sharing of information for the analyses within their competence, international interchange between FIUs facilitates the subsequent stage of cooperation at the judicial level, including with countries for which there is no agreement for judicial cooperation.

The Unit is also engaged in other forms of cooperation with foreign FIUs, particularly technical assistance and exchanges of experience.

## **9 COLLABORATION WITH THE JUDICIAL AUTHORITIES AND OTHER NATIONAL AUTHORITIES**

### **9.1. Collaboration with the judicial authorities**

The Unit's exchange of information and collaboration with the judiciary remained at a highly productive level in 2011.

In particular, there was a significant increase in requests for information, with 170 transmitted by public prosecutor's offices and Antimafia offices in 2011 compared with 118 in 2010.

The Unit responded to these requests by conducting the necessary examinations and making available suspicious transaction reports, technical reports and communications from foreign FIUs, in compliance with the privacy and confidentiality requirements.

The Unit also transmitted 21 communications to the judicial authorities at its own initiative, providing supplementary information, based in part on the findings of inspections, for investigations under way.

There was especially intense collaboration with the main public prosecutor's offices on financially complex investigations. The Unit offered its contribution in the context of penal proceedings for usury, illicit activities connected with waste collection, possible illicit utilization of factoring contracts, and public tenders.

The Unit also cooperated in an investigation on money laundering involving the criminal organization "ndrangheta". In particular, it identified a complex web of financial flows between Italy and a number of foreign countries and detected the already familiar phenomenon of the anomalous use of payment cards, sometimes issued by foreign intermediaries, to make repeated, large cash withdrawals from ATMs, thereby avoiding the ordinary anti-money-laundering safeguards.

The Unit maintained a high level of cooperation with the public prosecutor's offices of Milan, Rome, Naples and Forlì and continued to provide support for investigations based at the public prosecutor's offices of Florence and Perugia. Finally, collaborative relationships continued or were established with many other public prosecutor's offices.

The Unit transmitted 56 reports of possible penal infractions, under Article 331 of the Code of Penal Procedure, to the competent public prosecutor's offices, including 18 deriving from suspicious transaction reports.

Cooperation with the judicial authorities also proved fruitful for the Unit, which exploited the opportunities offered by financial analysis of the cases under investigation to examine new money-laundering techniques and practices. The Unit used the information acquired for the construction of new anomalous conduct

models serving to assist the persons subject to active cooperation requirements in detecting anomalies to be reported.

## **9.2 Collaboration with other national authorities**

The Unit further strengthened its network of contacts with other national institutions in consideration of the decisive role of cooperation between authorities for the correct functioning of the anti-money-laundering system.

In particular, the Unit cooperated with the Bureau of Antimafia Investigation, providing information on suspicious transaction reports relating to the “tax shield” and lira-euro conversions, some of the latter subject to proposals for suspension of the transaction. In its reports to the Bureau of Antimafia Investigation the Unit also provided information on the most significant and recurrent types of transactions.

Pursuant to Article 9 of Legislative Decree 231/2007, the Unit began discussions with Consob for a memorandum of understanding similar to the one signed with the Insurance Supervisory Authority (ISVAP) at the start of 2011 to coordinate inspections and regulate exchanges of information and the sharing of analyses and studies.

Similar discussions were initiated with the Customs Agency, with a view to regulating the exchange of information on declarations of cross-border cash transfers under Legislative Decree 195/2008.

## 10 ORGANIZATION AND RESOURCES

### 10.1 Human resources and organization

The staff of Italy's Financial Intelligence Unit expanded from 104 to 116 in 2011. The Unit's organizational structure continues to be made up of 6 Divisions, supplemented by three collegial bodies (the Advisory Committee for the Examination of Irregularities, the On-site Controls Centre and the Coordination Group), whose members are managers in the Unit.

### 10.2 Technology resources: information technology

Last year saw the completion of the new, integrated application for handling STRs and of the new system for collecting aggregate data reported monthly by intermediaries.

Data  
warehouse

The projects that have already been completed and those still becoming operational have permitted a substantial increase in the stock of information. The data collected by the FIU, in view of their volume and the complexity of the links between them, require the adoption of computerized systems to support the activity of analysis, with the aim of extracting crucial "hidden" information. Accordingly a start has been made on a project for the construction of a data warehouse, for the collection and processing of the entire stock of information, thus making the procedures for analyzing reports more robust and at the same time more flexible and effective.

In addition to integrating the FIU's internal and external information sources and those of the Bank of Italy, the system will have to provide facilities enabling easier exploitation of the "integrated" information, for the production of reports supporting analyses and statistical publications. The objectives being pursued include: the creation of a system for the automatic classification of STRs to assist in deciding how they are to be treated in the analysis phase; the adoption of more sophisticated tools of analysis; the use of visual analysis techniques, to represent relationships that are not evident in a large mass of data; and the use of methods of text mining to extract information from unstructured content.

Looking ahead, the revision of the Unit's information system will be completed with the development of new functionalities for gathering information on trading in gold and an automated system to handle information exchange with the judicial authorities and other FIUs.