



BANCA D'ITALIA  
EUROSISTEMA



Unità di Informazione Finanziaria per l'Italia

# Presentation of the Annual Report of Italy's Financial Intelligence Unit (Unità di Informazione Finanziaria - UIF)

## 2015

### The Director's Report

Rome, 7 July 2016



BANCA D'ITALIA  
EUROSISTEMA



Unità di Informazione Finanziaria per l'Italia

# Presentation of the Annual Report of Italy's Financial Intelligence Unit (Unità di Informazione Finanziaria - UIF)

## 2015

### The Director's Report

Rome, 7 July 2016

*Ladies and Gentlemen,*

For the past several years we have convened to present the Annual Report on the work of Italy's Financial Intelligence Unit (*Unità di Informazione Finanziaria – UIF*), which is submitted to the Italian Parliament via the Ministry of Economy and Finance.

Over time the Report has been expanded and become more detailed, as the Unit's activity has intensified and as the tasks and functions assigned to it by law have been rolled out in full. This has gone hand in hand with a growing awareness that the UIF's role demands the utmost attention to ensure transparency surrounding strategies, outcomes and problem areas.

Our efforts are directed at a broad spectrum of individuals and entities committed to preventing and combating money laundering and the financing of terrorism: that is, central and local government departments, public prosecutors, law enforcement agencies, banks and other operators whose active contribution and steadfast, passionate commitment, enlivens and makes effective the prevention system.

We welcome the representatives from civil society and the media here with us today. A system for preventing and combating organized crime can only function properly when the values of legality and cooperation from which it draws its inspiration are widespread, sincerely felt and shared by all members of society.

Not only do we want to fulfil our obligation to give a comprehensive account of our activities, but we also want to help reinforce the sense of having a single purpose, a shared methodology, and the need for cooperation to ensure that the fight against money laundering and terrorist financing is at its most effective.

The proliferation of new threats and systems for channelling illicit financial flows requires a constant effort by everyone involved to update the prevention system: by Parliament, through appropriate and effective law making; by the authorities responsible for preventing, combating and repressing these phenomena; by businesses, through effective safeguards and proactive cooperation; by social partners and the media; and by individual citizens, who must resist, each in their own sphere of activity, any attempt at criminal involvement or infiltration, and affirm instead the values of legality and justice in everyday life.

## **The IMF's assessment of Italy's anti-money-laundering and counter-terrorist financing system**

In 2015 the IMF completed, on behalf of the Financial Action Task Force on Money Laundering (FATF), its detailed assessment report on Italy's system for combating and preventing money laundering and the financing of terrorism. The results were published in early 2016.

The assessors found that Italy was aware of the gravity of the risks it faced and had proven capable of building and running a system characterized by: a robust legal and institutional framework; a good understanding of the risks; a high degree of cooperation and coordination among authorities on policies for the prevention and repression of violations; a particularly effective system for reporting, analysing and verifying suspicious transactions; widespread and growing cooperation of a large number of operators; incisive investigative and judicial action.

The assessment also examined the profile and activities of the UIF, recognizing its independence and autonomy, ensured by legal safeguards and by its special position within the Bank of Italy, which guarantees that 'all the decisional process is developed within UIF, without any interference from the BoI or any other authorities.' It further acknowledged that, 'The UIF is a well-functioning financial intelligence unit. It produces good operational and high-quality strategic analyses that add value to the suspicious transaction reports (STRs)'.

The assessors also praised the UIF's organizational arrangements, in particular the use of a 'very advanced reporting system' that 'allows a classification of STRs by risks', and its structural arrangements, which were recently reviewed to counter new threats more effectively.

The IMF assessors' view of the entire anti-money-laundering system ranks Italy among the most virtuous of the member countries of FATF; it confirms the validity of Italy's legal and institutional framework and the effectiveness of the action taken by all members of the system; finally, it identifies some weak points and indicates the necessary countermeasures.

It is a matter of great satisfaction to belong to a system that ranks Italy so highly at international level. We are, however, fully cognizant of the limits that still exist and of the significance and pervasiveness of the risks faced. We are actively involved in designing the necessary next steps at operational level.

## **Risks and threats**

In 2015 the phenomena of organized crime and financial criminal activity were compounded by the new risks stemming from the rise in international terrorism.

These consist in countering the emergence of more sophisticated ways of financing terrorism, including those based on self-financing by local groups and on the support of organizations that control foreign territories and can use funds stemming from illegal trading in the resources stolen from occupied countries.

The strategies developed by the international bodies to combat terrorism emphasize the role of financial information and the importance of sharing it at national and international level. These strategies entail the handling of a huge volume of data and require considerable resources but can produce important results: partly thanks to the information exchanged between national FIUs, following the Paris terror attacks of 13 November, we were able to reconstruct the transit through Italy of one of the terrorists, thereby making a concrete contribution to the mapping of his network of relationships and to the police investigation.

We continue to pay close attention to the threats identified in the national risk assessment carried out in 2014 in relation to organized crime, corruption, tax evasion and other financial crimes. Combating these phenomena, including with the use of financial resources, is an ongoing priority.

The links between criminality and the economy have become increasingly close and systematic; it is often difficult to distinguish between illegal activities and those conducted in an apparently legitimate manner by businesses that have been infiltrated by crime. Money laundering helps to reinforce crime syndicates' territorial control and to build relationships within the economic, financial, political and administrative spheres, increasing the scope for intimidatory tactics. The recent 'Mafia Capitale' affair, about which the UIF received numerous reports and is working with the Public Prosecutor's Office of Rome, is the most recent confirmation that this type of crime also takes place in milieux and areas of the country not traditionally dominated by Mafia organizations.

Suspicious transaction reports can help identify the 'business' activities of criminality. Increasing this contribution is one of the primary strategic objectives in which the Unit is investing. Recognizing transactions linked to organized crime is no easy task: financial crime can assume a variety of guises and modi operandi,

which cannot always be distinguished from those characterizing other forms of illegal and even legal activity. In 2015 a focus group on organized crime (*Osservatorio sulla Criminalità Organizzata*) was set up within the UIF itself and charged with the task of fine-tuning the methodologies and instruments for the prompt identification and use of the reports on this phenomenon. Software for social network analysis was accordingly developed, and is proving especially useful for identifying and analysing the financial activities of criminal groups and the implicit relationships they conceal. The results to date are promising.

The investigators' findings confirm the importance of reporting suspicious transactions in order to combat organized crime: adopting new working procedures, the Anti-Mafia Investigation Department (DIA) identified and transmitted to the National Prosecutor's Office more than 11,000 reports of potentially criminal activity it received in 2015. Our cooperation with the DIA, which has recently been stepped up, will contribute to the development of the methodologies and utilization of the findings of the Monitoring Group.

Corruption is among the most alarming and dangerous criminal phenomena to which Italy is exposed. The international community pays close attention to this issue and to the significant consequences it has for the competitiveness of our country, including in terms of our ability to attract foreign investment.

The UIF's activities have not been confined to highlighting symptoms of corruption and embezzlement of public funds in reported transactions but have also endeavoured to identify patterns of behaviour pointing to unreported violations. Among the cases examined in 2015, episodes of misappropriation of funds in connection with public insolvency proceedings stand out, owing to the forms they took and to the individuals and financial resources involved.

The suspicious transactions which, at least superficially, refer to tax offences are those most commonly brought to the Unit's attention. In 2015 the scale of this phenomenon increased significantly owing to the government's *Voluntary Disclosure* programme for previously undisclosed foreign income and assets. In only a few of these cases there were grounds to believe that the transactions were related to crimes that could not benefit from impunity; the body of data acquired is an important record of the methods, channels and beneficiaries of the proceeds of evasion which will enhance Italy's ability to prevent and combat tax violations. Considerable efforts were made to trace large flows of funds, attributable among other things to tax evasion in trade with China. In the past it emerged that payments

related to uninvoiced Chinese goods had been made via money transfer services: this phenomenon was the subject of a number of inquiries implicating numerous individuals. More recently, the statistics revealed a decrease in flows of remittances to China (from approximately €2.7 billion in 2012 to around €560 million in 2015). The decline was such that even when cross-checked with data from the Customs Agency no plausible justification could be found, raising the spectre of the use of new channels for money laundering. The analyses, including inspections, ascertained that a large portion of the difference found in the statistical flows was linked to remittances made through agents. In many cases these were the same individuals implicated in previous inquiries, who had relocated to EU payment institutions that are not obliged to make statistical reports, and above all are lacking adequate controls and do not comply with active cooperation obligations. The rapid growth and scale of the phenomenon have given us grounds to believe that there are organizations adept in exploiting asymmetries between EU and domestic entities in the anti-money-laundering legislative framework. The attention of the Italian Parliament was drawn to this question at the recent hearing held at the Sixth Standing Committee on Finance of the Chamber of Deputies.

### **Active cooperation**

The number of suspicious transaction reports has continued to increase markedly: in 2015 we received a total of 82,428 reports, over 10,000 more than in 2014. In the first six months of 2016 there were more than 50,000. The upward trend, under way since the UIF was first established, is confirmed even not counting the reports stemming from regularizations following voluntary disclosures (around 7,000 in 2015 and more than 10,000 in the first half of 2016). The total estimated number of reports for this year is 100,000.

The prevention system has consistently enhanced its capacity to intercept suspicious transactions involving an increasingly broad array of operators from different categories: in 2015 a total of 941 individuals registered with the system for the collection and analysis of anti-money-laundering data for the first time. A large number of these are professionals, presumably connected with reports on voluntary disclosures. This new group of reporting entities submitted more than 2,000 suspicious transaction reports overall.

The increase in the number of reports submitted and in the number of those conscious of reporting requirements are proof of growing awareness of the risks of becoming involved in money laundering and of the need to take precautions against it.

Notwithstanding the progress made to date there is still a large grey area comprising persons and spheres of activity where practices inspired by the Latin saying *pecunia non olet* or money does not stink, continue to fascinate and endure. More widespread participation in the system can, however, make it easier to identify operators whose contributions are minimal or lacking in any real substance; the development by the UIF of quantitative and qualitative indicators of cooperation enables us to respond with increasingly targeted controls.

It is apparent from our daily interaction with reporting entities that increasing attention is being paid to prevention. Up to just a few years ago, active cooperation was perceived, including by honest individuals, as a costly imposition, one that was basically irrelevant to the world of business and above all rather ineffective and therefore futile. It is difficult to garner consensus on burdensome obligations that must be met if the benefits to oneself or society are unclear. The preconditions for extracting the best possible results from the analysis of suspicious transaction reports have since been fulfilled and these results have acquired greater visibility; every effort has been made to guarantee the anonymity of the reporting entities; the information provided has been handled in the most cautious and confidential way possible so that for cases where suspicions prove unfounded the reports do not put customers in awkward situations. The credibility and reliability of the system have been improved as a result – these are essential premises for a more proactive and wide-ranging contribution from operators. Further steps must be taken on these fronts to ensure even greater safeguards for confidentiality, lower costs for compliance and instruments for using the information acquired more effectively.

The reports filed by professionals increased from just under 2,500 to almost 6,000 in 2015, in part owing to tax regularization schemes that have built an important bridge with categories which up to now have not been very collaborative; it is to be hoped that this opportunity can help overcome any residual resistance and mistrust. Reports made in the cases and within the boundaries established by law do not impair relationships with honest customers but instead strengthen the professional's management of that relationship, enabling those intent on betraying their trust by involving them in illicit transactions to be isolated and discouraged.

As demonstrated by the experience of public notaries, a category which last year recorded another increase in the number of reports filed, the role of professional bodies in terms of supporting and training their members and in preparing specific guidelines for the category of reference is of vital importance. The possibility of sending reports via these bodies facilitates the fulfilment of obligations of cooperation and strengthens the safeguarding of confidentiality.



In 2015 reports from non-financial operators also increased (by more than 60 per cent), especially those from providers of gaming and betting services, gold traders and manufacturers or retailers of precious stones and metals.

The question of the cooperation of general government departments, to which I also drew attention in last year's Report, remains an open one. Notwithstanding the fact that in September 2015 the Ministry of the Interior issued specific anomaly indicators and organizational guidelines to help public entities intercept suspicious transactions, signs of implementation remain highly sporadic. The few reports that did arrive (21 in 2015 as a whole and just 7 in the first six months of 2016) confirm that general government offices can constitute a privileged and highly interesting observatory for detecting and confirming well-grounded suspicions of money laundering, which may not be intercepted to the same extent in reports from private operators. At a time when increasing attention is being paid to prevention, ethics and honest dealings, it is deeply perplexing that this opportunity for cooperation, even more than the duty it represents, has yet to be seized.

The large number of reports must go hand in hand with the constant fine-tuning of their quality. Significant progress has also been made on this front but more can and must be done.

The Unit maintains an intensive schedule of meetings with the largest reporting entities or with those that present particular problems. They are provided with constant remote support: in 2015 in around 3,000 cases further assistance was given. The development of the reporting systems has the dual objective of reducing the burdens for 'obliged entities' and of enhancing the quality and quantity of the data: in recent months we have activated processes that permit us to easily update reports that have already been transmitted; in the coming days a new procedure will be adopted for money transfer services, which will greatly improve cooperation, characterized at present by the very large volume of transactions described in individual reports (in 2015 a total of around 220,000 transactions in almost 2,300 reports). In this way it is possible to improve the quality of the data provided by a sector that is particularly vulnerable to the risks of money laundering and terrorist financing.

The distribution of feedback forms to the main banking reporters continued. By comparing the average data of the category to which they belong, these forms provide useful indicators of the level of their cooperation and help identify areas of weakness. The possibility of extending these instruments to other categories is currently being studied.

In order to enhance the ability of obliged entities to identify behavioural

patterns that may indicate money laundering, in 2015 the Unit launched the publication of collections of cases of interest that emerged in the course of financial analyses, with a simple illustration of their structural and functional aspects. A new series of casebooks has been scheduled for publication by the end of 2016.

## **Operational analysis**

Despite the increase in the number of reports and contacts with reporting entities, with virtually the same resources as in 2014 the Unit succeeded in handling the larger volume of information received. Thanks to the dedication of its staff and constant attention to the improvement of processes and technology, in 2015 almost 85,000 suspicious transaction reports were analysed and sent to law enforcement agencies, representing an increase of 12 per cent compared with 2014 and a further reduction of the number of open cases, which fell to levels close to the average monthly inflow of reports.

The prevention system relies on multiple data sources and on the possibility of handling them effectively. It was this conviction that led to the UIF's establishment of a *data warehouse*, operational since July 2015, which marks an important step on the road to boosting the Unit's analytical capacity as outlined in national and European law, supported by the FATF recommendations, confirmed by the IMF assessors and determinedly pursued by the Unit itself. The new system greatly reinforces the potential for handling reports and the ease with which this can be done, by ensuring that the data contained in the internal archives match those from the numerous and growing number of external sources.

The availability of data in a single location and the implementation of network analysis software also facilitates the detection of large and well-structured money laundering circuits, which often fail to emerge from the examination of individual reports, as well as the investigation of other significant phenomena through large-scale data processing.

Based on the indications that gradually emerged from the IMF's assessment, the UIF and Italy's Special Foreign Exchange Unit (*Nucleo Speciale di Polizia Valutaria*) accentuated the selective nature of their respective procedures for classifying suspicious transactions to gear their activities more specifically towards contexts where risks were greatest, with positive effects on the system as a whole.

The information that the Unit receives on further investigations of reports has now been supplemented with notifications of the final outcome of the inquiries.

This information is especially useful for broadening the existing knowledge base and assessing the results of active cooperation and financial investigation. We must identify ways of working and the precautions which, with the necessary legislative support, will enable us to share with operators the results of their reports.

## **Strategic analysis and studies**

In keeping with international principles and Italian law, the UIF continued to develop activities designed not only to assess money laundering activities and trends, but also vulnerabilities in the economic and financial system and the risks associated with geographical areas, payment instruments and economic sectors.

In recent years new lines of quantitative research have been pursued, which use econometrics to pinpoint anomalies and emerging trends. Following a phase in which the main issues requiring attention were identified and the empirical models designed, last year we worked on their implementation and refinement.

The analyses are also used to update the national risk assessment and prepare the supranational one recently launched at European level.

The model for territorial indicators of anomalies in cash transactions, identified as one of the critical aspects of the national system, has been completed and published.

To support the Unit's monitoring and intervention activities another model has been designed which helps to identify cases of inadequate active cooperation, taking account of banks' operations and of their distribution across the territory.

As part of the initiatives to prevent and combat terrorism, financial flows to Middle Eastern and North African countries were analysed on a trial basis; this examination revealed a series of transactions for considerable amounts necessitating specific research in light of the risks they presented.

With the help of the main banks, the UIF continued to monitor cash withdrawals from automatic teller machines in Italy using credit cards issued abroad. From a survey of the 2013 data, symptoms had emerged of ongoing and systematic activity aimed at splitting and transferring to Italy massive sums of foreign money of unknown origin. The new analysis highlighted the rise in these anomalies: the total amount withdrawn increased by 27 per cent on an annual basis (between January 2014 and April 2015 around €160 million was withdrawn using just 1,300 cards, the bulk of which had been issued in Eastern European countries). The leading Italian banks, who have been made aware of the risks of money laundering associated with these kinds of withdrawals, have taken steps to mitigate

and accordingly curtail the phenomenon.

Statistical techniques were also used to further investigate the different characteristics of significant reports with a view to establishing working priorities. Data contained in the reports were correlated with some measures of risk in order to statistically verify the automatic rating currently assigned by the Unit and to evaluate possible improvements.

Also during 2015, joint initiatives were undertaken with a number of universities to compare and investigate issues related to money laundering and the financing of terrorism. A series of workshops were held on quantitative methods and other means of combating criminality that provided opportunities for encounters between researchers, government institutions and the financial sector.

## **Controls**

For several years now, the UIF has been committed to extending its controls to non-bank entities that have very different operational profiles and levels of exposure to the risk of money laundering, which call for specific types of verification.

During the year checks were carried out at securities intermediaries, cash-in-transit companies, gambling operators, insurance companies and audit firms in conjunction with the appropriate sector authorities. Several inspections were also conducted as part of ongoing investigations by the judicial authorities.

The controls carried out together with the fine-tuning of the regulatory framework of some of these sectors helped to increase levels of active cooperation.

Following indications of anomalies that emerged from the Unit's analyses, checks were carried out on compliance with the reporting requirements for suspicious transactions in the money remittance sector (money transfer services) which is capable of laundering even very large financial flows through repeated, apparently sporadic, small transactions made using artificial splitting techniques and straw men.

The inspections highlighted widespread and recurring problems in remittance activities and non-compliance with the reporting requirements for suspicious transactions. The distribution network, often that used by EU entities operating in accordance with the principle of the free provision of services, is the weakest link: the agents make a marginal contribution to active cooperation and at times even appear to be directly involved in the execution of anomalous transfers, insofar as

these are split and attributed to unknown or non-existent individuals. Potentially criminal actions emerged that the UIF has reported to the judicial authorities as well as administrative violations for which the Unit has initiated sanction procedures. Reports were sent to the National Anti-Mafia Directorate (DNA), Italy's Special Foreign Exchange Unit and the supervisory directorates of the Bank of Italy.

In order to promote greater participation of general government in the prevention system and to verify the effectiveness of the specific anomaly indicators recently issued, in early 2016 controls were carried out at one government institution responsible for activities that are particularly vulnerable to the risk of money laundering.

The establishment of a sector charged with coordinating inspections will permit increasingly targeted interventions designed to achieve more effective outcomes.

## **National and international cooperation**

International principles and legislation concur that closer cooperation between national authorities and the financial intelligence units of individual countries is one of the pillars of the system for preventing and combating money laundering and terrorist financing.

Within the boundaries established by national law, the UIF has strengthened its relations with police forces, public prosecutors and other law enforcement authorities.

The network of relationships that defines the anti-money-laundering system offers valuable opportunities for cooperation and synergy between actions safeguarding legality and those safeguarding stability, transparency, and the proper functioning of banks and of the market, on which the defences and oversight of the banking and financial sectors depend. In this context, the exchange of information with the supervisory directorates of the Bank of Italy has proven particularly intensive and constructive; there has also been productive and regular interaction with CONSOB and IVASS.

The UIF continues to cooperate with Italy's National Anti-Corruption Authority (ANAC) to explore the links between the prevention of money laundering and corruption; discussions were also held on the preparation of anomaly indicators for general government and the definition of the National Anti-Corruption Plan.

Our dealings with the judicial authorities increased considerably: there is

growing awareness of the opportunities afforded by the information contained in suspicious transaction reports and the Unit's analyses for the launch and conduct of investigations.

Partly following the successful utilization, in tandem with a number of public prosecutors' offices, of secure electronic communications services, in the next few months a new system for managing how information is shared (SAFE) will be adopted. The system will also involve other national authorities and foreign FIUs and is designed to increase recourse to electronic channels and to computerize the entire process of dealing with requests for assistance.

Cooperation with the National Anti-Mafia Directorate (DNA) and, through it, with the District Anti-Mafia Prosecutors' Offices, has intensified further, opening new possibilities for sharing information and for operational change. In this connection a round table was recently established among the UIF, the National Anti-Mafia Directorate (DNA) and the Customs Agency to explore specific areas of common interest.

The UIF has also intensified its interaction with Italy's national public prosecutors' offices. It cooperated on terrorism-related inquiries made by the Special Operations Group (ROS) of the Carabinieri with which the UIF has developed a very positive synergy. Another specific contribution was made to investigations into organized crime conducted by the Italian judiciary with the aid of the Central Operations Bureau (*Servizio Centrale Operativo* – SCO) of the State Police.

More dialogue between the various actors and the sharing of know-how on methods and information delivers better results and makes apparent the advantages of the system by facilitating its full deployment. In this context, the Unit frequently takes part in training initiatives for public prosecutors and courses held for police officers to share information on the tasks and instruments used in prevention activities.

It is increasingly commonplace for illicit financial flows to cross national borders and enter numerous jurisdictions; this has determined a growing commitment on the part of the Unit to share information with the global network of FIUs.

The opportunistic behaviour of a number of countries with preferential financial, fiscal, or corporate regimes continues to provide opportunities for financial crime. The recent case of the *Panama Papers*, one in a series of such episodes, recalled the attention of public opinion to the widespread practice of exploiting opaque services for concealing or disguising illicit resources. These are global problems; if not adequately dealt with, they pose a significant threat to

global initiatives to combat money laundering.

The Unit maps and details the potential activities of the main offshore centres and constantly monitors credit transfer flows to and from these centres; notwithstanding the economic crisis the volume of these flows remains considerable.

The cooperation of these countries' authorities, including when specifically requested by the UIF, reveals efficiency failures stemming from uncooperative attitudes and the persistence of operational loopholes favoured by insufficient supranational harmonization of the rules.

The international bodies have taken steps to introduce more effective instruments to combat preferential tax regimes and to strengthen cooperation at global level. Specific projects are currently being studied to ensure transparency and the exchange of information on the structures and beneficial ownership of entities and companies, to broaden FIUs' access to information and to enhance their ability to cooperate at international level.

Against this background our experts are contributing to a number of different assessments initiated by the FATF of anti-money-laundering systems in other countries, focusing in particular on those that are reluctant to share information.

Notwithstanding the shortcomings of some of its members, the system of international cooperation among the FIUs helps with the reconstruction of illicit financial flows, which in many cases has proven decisive. There has been a marked increase in both requests for cooperation and spontaneous reports from foreign FIUs and in the number of requests sent by us to our counterparts in other countries (725 in 2015). In 217 cases the correspondence was initiated to satisfy requests for information by the judicial authorities, which were then used subject to the consent of the foreign FIUs. The information obtained is useful for advancing investigations, adopting precautionary measures and facilitating targeted requests for information.

The Unit's European activities have been broadened to include more rapid and efficient exchanges of information based on a dedicated computer network; cross checks of encrypted databases enable the identification of information on individual entities at other FIUs.

European projects, to which the UIF contributes, are designed to define uniform methods and criteria for classifying and sharing information on suspicious

cross border transactions, including with a view to conducting ‘joint analyses’, as envisaged by the fourth EU anti-money-laundering Directive.

The EU Financial Intelligence Units’ Platform, which is presided over by the European Commission, was identified by the new EU law as the main forum for debate and coordination on how to mitigate the effects of the uneven application of anti-money-laundering laws in individual countries and how to increase the effectiveness of the FIUs’ action and mutual cooperation. The UIF, which has supported recognition of the Platform during the preparatory stages of the Directive, participates in it and makes an active contribution, including by assuming the responsibility for coordinating specific projects to pinpoint the obstacles to international cooperation and come up with potential remedies.

### **Combating the financing of terrorism**

All the international forums (United Nations, G20, EU, the Anti-ISIS Coalition, FATF) today attribute strategic value to identifying the sources and methods of terrorist financing; the new approach goes beyond the application of sanctions and the freezing of funds to preventively exploit the possibility of disrupting channels of financial support and, as a repressive measure, to increase the contribution that the reconstruction of financial circuits can make to inquiries.

Given what is effectively a new role, the FIUs are being called on to redouble their efforts: they must no longer be solely reactive, confining their activity to handling the reports received, but instead more proactive, in order to capture a broad range of information, to identify unreported financial risks in a timely manner, and to share what they know with national authorities and the international financial intelligence network. The European Union has enshrined these principles in its Action Plan adopted by the Commission on 2 February 2016, following a request by the ECOFIN Council; the fourth Directive itself is currently being modified to implement the new lines of action.

The FATF has also approved the *Strategy on Combatting Terrorist Financing* which calls for: greater use of the data provided by financial intermediaries to reconstruct the techniques used to collect, manage and transfer funds destined for acts of terrorism; the development of more effective coordination mechanisms at national level between the competent authorities; the broadening of the information available to the FIUs and its sharing with all the investigative bodies.



Our Unit, which has benefited from having already conducted a review of its organizational structure, adapted its activities swiftly to meet the new requirements.

Work to raise awareness of obligations was stepped up with the creation of a web portal to make it easier to consult the very large quantity of documentation from international bodies describing the various forms of terrorist financing and tell-tale indicators of its existence. A special communication was also sent to operators reminding them of the need to exploit in full the information available to them and to adapt data selection procedures to the evaluative elements drawn from the UIF's experience.

Partly as a result of these communications, reports of suspected terrorist financing transactions, which had already tripled in 2015, recorded a further significant increase (over 300 in the first six months of 2016). The specific analysis which they undergo is designed to ensure that the reports are swiftly shared with the judicial authorities, which will then pass them on to the National Anti-Mafia Directorate and the Anti-Terrorism Strategic Analysis Committee.

The financial flows destined to terrorism are difficult to intercept because they often involve small amounts, are channelled outside of the legal financial circuit, or are ascribable to activities that in and of themselves are legal. In several instances the reports have proven very valuable in investigations, enabling the detection of the movements and uncovering of networks of alleged terrorists.

At international level, the FIUs have developed within the *Egmont Group* a multilateral exchange of data that can be analysed and shared prior to recording or confirming actual suspicions. The project aims to investigate the financing of the 'Islamic State' or ISIL and the financial characteristics of *foreign fighters* and brings to the attention of individual FIUs information on individuals and circuits linked to terrorism even when no known operations have been carried out in their respective territories. In this way a vast volume of data has been exchanged (pertaining to around 20,000 individuals), opening the way to further analysis. Investigations are under way in the databases of Italian banks to preventively exploit this information and to ascertain the existence of transactions attributable to the individuals identified.

## **The evolution of the legislative framework**

The legal framework is in constant and rapid evolution: just two days ago the European Commission presented a Proposal to modify the fourth anti-money-laundering Directive which, amongst other things, brings forward the deadline for its transposition to 1 January 2017 to deal with the threat from terrorism more

effectively. It also calls for more stringent measures for the use of prepaid cards and virtual currencies; the strengthening of the powers of the FIUs and mutual cooperation; the establishment of national archives with information on bank accounts (along the lines of Italy's national register) and greater transparency of information on beneficial ownership.

The Italian Parliament, which must adapt national law to EU legislation, will have an opportunity to take account of the new European guidelines and findings of the FATF's *Mutual Evaluation*, while at the same time safeguarding the strengths of the current system, which the FATF has itself acknowledged and commended.

This is the background against which the criteria for the transposition of the fourth Directive contained in the EU's 2015 draft Delegated Act have been drawn up, whose passage through Parliament is nearing conclusion.

It will be possible to update the list of obliged entities, according to a risk-based approach. This provides an element of flexibility consistent with the need to activate all the economic actors that can make a concrete contribution but also to limit systemic burdens to what is strictly necessary for combating money laundering and the financing of terrorism.

In keeping with the Proposal that the Commission has just presented, there could be specific safeguards in the field of virtual currencies for the operators that act as the interface with the real financial system.

The Proposal's transposition will also permit the introduction of rules on money transfer services that operate in Italy via agents and accredited entities. The assignment to the point of contact in the national territory of independent obligations of proactive cooperation and information vis-à-vis the UIF, together with network surveillance duties, will enable this sector to be better safeguarded.

As for the conservation of data, the understandable need for simplification must be considered alongside the positive results of the use of the Single Electronic Archive created to improve the traceability of transactions.

Creating a context in which there is greater transparency about the beneficial ownership of economic resources, through the establishment of a single national register and provisions on trusts, implies rejecting forms of opacity that are no longer tolerable. Accessibility to these data, not just by the anti-money-laundering and tax authorities but also by entities that are subject to due diligence requirements and bearers of specific interests, opens the way to more transparent and secure economic relationships. Expectations of greater ease and efficiency of due diligence are very strong and if confirmed would also have a positive impact on the costs of compliance.

To combat the development of criminal threats and facilitate active cooperation, the UIF has been assigned the power to issue anomaly indicators and instructions for identifying and reporting suspicious transactions. The quality of cooperation can also benefit from increased feedback to reporting entities, taking account of the return flows which the Unit receives in turn from the investigative bodies.

The analyses also benefit from data communicated based on objective criteria when the transactions are considered risky by virtue of the amount involved, payment instrument used or geographical area of reference. I trust that this will lead to the abandonment of the precautionary approach that sometimes characterizes reports to the UIF, with positive effects on active cooperation, determining a reduction in the number of insignificant reports of suspicious transactions.

The reform also tackles legal shortcomings to which we have been drawing attention for some time now and which have since been confirmed and denounced by the international assessors. The proposed Delegated Act provides that the UIF is also ensured timely access, with due precautions, to investigative data (in addition to financial and administrative information). In this way a major loophole in the Italian system has been closed, whose negative effects were in any event marginal thanks to the cooperation of the Finance Police, with whom we have activated a system for the exchange of information on indicators of investigative interest; this can form the basis on which to develop new, more effective forms of access while respecting different professional profiles and requirements.

The reform also offers an opportunity to expand the set of institutional interlocutors of the Unit, by implementing the indications contained in the FATF's Report on the need to enable the UIF to disseminate, when necessary, the outcomes of its analyses to other police forces and competent authorities.

As part of efforts to strengthen safeguards for the confidentiality and security of reporting entities, envisaged under the Delegated Act, it is to be hoped more effective measures can be identified for maintaining confidentiality when reports and financial analyses are used in court proceedings.

The new set of rules and controls must be flanked by dissuasive, effective, but also proportionate sanctions. The review of the sanctions system is necessitated also by the decriminalization measures introduced in early 2016 and to fill the gaps that this inevitably helped determine. In the new system it will be necessary to reform the criteria for the imposition of administrative sanctions but also the

severity and type of sanctions applied; penal sanctions will apply only for the most serious crimes.

## **Conclusions**

Last year was a crucial year, involving intensive reflection on the anti-money-laundering system and on the need to strengthen rules and actions in light of the experience acquired and the long-standing or new threats we face.

The assessment conducted by the International Monetary Fund gave Italy the opportunity to clarify the strengths but also the weaknesses and possible routes for improving the system to prevent money laundering and to counter terrorist financing. The legislative interventions in progress, bringing timely and incisive change, open the way for the further refinement and strengthening of our activities.

We reaffirm our unceasing commitment to communicate with the reporting entities to promote their participation and even simplify and make their duties less burdensome. We will continue to seek new data with initiatives aimed at promoting their quality and ensuring that they are handled more effectively. We remain convinced that this is the best route for securing the cooperation of the less active categories.

We owe the results achieved to increasingly active cooperation on the part of banks and other operators; to the police officers and members of the judiciary who have made a concrete contribution to our analyses; to the loyal and intense commitment that has continued to distinguish, even in this most challenging of years, cooperation among authorities, effectively coordinated by the Financial Security Committee with the support of the Ministry of Economy and Finance; and finally, to the support that the Bank of Italy is providing to the Unit.

We owe a debt to the dedication and professionalism that the women and men who work in the UIF have demonstrated day in day out, notwithstanding the increasingly large workload; I know that this commitment is also the result of a strong civic passion and conviction that we are making a real contribution to the improvement of the society in which we live.

These principles, this commitment, this capacity demonstrated by the authorities and society as a whole to rally around common objectives for combating financial crime and to uphold the values of legality and transparency sustain our ambition to deliver even more significant results in the future.

*Printed by the  
Printing and Publishing Division of the Bank of Italy*