



FIAU

Financial
Intelligence
Analysis Unit



Update January - July
2020

Issued: 10 August 2020

© Financial Intelligence Analysis Unit, 2020

65C, Tower Street,
Birkirkara BKR 4012,
Malta

Reproduction is permitted provided the source is acknowledged.

Enquiries relating to this report should be addressed to:

The Director
Financial Intelligence Analysis Unit
65C, Tower Street,
Birkirkara BKR 4012,
Malta

Telephone: (+356) 21 231 333
Fax: (+356) 21 231 090
E-mail: info@fiaumalta.org
Website: www.fiaumalta.org

THE FINANCIAL INTELLIGENCE ANALYSIS UNIT



The Financial Intelligence Analysis Unit (FIAU) is an autonomous government agency which strives and works incessantly to fulfil its primary objective of combating Money Laundering (ML) and the Funding of Terrorism (FT).

To-date, the FIAU has two main functions:

- (i) that of receiving, requesting and analysing intelligence which it may proceed to provide to the police, as well as assisting other domestic and foreign authorities; and
- (ii) that of supervising a large number of financial and non-financial service providers (subject persons) in order to ensure that they comply with their Anti-Money Laundering and Combating the Funding of Terrorism (AML/CFT) obligations as set out in Maltese legislation.

STATEMENT OF THE DIRECTOR OF THE FIAU

COVID-19 has upturned economies and societies as governments around the world have grappled to contain the effects of the global pandemic. Companies worldwide have pivoted to sustain their businesses, shifting their operations remotely where possible.

The FIAU is no exception. As this publication evidences, we successfully maintained our operations – this in order to sustain our mission to collate and disseminate intelligence, provide AML/CFT guidance, and to supervise subject persons – all to continue to meet our international obligations in the fight against ML and FT.

During the first half of the year, the FIAU also continued to boost headcount and training to be able to execute its expanded mission, and has continued to recruit officers despite the difficulties brought about by COVID-19. In fact, just between January and July 2020, 23 employees have joined the FIAU, of which 7 joined between March and May 2020.

As we move into the second half of 2020, in this report we recall our achievements during this unprecedented period, and we look ahead at what remains to be accomplished.



Kenneth Farrugia

Director

+23 
NEW EMPLOYEES
JANUARY —→ JULY 2020

NEW LEGISLATION

Undeterred by the impact of the pandemic, 2020 has seen significant changes to strengthen AML/CFT practices in Malta and to improve local legislation in-line with the highest international standards and practices. Moreover, albeit travel has been suspended, the FIAU has continued with a programme of regular interactions with other European and International authorities in order to share intelligence and best practice.

Legislative change has focused on transposing the 5th Anti-Money Laundering Directive (5AMLD)¹ into Maltese law. In February 2020, a set of amendments to the Prevention of Money Laundering and Funding of Terrorism Regulations (PMLFTR) came into force, transposing the vast majority of the 5AMLD provisions. Following these amendments, further revisions were made to the PMLFTR addressing the technical compliance shortcomings that were identified by Moneyval assessors during the 5th Round Mutual Evaluation of Malta.

Furthermore, in January 2020, the FIAU met with another EU Member State to learn about the implementation of cash restrictions rules applied in their jurisdiction. Following this, a new law to regulate the use of cash in certain sectors of the economy was initiated in April 2020 and is planned to be finalised in the coming months. With several international studies citing cash as a preferred means to launder proceeds of crime or fund terrorism, the introduction of a cash restriction policy in Malta will constitute another useful tool in combatting these crimes. Presently, although the EU AML/CFT framework does not require EU Member States to have in place cash payment limits, an increasing number of countries have introduced cash restriction policies in recent years in an attempt to mitigate the ML/FT risk which cash poses to states. More recently, in May 2020, the EU Commission indicated in its Action Plan for a comprehensive Union policy on preventing ML/FT the possibility of introducing such a measure at an EU-wide level. The FIAU is currently devising a plan to set-up an operational team responsible and tasked with monitoring enforcement of the law, as well as to inform and educate the general public on the said use of cash restrictions.

“With several international studies citing cash as a preferred means to launder proceeds of crime or fund terrorism, the introduction of a cash restriction policy in Malta will constitute another useful tool in combatting these crimes.”



1. Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018



Being able to tap accurate, up-to-date financial information on companies and individuals in a timely manner is a key advantage in the fight against ML. As such, EU Member States are required under the 5AMLD to maintain centralised databases of all bank accounts in their territories. The FIAU is presently developing such a database called the Centralised Bank Account Registry (CBAR) that will list all IBAN accounts issued by Maltese banks. Tax authorities, law enforcement and other bodies will be able to access the registry for data in a matter of seconds, greatly speeding up investigations and audits. The FIAU has been instrumental in the drafting of legislation to support the launch of CBAR. Drafting of the law is close to complete and a final version of the regulations is expected to be forwarded to the Minister for Finance and Financial Services in the coming days.

“The FIAU is presently developing such a database called the Centralised Bank Account Registry (CBAR) that will list all IBAN accounts issued by Maltese banks.”

To support the establishment of the system, the FIAU has arranged a series of meetings with key business analysts to ensure that the CBAR functions match the relevant legal requirements, security and operational processes. It is developed and implemented on ISO 27001 and PCI-DSS.

Following a successful first demo of the CBAR system, the FIAU invited selected Credit and Financial institutions to the initial pilot testing in August 2020, ahead of its official launch in September. Critical to the roll out of the new system has been the organisation of dedicated training and guidance webinars to ensure that relevant institutions and technical personnel are able to operate the system efficiently and effectively from its launch date.

COOPERATION & COLLABORATION



Despite the upheaval of the pandemic, cooperation between authorities has not been impacted and technology has enabled scheduled meetings and working groups to go ahead as planned. For example, to-date this year, the FIAU attended the 23rd, 24th and 25th Meeting of the European Commission's Expert Group on Money Laundering and Terrorist Financing (EGMLTF) the first in person in February, but the subsequent May and June meetings were held via videoconference.

The FIAU has also contributed to the EU funded project 'PROTAX' – New Methods to Prevent, Investigate and Mitigate Corruption and TAX Crimes in the EU – including by assisting with the drafting and review of reports, replies to questionnaires, and monthly Consortium meetings. As part of this project, the FIAU is currently preparing to host a workshop in October 2020 on possible toolkits that may be used by relevant law enforcement and other competent authorities/agencies in the fight against tax crime.

GUIDANCE & OUTREACH



Central to the FIAU's relationship with regulated entities is the guidance the Unit issues to them. Over the last six months, six pieces of guidance have been published and shared with relevant parties. The documents issued have ranged from guidance to specific parties and sectors, to guidance issued to all subject persons and dictated by both demand for greater clarity from those effected and the FIAU's own proactive initiative to revise existing guidance to address prominent issues identified through its supervisory activities.

Specific audiences that guidance has been issued to include: VFA agents and VFA service providers, real estate agents, notaries, and the gaming sector. Generally, the aim of any issued guidance is to help subject persons in understanding how to effectively implement their AML/CFT obligations, particularly those pertaining to customer due diligence. However, guidance also assists subject persons to understand the ML/FT risks that they may be exposed

“Over the last six months, six pieces of guidance have been shared with relevant parties.”

to in their work, to improve reporting, and to help with their business risk assessments. The FIAU also makes it a point to include case studies in its guidance, and where possible, ones stemming from actual cases analysed by the FIAU's Intelligence Analysis Section – this, to bring to life ML/FT red flags and to illustrate the tactics used by those trying to engage in unscrupulous activity as well as emerging ML/FT trends.



The FIAU issued two pieces of guidance applicable to all subject persons over the last six months. One on the *Funding of Terrorism*, which combines insights and select findings from the 2019 Terrorism Financing Risk Assessment and builds on the FIAU's 2018 Guidance Note, by defining and setting out the activities that comprise FT. The guidance also provides an overview of Malta's inherent vulnerabilities relating to the movement of funds, as well as discussing emerging trends, case studies and red flags. The second piece of guidance worth mentioning is that issued by the FIAU to all subject persons in May, shortly after the impact of Covid-19 became apparent. The document in mention is titled: *COVID-19: Remaining Vigilant Against a Changing Criminal Landscape*. The paper advises on current and anticipated threats in light of the pandemic and addresses concerns arising and reminds subject persons to remain vigilant in the face of ML/FT risks and strengthening their remote onboarding and business risk assessment processes.

Whilst in-person outreach has been curtailed due to the pandemic, the FIAU has nonetheless harnessed technology in order to continue to interact with subject persons;



organising webinars, participating as panellists in events even those organised remotely, laying on training and delivering lectures in AML/CFT to Accounting, Law and Criminology students at the University of Malta.

The FIAU acknowledges that interaction must be two-way and, by using questionnaires among subject persons, has been able to understand barriers to suspicious transaction reporting across the different sectors, with the ultimate aim of improving the quantity and quality of Suspicious Transaction Reports (STR) submissions.

SUPERVISION, RISK & ENFORCEMENT

The FIAU sustained its supervisory and enforcement mission even as COVID has forced it to adapt to a new reality. The Unit's teams seamlessly pivoted to a remote-working footing, enabled by significant IT investment and training in recent years. During the period 1 January to 15 July, the FIAU, together with the Malta Financial Services Authority or the Malta Gaming Authority, executed just over 140 examinations, mainly offsite. Entities that were subject to examinations included credit institutions, financial institutions, gaming companies, firms providing investment services, as well as trustees and company services providers.

We are also pleased to report that after extending the submission deadline to account for COVID delays, **only 5%** of Maltese subject persons failed to submit their so-called Risk Evaluation Questionnaire within the stipulated time period. REQs were introduced in 2019 to enhance the information available to the FIAU for the carrying out of its risk assessment and in turn assist it in carrying out risk-based supervision, in line with international standards. The REQ includes various questions covering the inherent risks and control frameworks in place, and are sector-focussed thus also enabling a deeper understanding of specific sector risks.

In order to assist the FIAU in efficiently analysing the increased data it now receives, the Authority has invested in a Business Intelligence (BI) tool that allows for better analysis and visualisation of data available to the FIAU. This, in turn, has enabled the FIAU to better understand subject person risk exposures thereby empowering the Unit to allocate its supervisory resources in a more efficient manner, ensuring that the focus is on areas of greater concern. The BI tool in mention is a resource that enables reports of various degrees and

complexities to be generated, thus varying from simple data reporting, such as the number of subject persons per sector, to more complex information, as the exposure per subject person sector to certain jurisdictions or how the control levels of subject persons at a sector level have enhanced over time.

On the enforcement side, the FIAU's Compliance Monitoring Committee (the Committee), which is the body entrusted with the taking of administrative action for breaches of subject person's AML/CFT obligations, never ceased its meetings, albeit oftentimes these were carried out virtually. In fact, during the period from January to July 2020, the Committee held 37 meetings, and took various enforcement measures, such as the imposition of pecuniary penalties and the issuance of directives on subject persons for remedial action to address AML/CFT failings. During this period, a total of **9 remediation directives** have been issued on subject persons operating in various sectors of the economy. Moreover, the Committee also issued **5 administrative penalties** on a number of subject persons for failures to meet their AML/CFT obligations, which failures were identified during onsite examinations amounting to EUR 568,373.

In July, the Committee also concluded its enforcement actions on subject persons for the failure to submit the 2019 REQ or for submitting it late. This process saw the Committee discuss and decide, in a 7 month period, **a total of 207 different cases of potential breaches** of the obligation to submit the 2019 REQ. These resulted in the issuance of **115 administrative penalties** amounting EUR 529,950. Additionally, during the period under review, the FIAU issued **a total of 30 administrative penalties** on subject persons for replying late to requests for information made by the FIAU's Intelligence Analysis function. In total, these penalties amounted to EUR 304,500.

“The Committee also issued 5 administrative penalties on a number of subject persons for failures to meet their AML/CFT obligations, which failures were identified during onsite examinations amounting to EUR 568,373. ”

INTELLIGENCE ANALYSIS



Subject persons in Malta, such as gaming companies and investment firms, are required to submit STRs to the FIAU whenever they suspect that an entity or a customer's account is being used to launder money or is somehow related to FT. Intelligence stemming from such reports, together with further information collected by the Unit, is sent on to the Police for further investigation and enforcement, where the FIAU is convinced that a reasonable suspicion of ML/FT ensues. A key recommendation in Moneyval's recent report was for the FIAU to take initiative to boost the number of STRs. We are pleased to report that so far this year the FIAU received over **2,200 STRs** in comparison to 1,448 reports during the same

period in 2019. We anticipate that number could increase as it becomes easier to submit STRs, thanks to the launch of goAML. Here again, the FIAU shrugged off COVID disruption and launched the AML reporting platform on the 22 June this year and has since received over 400 submissions through this platform. goAML is expected to make radical efficiencies to the way in which intelligence is processed, since through this tool, STRs are being uploaded automatically, saving time on manually inputting data, and enabling greater ease in requesting and exchanging information with national and international entities.

Better cooperation and sharing of information are critical components in the fight against ML and other financial crimes. Over this period, the Unit made almost 9,000 requests for information to financial institutions as well as other Maltese bodies including the Police, Malta Financial Services Authority (MFSA) and Malta Gaming Authority (MGA), as well as Financial Intelligence Units (FIUs) in other countries. It also shared over 1,800 Spontaneous Intelligence Reports with its foreign counterparts. In return, the FIAU received over 700 requests for information, mainly from the MFSA, other supervisory authorities and FIUs. From this combined information, **58 intelligence reports** were sent on to the Police as well as a further **19 communications** containing additional information in relation to previous disseminations.

In addition to the above, throughout the course of the first half of 2020, the FIAU revisited its procedures so as to ensure that the FIAU reduces the average time it takes to carry out an analysis in those cases which are eventually reported to the Police for further investigation. In this regard, the FIAU successfully brought down the average time taken to just over three months, which is one third of the average time recorded in 2018. Doing so directly addressed one of the recommendations made by Moneyval in its July 2019 Malta mutual evaluation report.

“FIAU successfully brought down the average time taken to just over three months, which is one third of the average time recorded in 2018. Doing so directly addressed one of the recommendations made by Moneyval in its July 2019 Malta mutual evaluation report.”



2,200
STRS RECEIVED



9,000 Requests
for information to financial
institutions



over 1,800
Spontaneous
Intelligence Reports
with the FIAU's
foreign counterparts



58 Intelligence
REPORTS



19
COMMUNICATIONS



TIME TO CARRY OUT
ANALYSIS REDUCED
TO JUST OVER
3 MONTHS

NATIONAL COLLABORATION

The FIAU's collaboration with other bodies was strengthened by the signing of several more Memorandums of Understanding (MoUs) with three bodies: the Central Bank of Malta, the Malta Accountancy Board and the MGA. The MoUs promote communication and collaboration in the implementation of AML/CFT regulation. Parties to the MoU have agreed to

share expertise and resources, allowing the FIAU to increase its understanding of the financial risks across sectors and to

extend its capacity to effectively supervise licensed entities.

The strengthened relationship between the agencies means

that the FIAU is able to conduct joint supervision investigations, significantly increasing industry protections against financial crime.

The MoUs also outline how the FIAU can increase collaboration including the training of officials

across the Central Bank of Malta, the Malta Accountancy Board and the MGA.

Memorandums of Understanding with three bodies

NEW FUNCTIONS & INVESTMENT

Looking ahead, the development and growth of the FIAU will continue to take place over the coming months of 2020. The FIAU aims to further increase its capacity across its functions to serve the country and our international partners in combatting ML/FT.

The setting up of Malta's CBAR, which is now in the final stages and weeks away from going live, will place the Unit, as well as other competent authorities in Malta, in a prime position to prevent, detect, and investigate cases more efficiently and effectively.

Similarly, by means of the cash restriction policy to be introduced later on this year, the FIAU will also be better positioned to monitor the use of cash in Malta and to take action in cases of non-compliance. This recalibration of responsibilities and formal powers provides the FIAU with greater oversight over the financial industry, adding to its existing responsibilities.

This includes collating, processing and analysing information about potential financial crimes, in addition to monitoring compliance with legislative provisions. The agency will continue to scrutinise reports on subject persons and suspicious activity, and we look forward to collaborating closely with our stakeholders, nationally and internationally, in our efforts to meet our goal – that of disrupting criminal activity and raising the bar of AML/CFT compliance in Malta.

“This recalibration of responsibilities and formal powers provides the FIAU with greater oversight over the financial industry, adding to its existing responsibilities.”

Financial Intelligence Analysis Unit

65C, Tower Street,
Birkirkara BKR 4012,
Malta

Telephone: (+356) 21 231 333

Fax: (+356) 21 231 090

E-mail: info@fiaumalta.org

Website: www.fiaumalta.org