

TRACFIN ANNUAL REPORT 2016

TRACFIN UNIT
FOR INTELLIGENCE
PROCESSING
AND ACTION
AGAINST ILLICIT
FINANCIAL
NETWORKS



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FOREWORD

2016 was a watershed year for Tracfin. There was an unprecedented 43% surge in the number of reports received and analysed by the Unit, particularly of STRs (+44%), and the previous year's move to boost efforts to combat terrorism and its financing gained momentum.

The specialist terrorist financing division created by Tracfin in 2015 became fully operational, and there was a marked upswing in the number of notes issued by the Unit that dealt with «the fight against terrorist financing» (396 notes, a 121% increase). At the same time, Tracfin cemented its presence in the DGSI's inter-agency unit, and set up a permanent operational response team to mobilise staff in the case of a crisis, terrorist attack or emergency situation. As part of this, Tracfin proactively began to adapt its submissions to the needs of its partner departments, notably by the introduction of «flash» reports. These reports, which are shared rapidly within the intelligence community, detail weak but reliable signals (financial indicators) pointing to radicalisation.

Throughout the year, Tracfin continued its efforts in every area within its remit, including the fight against tax, customs and social security fraud, financial crime and breaches of probity. The number of referral notes submitted by Tracfin to the courts and to Tracfin's partner authorities rose by 16% in 2016.

Although 2016 saw yet another increase in the participation by reporting entities in AML/CFT efforts, Tracfin remained focused on the effectiveness of certain entities' risk analysis systems. Unflinching commitment by all reporting entities is important so that Tracfin can draw up fraud and fraud detection scenarios, issue warnings and improve STR quality. Tracfin, whose roadmap involves preparing for the FATF's upcoming Mutual evaluation of France in 2019-2020, will play an active role in this. The Unit is also continuing its efforts to build partnerships with the private financial and non-financial sectors, with the full range of public institutions, authorised public officers and regulators. The constructive nature of these partnerships is evident in plenary meetings and in annual declarative reports.

The past year was a fruitful one in terms of changes in legislation, the implementation of which will involve specific technical and computer changes to produce ongoing effects in 2017 and 2018. These include access to prior criminal records (TAJ) and the Wanted Persons File (FPR), Tracfin's power to request vis-à-vis the Credit Cards Economic Interest Group and similar organisations, implementation of a call for heightened vigilance with respect to individuals or legal entities that pose significant risk in terms of AML/CFT and the Unit's specific power to request CARPA (Lawyers' Settlement Funds), among others.

2016 witnessed the stepped-up enactment of the Fourth Anti-Money Laundering Directive and the anticipation of identified risks, particularly those set out in Tracfin's report on the trends and risk analysis regarding money laundering and terrorist financing, issued on 8 December 2016 (electronic means of payment, virtual currency, an improved legal framework for crowdfunding platforms, etc.). In the wake of the EU's Action Plan to strengthen the fight against the financing of terrorism, which was announced on 2 February 2016, there was a move to harmonise at European level as part of the update of the Fourth Anti-Money Laundering Directive. Tracfin put forward a number of proposals in this regard, including the removal of legal and practical roadblocks to exchanges between FIUs, the creation of central national registers of bank accounts, monitoring of new means of payment, etc.

Expanding international bilateral and multilateral cooperation remains a strategically important challenge. Tracfin is building ties with new partners, including Europol, which since January 2016 has hosted FIU.NET, a secure platform that allows the EU's FIUs to exchange information.

Many strategic and tactical challenges lie ahead: ensuring that the Unit remains effective, anticipating and detecting new risks, cementing existing partnerships and building new forms of cooperation between all AML/CFT stakeholders.

Efforts to reorient Tracfin towards being an intelligence service specialising in the area of finance have been stepped up. We are meeting the challenge of Big Data by building and deploying a new IT system.

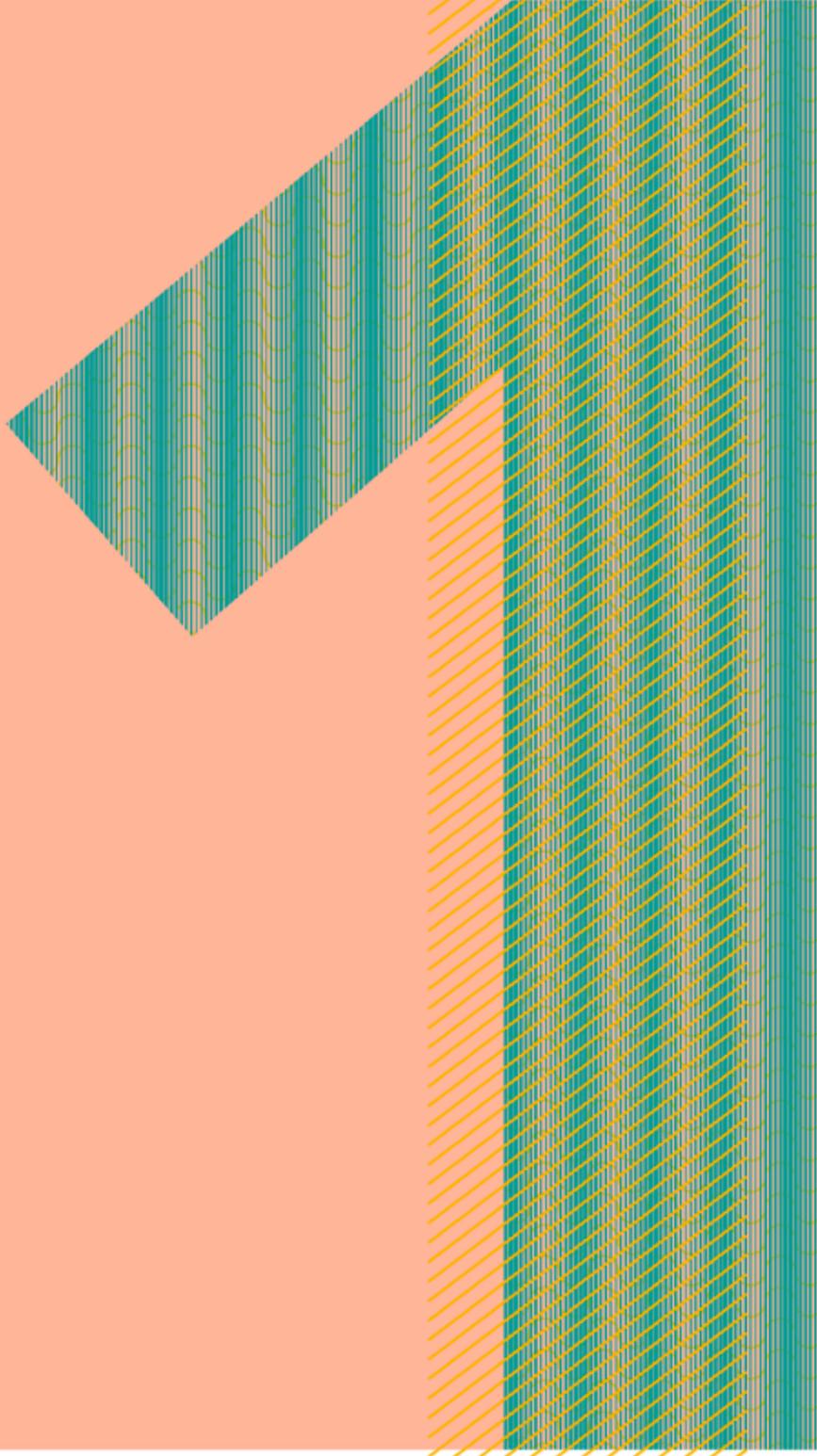
The secure ERMES platform, which the Unit has updated, will become for everyone the basic means for operational exchanges.

All of these changes imply ongoing support from the public authorities and the budgetary resources to boost our human and material resources.

It is thanks to the sustained effort, commitment and creativity of Tracfin's staff – who, over and beyond their obligations and duties, are convinced of the paramount importance of the struggle in which they are engaged – that during the year, the Unit was able to demonstrate its responsiveness and ability to adapt. These are key qualities that help Tracfin make the best use of its resources to bolster the role of financial intelligence.

Tracfin's development is similar to that of an administrative startup, whose upward thrust can only continue in the face of new challenges.

**Bruno Dalles,
Director**



TRACFIN'S SOURCES OF INFORMATION

HIGHLIGHTS OF 2016: 43% MORE INFORMATION RECEIVED IN 2016 AND A RECORD-BREAKING INCREASE IN THE NUMBER OF REPORTS RECEIVED AND ANALYSED

The year 2016 was marked by an unprecedented surge in the number of reports received by Tracfin: 64,815 reports (+43% over 2015 and +69% in comparison with 2014). This is the fastest rate of growth since Tracfin was founded. Receiving and processing 20,000 additional reports has had a significant impact on the activity of the Unit and its staff.

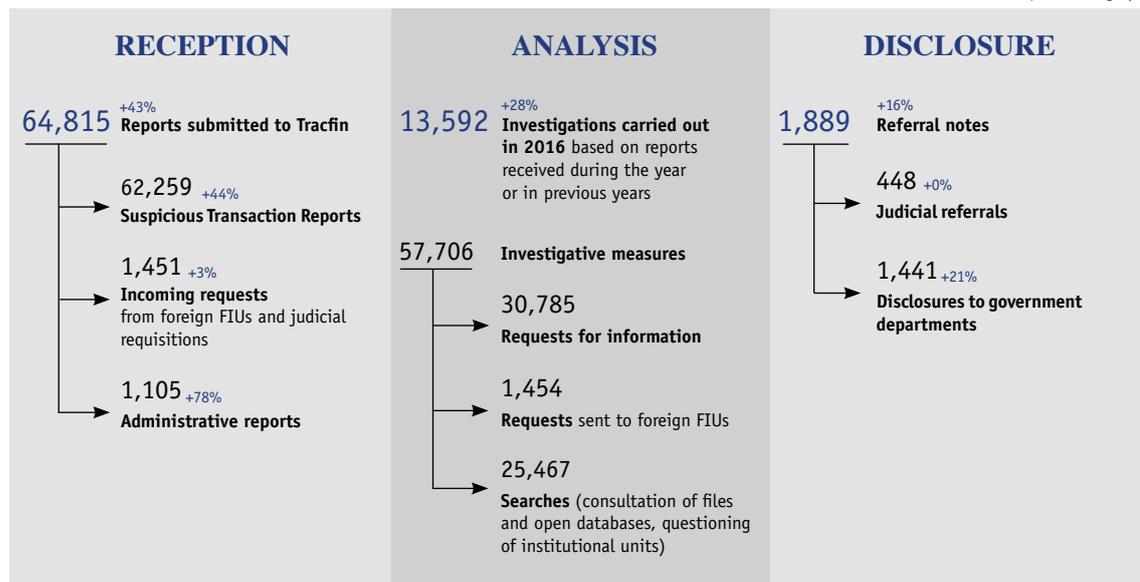
Reporting entities alone submitted 44% more STRs than in the previous year (62,259 in 2016 compared with 43,231 in 2015). During this same period, Tracfin investigated 13,592 cases (+28% over 2015), which resulted

in the transmission of 448 disclosures to the courts and 1,441 disclosures to partner authorities (+16% in all).

There are several types of reports submitted to Tracfin that require analysis:

- Suspicious transaction reports (STRs) sent by entities subject to AML/CFT reporting requirements
- Reports sent by public persons and those entrusted with public service mandates
- Information from foreign financial intelligence units (FIUs)

* 2015/2016 change (%)



- **64,815** reports received in 2016. All information received by Tracfin was analysed and redirected.
- **13,592** investigations carried out in 2016. They were the result of 9,451 reports received in 2016, and 4,141 reports submitted in previous years.
- **57,706** investigative measures carried out to add substance to existing data.

- Information flows received by Tracfin increased **69%** in two years and **169%** in five years.
- The number of Tracfin employees increased **27%** in two years and **57%** in five years.
- Over the past decade, there has been a **fourfold** increase in the number of reports received, and the number of referrals to the courts and to Tracfin's partner authorities rose from 411 in 2006 to 1,889 in 2016.

REPORTING ACTIVITY OF REPORTING ENTITIES: A SIGNIFICANT INCREASE

Entities subject to reporting obligations must report to Tracfin all sums recorded in their books or transactions relating to sums that they know, suspect or have good reason to suspect are derived from an offence punishable by at least one year's imprisonment or are part of terrorist financing.

In 2016, close to 96% of the reports received by Tracfin were sent by reporting entities (62,259 suspicious transaction reports, up 44% over 2015).

Reporting entities	2010	2011	2012	2013	2014	2015	2016	change 2015-2016
Banques, établissements de crédit	13 206	15 582	19 288	21 950	29 508	31 276	46 901	+50,0 %
Money changers	3,002	3,251	2,104	1,199	1,141	1,709	2,255	+31.9%
Insurance companies	808	889	1,059	1,169	1,423	2,159	3,200	+48.2%
Payment institutions	0	290	1,218	831	1,641	4,535	5,110	+12.7%
Money-issuing institutions	608	779	436	259	254	142	477	+235.9%
Investment companies	134	133	52	46	51	105	120	+14.3%
Mutual insurance companies and benefits institutions	56	98	35	60	139	320	213	-33.4%
Financial investment advisers	78	92	20	20	25	35	32	-8.6%
Insurance intermediaries	3	40	38	25	62	65	107	+64.6%
Settlement system participants	0	1	1	0			0	
Investment management companies	10	10	13	20	23	58	60	+3.4%
Digital currency establishments	Not applicable	Not applicable	Not applicable	Not applicable	1	10	36	+260.0%
Crowdfunding intermediaries	Not applicable	Not applicable	Not applicable	Not applicable	0	0	6	not significant
Total for all financial reporting entities	17,905	21,165	24,264	25,579	34,268	40,414	58,517	+44.8%
Notaries	674	1,069	995	970	1,040	996	1,044	+4.8%
Organisers of games of chance and sports and horse-racing betting	269	73	120	127	185	212	272	+28.3%
Casinos	137	149	171	153	270	422	601	+42.4%
Receivers and trustees	55	62	52	82	100	528	995	+88.4%
Chartered accountants	98	135	145	195	215	286	442	+54.5%
Real estate professionals	14	19	34	54	29	35	84	+140.0%
Auditors	46	57	54	72	84	88	132	+50.0%
Dealers in precious goods	2	13	3	12	16	29	15	-48.3%
Auctioneers, auction houses	8	16	7	25	26	33	51	+54.5%
Bailiffs	0	17	14	18	23	39	73	+87.2%
Lawyers	0	1	4	6	1	0	4	not significant
Commercial registered office providers	0	4	21	3	8	3	9	+200.0%
Online gaming operators	0	76	127	181	450	146	20	-86.3%
Sports agents	0	0	0	0	0	0	0	not significant
Total for all non-financial reporting entities	1,303	1,691	1,747	1,898	2,447	2,817	3,742	+32.8%
Total reporting entities	19,208	22,856	26,011	27,477	36,715	43,231	62,259	+44.0%

Among financial reporting entities, submissions by banks and credit institutions grew by 50%: 15,625 additional STRs. Payment institutions submitted 5,110 STRs in 2016, compared with 4,535 the previous year, an increase of 12.7%.

There was also an upward trend in submissions from non-financial reporting entities (+32.8%), in particular due to strong participations by court-appointed receivers and trustees and increased submissions from accounting professionals.

FINANCIAL SECTOR REPORTING ENTITIES

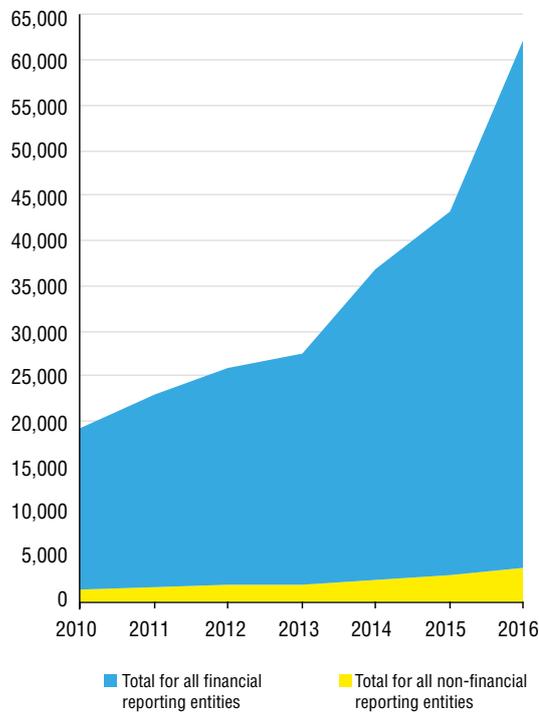
Fact sheet 1 - Banks, credit institutions and issuing institutions

Once again in 2016, the banking sector was the primary source of STRs submitted to Tracfin. Its share of submissions from the financial sector reached 80% (compared with 77.4% in 2015), and 75% of all STRs (against 72.3% in 2015).

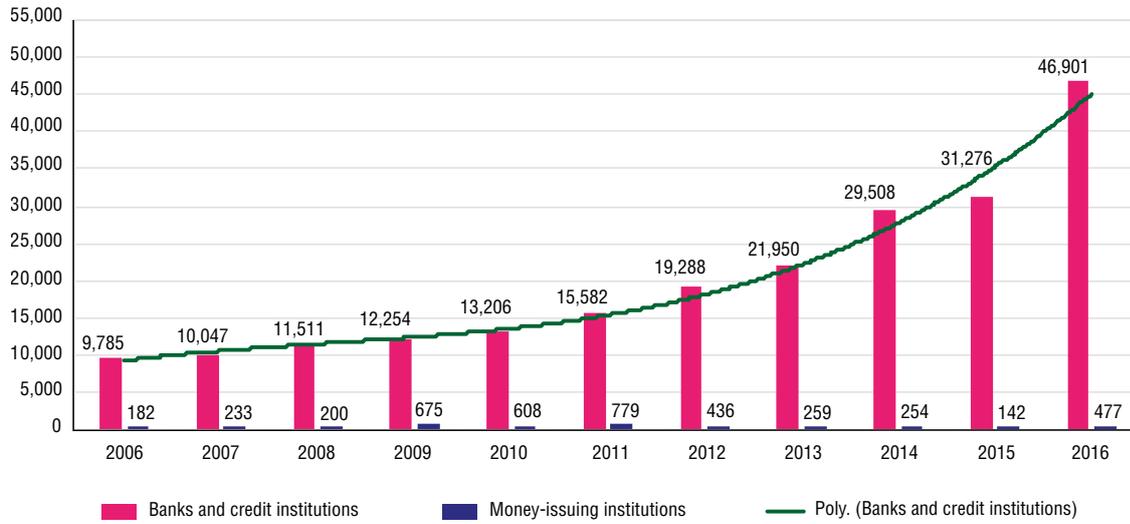
Volumetric analysis

At 46,901 submissions, the share of credit institutions grew at an unprecedented rate, and represented a 50% increase. The large-scale and sustained inflows of STRs throughout the year was monitored closely within the Unit, and was the subject of many exchanges with the entities in question, as well as with the Prudential Supervision and Resolution Authority (ACPR).

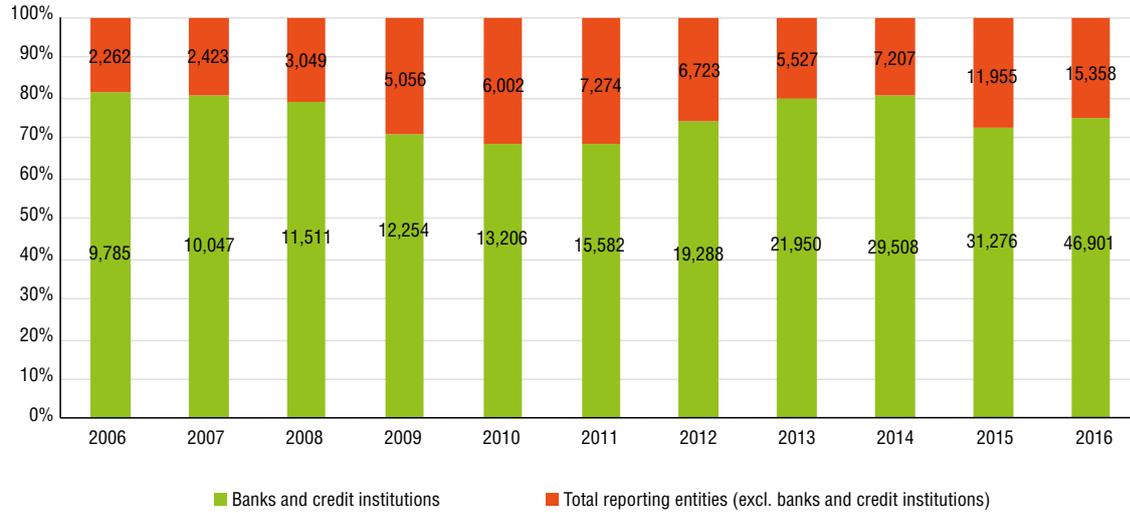
Reporting practices by financial and non-financial reporting entities, 2010–2016



STRs submitted by banks, credit institutions and money-issuing institutions



Submissions by banks and credit institutions in comparison to all other reporting entities

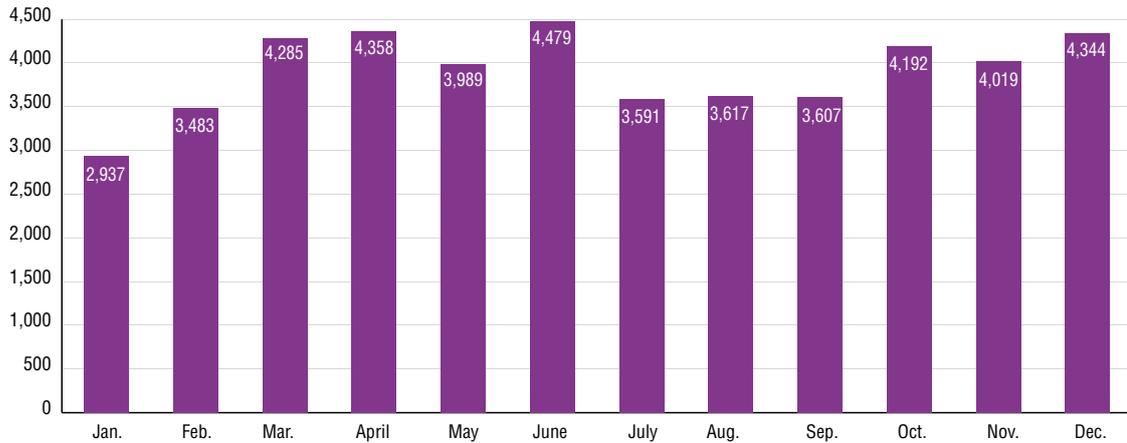


The number of submissions was relatively stable and remained at a high level during the two halves of the year (23,531 in the first six months and 23,370 in the second), with a monthly average of 3,908 submissions. Submissions did not slow during the slack periods in May and August, and the month of June saw a spike of

4,479 submissions, which represents a daily average of 203 STRs.

The 3,561 STRs recorded in the month of January 2017 appear to indicate that robust inflows will continue, but with a somewhat more moderate rate of growth.

Monthly submissions from banks and credit institutions in 2016



Analysis of submission practices

Quantitative data

The upsurge in STRs in 2016 can primarily be attributed to seven major banking groups¹. Submissions from these banks rose by 57%, from 26,719 STRs in 2015 to 42,052 in 2016. The increase varied from bank to bank, ranging from +24% to +156%, with a median increase of about 40%. Submissions from two banks more than doubled, partly attributable to controls carried out by the banking regulator. On the other hand, no correlation can be drawn between the increase in STR submissions and the fight against terrorist financing. Banks are becoming increasingly aware of the importance of this issue, but the number of submissions in this respect remains low.

During the year, the use of online banks continued to expand. This resulted in more reports submitted by the six main players in this area²: the number of STRs rose from 248 to 421, an increase of 70%. It should be noted, however, that one of these establishments accounted for half of all submissions, which shows that the sector is insufficiently mobilised, and that there is more work to be done.

In 2016, 1,124 Suspicious Transaction Reports labelled «private banks» were received. It is difficult to objectively compare this figure with 2015 (736 STRs), as this growth is largely the result of proactive actions by several all-purpose banks who have begun to include the wording «private bank» on their STRs.

Submissions from the various private banks vary widely in terms of both quantity and quality.

Structurally, entities in this sector are expected to have a very thorough and up-to-date knowledge of their clients, as well as their clients' assets and financial doings, which normally should result in relevant analyses of suspicious events. Thus the Unit expects these professionals to submit STRs that present relevant analyses and examine suspicious events in light of what they know about their clients. In 2017, Tracfin will continue to meet with reporting entities in this sector, particularly with departments and subsidiaries that specialise in wealth management.

¹ BNP Paribas, Groupe Crédit Agricole, Société Générale, Groupe BPCE, groupe Crédit Mutuel-CIC, La Banque Postale and HSBC.

² Boursorama, ING Direct, Fortuneo, Bforbank, Hello Bank and Monabanq.

THE BANKING SECTOR IN OVERSEAS FRANCE

In 2016, the banking sector in overseas France underwent large-scale structural changes. A number of mergers and acquisitions of local banks took place, and their departments – especially those dealing with AML/CFT issues – were moved to mainland France. Thus, STRs that were previously submitted by local banks are now sent to Tracfin via the parent bank. This is particularly the case with large national institutions. In 2016, which represented a turning point, the issue was raised of selectively identifying STRs submitted by overseas institutions and, following on from this, the types of money laundering and terrorist financing that are specific to these areas. In 2017, Tracfin and the various institutions will work together on criteria for identifying such reports coming from overseas.

The number of STRs submitted from France's overseas départements and communities in 2016 totalled 983, which does not include reports from those institutions whose AML/CFT operations are centralised. Although the number of submissions was up 30% year-on-year, they represented only 2% of the total volume of STRs submitted by credit institutions, against 2.3% in 2015.

Polynesia, New Caledonia and Martinique all saw a sharp rise in their submissions, while there was a fall-off in STRs from Réunion and Guadeloupe (–7.6% and –4.8%, respectively).

Taxation remained the major theme in the STRs received. On the other hand, the Unit observed a limited number of reports dealing with organised crime and drug trafficking in particular.

POLITICALLY EXPOSED PERSONS (PEPS)

A total of 475 STRs dealing with politically exposed persons (PEPs) were submitted during 2016, an increase of 71% over the previous year. One caveat in connection with this figure is that the term «politically exposed person» generally has larger connotations than that defined in the Monetary and Financial Code³, depending on the individual's media exposure, and which is not always expressly stated in the STR. This is an area in which reporting entities could improve, particularly by completing the Comments section of the report.

The Fourth Anti-Money Laundering Directive⁴, which widens the definition of a PEP to include citizens holding prominent positions in their home country, was enacted into French law by order at the end of 2016. In 2017, a decree is scheduled to be issued that defines «domestic» PEPs. This will result in a significant increase in STRs and will help harmonise reporting practices by entities in this area.

³ Article R.561-18 of the French Monetary and Financial Code.

⁴ Order 2016-1635 strengthening the fight against money laundering and terrorist financing was published in the Official Journal on 2 December 2016, and enacted Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (the so-called Fourth Directive).

Amounts declared in STRs

In 2016, there was an increase in STRs dealing with limited sums of money: 71.5% had to do with amounts under €100,000 (the lowest category), compared with 67.1% the previous year. This share was even higher for four of France's largest financial institutions: 78.5% of the STRs from one of them concerned amounts under €100,000, which is incommensurate with the profile of this establishment's customers.

There was a corresponding drop in the number of STRs dealing with greater sums: 21% concerned amounts between €100,000 and €500,000 (23.4% in 2015), 3% amounts between €500,000 and €1 million (3.9% in 2015), 3% between €1 million and €10 million (4.2% in 2015) and 0.3% dealt with amounts above €10 million.

For the purpose of better sorting out the quality of report submissions, in the spring of 2016 Tracfin introduced a system for identifying the main criminal offence or type of scheme described in the STR before it is the subject of further investigation by the Unit. This new system has revealed a high number of STRs focusing on very simple schemes (and ones involving small – and sometimes very small – amounts), such as undeclared work, undeclared donations and cash withdrawals⁵. In contrast, there were few high value added schemes (with complex arrangements, large amounts of money, etc.) involving fraudulent networks and organised crime (drugs, human trafficking, prostitution, arms sales, and so on). Cases of corruption also went undetected, due to a lack of real analysis by reporting entities.

Following up on STRs

The large number of Suspicious Transaction Reports went hand in hand with a 6-point drop in the STR investigation rate⁶ compared with 2015. In 2016, barely one STR in ten was the subject of investigation by Tracfin, even though the criteria were unchanged from the previous year and the Unit's processing capacity increased.

The drop in this rate concerns every bank. It is connected with a sharp rise in the number of STRs dealing with smaller amounts, together with a fall-off in the quality of analyses of atypical or questionable transactions.

The decrease did not affect all institutions in the same way, and the gap between them – in terms of the relevance of submissions – widened. Whereas there was a threefold difference in investigation rates in 2015, by 2016 this had widened to a fivefold difference.

In the same way, the investigation rate was generally higher in the online banking sector, partly due to the fact that online banks have less visibility in terms of KYC.

Disclosures to the courts and partner authorities

In 2016, while there was no change in the number of judicial referrals based on STRs from credit institutions, disclosures to government departments rose from 854 to 945. This increase can be partially attributed to the increase in Tracfin's referrals to specialist anti-terrorism services.

During the year, there was a significant rise in the number of referrals to social security bodies (+51%), primarily having to do with undeclared work, and to French Customs⁷ (+50%), mainly concerning failures to declare.

In terms of tax issues, the main schemes reported by financial institutions and submitted to Tracfin involved unreported offshore accounts, undeclared or hidden work and undeclared donations.

Every institution but two saw a rise in judicial referrals and disclosures to government departments based on their submissions. Nevertheless, this should be seen from the perspective of the overall volume of their STRs. The referral rate⁸ for every banking group fell in varying proportions. The lowest decrease was 1 point (from 7.5% to 6.5%), whereas the largest drop was 4.5 points (from 7.5% to 3%).

The increase in reporting activity by banks in 2016 was thus offset by an overall and individual decrease in the referral rate based on the content of the STRs. This raises the issue of the quality of STRs received.

Qualitative data

While Tracfin viewed 2015 as an encouraging year in terms of the reporting activity in the banking sector, 2016 was marked by a distinct fall-off in the relevance of reports and a noticeable drop in quality of analyses by banking professionals. As an example:

⁵ Reports dealing with cash withdrawals alone accounted for some 10% of total incoming reports.

⁶ The investigation rate is the ratio between the number of cases referred for inquiry (both preliminary and in-depth) and the total number of Suspicious Transaction Reports submitted by a reporting entity. It is an indicator that allows Tracfin to assess the relevance of the reports received.

⁷ Excluding Service National de Douane Judiciaire (National Customs Judicial Department).

⁸ Ratio between the number of STRs submitted and the number of resulting disclosures.

There were a number of STRs describing a series of transactions which simply concluded that there was no economic justification, but contained no suspicion that these transactions derived from an offence punishable by at least one year's imprisonment or were part of terrorist financing and/or that they fulfilled at least one of the 16 criteria for tax evasion⁹.

In many cases, the STR had less to do with doubtful or suspicious transactions than with those that were simply atypical. Such cases do not always justify filing an STR, as stipulated in the Monetary and Financial Code¹⁰ and the joint Prudential Supervisory and Resolution Authority (ACPR)/Tracfin guidelines. This lack of analysis of atypical transactions can be seen in the cases of two institutions with widely different customer profiles whose investigation rates do not match the share of STRs dealing with amounts under €100,000.

The quality of STRs received from France's 7 largest bank groups remains mixed, particularly those submitted by the cooperative banks. Tracfin is aware of banks' efforts to harmonise STRs between their various entities through the use of a single risk classification system and a centralised «compliance» department that provides coordination, leadership, training, organisation and oversight of the AML/CFT system. On an individual basis, the Unit notes that certain reporting entities provide outstanding analyses, which is reflected in their high investigation and referral rates. Other banks, however, submit very sketchy reports on undeclared donations or cash withdrawals with no specific indications on why such transactions should be considered suspicious, while at the same time neglecting other fraudulent or money laundering schemes that call for more in-depth analysis.

This appears to indicate that the entities who provide the best analyses are also the ones that maintain a certain degree of control over flows, using detailed and regularly-updated risk maps, together with well thought-out and relevant scenarios.

Information requests

In 2016, out of a total of 30,785 queries addressed to transport firms and to all reporting entities, government departments and organisations entrusted with a public service mandate, Tracfin issued 9,206 requests for information to banks and credit institutions.

This represents an increase of 23.5%, and obliged certain entities to increase the numbers of staff tasked with responding, in order to provide the Unit with quality answers in a timely manner.

During the year, Tracfin's analyst-advisers alerted reporting entities to the importance of sending bank account statements in spreadsheet form, either as attachments to STRs or in response to requests for information. They did so based on the need to be able to quickly and efficiently process STRs as part of in-depth investigations led by the Investigations Department. With few exceptions, the entities complied with Tracfin's request.

Awareness-raising

Tracfin strengthened its network of advisers in 2016: 63 meetings were held during the year, particularly with banking sector professionals (compared with 40 in 2015). Bilateral meetings, annual assessments with major institutions and groups in the financial sector, presentations by Tracfin during «Financial Security» seminars and/or specialised training sessions (terrorist financing, fraud against the public purse, and so on) provided excellent occasions for discussions with reporting entities. The Unit provided detailed operational feedback about the entities' submissions, presented case studies based on actual reports and pointed out areas for improvement.

These actions made Tracfin aware of the huge need for information about due diligence with respect to terrorist financing in the wake of the 2015 and 2016 terrorist attacks in France. Presentations to banking groups were devoted to this topic during the year.

In 2016, Tracfin focused on the private banking sector (15 meetings held by the adviser) and on establishments and individuals in the investment banking sector. These actions will be carried forward in 2017.

⁹ Article L.561-32-1 of the French Monetary and Financial Code.

¹⁰ Article L.561-15 1° of the French Monetary and Financial Code.

In addition, since the business environment in 2016 was particularly intense, both operationally and in institutional terms, Tracfin increased the number of advisers focusing on payment institutions, electronic money institutions, crowdfunding and the digital currency sector. This shows the Unit's concerns with respect to these fast-growing sectors, which must deal with specific AML/CFT risks¹¹.

Fact sheet 2 - The insurance sector

Reporting activity in the insurance sector has increased non-stop since 2012, and experienced a new surge in 2016. Although it was less robust than 2015 (+56.7%), it was nevertheless notable (+38%).

This increase in the number of STRs was not equal across the board. Insurance companies and insurance intermediaries stepped up their reporting (+48.2% and +64.6%, respectively), whereas there was a falloff in submissions from mutual insurance companies and benefits institutions (-33.4%).

Insurance companies are responsible for the lion's share of submissions. In 2016, they provided Tracfin with 3,200 Suspicious Transaction Reports. Within this category, bank insurers remained the primary source of STRs (41% of all submissions). Nevertheless, insurance companies accounted for 33% of submissions, followed by mutual insurance companies (26%).

Insurance intermediaries took on a greater role in AML efforts in 2016, and there was a sharp uptick in submissions from these entities: 107 STRs in 2016, against 65 in 2015. Insurance intermediaries, the third-largest vector for individual insurance, were asked to increase their involvement in AML/CFT efforts in 2017 and to become a major player.

Finally, submissions from mutual insurance companies and benefits institutions fell by 33% during the year, but their contribution to efforts to combat money laundering and terrorist financing is less critical.

Tracfin is attentive to the fact that an increase in the numbers of STRs should not detract from their quality, which also needs to improve. To this end, during the

year Tracfin continued to hold bilateral meetings with reporting entities in the insurance sector in order to make them more aware of best practices.

Specifically, the Unit stressed the need to build a sector-specific risk map and to introduce appropriate measures to address the risks that have been identified. These could include training for staff, exchanges with other professionals, alert management, IT tools, traceability of controls, and so on.

When meeting with reporting entities, Tracfin stressed that every aspect of customer due diligence should be updated on a regular basis. Non-compliance with this is still observed. Specifically, data having to do with a client's profession, income and assets is often lacking. Knowledge of a client throughout the business relationship is key. It means that more in-depth analysis of declared transactions is possible and allows entities to act quickly in the case of a suspicious transaction.

Tax evasion is the most common type of suspicion reported. Once again, we would like to point out the low number of STRs submitted by insurance professionals in 2016 that dealt with legal entities (7% in both 2015 and 2016). Finally, entities are encouraged to be alert to the healthcare and benefits sectors (organised fraud concerning healthcare claims, supplementary insurance policies sold by bogus companies, etc.).

Since 1 January 2016, insurance companies and similar institutions must report the purchasing and termination of life insurance policies and endowment contracts, together with the value of these policies and contracts as of 1 January each year. This obligation is completely separate from insurance professionals' due diligence and reporting requirements, nor does it exempt them from constant due diligence with respect to the holders of these contracts.

¹¹ Tracfin's report on the trends and risk analysis regarding money laundering and terrorist financing in 2016 can be consulted at www.economie.gouv.fr/tracfin

Fact sheet 3 - Money changers

2016 saw an increase in the number of STRs submitted by money changers as well as in the number of reporting entities.

Tracfin received a total of 2,255 Suspicious Transaction Reports submitted by 86 money changers, compared with 1,709 STRs submitted by 67 entities the previous year. This increase carries on the trend observed in 2015 (+49%). Some qualifications are in order, however, since this upward trend can be partly attributed to submissions from one money changer, who accounted for 39% of the increase.

The number of entities who submitted at least one STR during the year also increased sharply (+28.3%), partly due to the registration of 16 new money changers, who sent STRs to Tracfin for the first time in 2016.

The number of STRs submitted varied widely. In 2016, four changers were responsible for 54% of the 2,255 STRs received, while 54 money changers (65.5% of the total) submitted fewer than ten during the year.

Moreover, issues about the quality of the reports submitted the previous years remained valid. Very few entities provided a real analysis that would likely result in a genuine suspicion. A number of STRs were systematic reports based on the amount of a transaction exceeding an arbitrarily-chosen threshold, the presence of a politically exposed person (PEP) or when an individual who had previously been the subject of an STR reappeared to carry out another one.

This observation does not necessarily apply to the new arrivals – barely more than half of them correctly complied with their obligations.

This rather varied situation resulted in five judicial referrals and 16 referrals to government departments in 2016, compared with 5 and 15 referrals, respectively, the previous year.

Case study

Fraud, breach of trust, abuse of weakness by a money changer

The facts

During the year, Mr X, a widowed pensioner, made three purchases of gold totalling €300,000. Prior to these transactions, he sold his portfolio of shares. There was no economic justification for these actions. He then wired €200,000 to a money changer to pay for a purchase of gold.

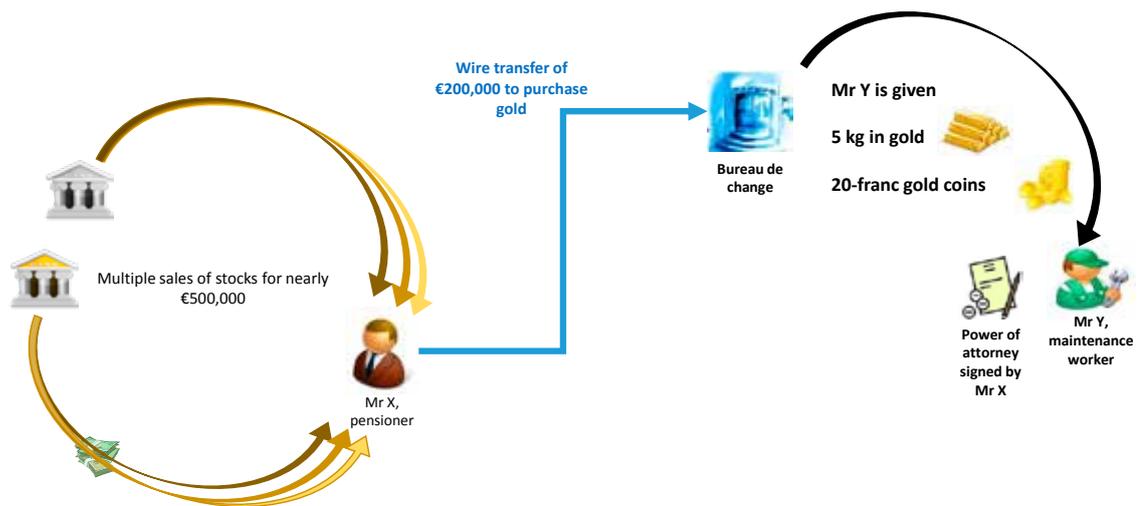
Mr Y, a maintenance worker, appeared alone at the same money changer with a hand-written power of attorney signed by Mr X. He received 5 kg in gold along with 20-franc gold coins.

Warning signs

- Lack of economic justification for the sale of shares and the purchase of gold
- Weakened psychological state of Mr X
- Lack of connection between Mr X and Mr Y
- Lack of presence of Mr X at the bureau de change when the gold was physically handed over to Mr Y

Tracfin's follow up

Mr Y is known to the police for repeated acts of fraud, breach of trust, extortion and handling stolen goods. The case was the subject of a court referral by Tracfin.



Fact sheet 4 - Payment institutions

Starting in 2010 and the arrival of the first payment institutions, the sector has seen constant growth in submissions of STRs. In 2016, they increased by 12.7%, rising from 4,535 in 2015 to 5,110.

The share of submissions by standard fund transfer services fell somewhat, and now accounts for 81.1% of STRs from payment institutions received by Tracfin. Comparatively speaking, the share of new entrants to the sector (payment solutions, payment service providers, accounts with a stakeholder other than a credit institution) that provide an ever-greater range of innovative services is widening. This expansion has been given impetus by strong growth in innovative financial services.

The Unit has observed certain endemic quality issues – problems with identification of individuals and incomplete analyses of questionable financial flows – that hamper the operational processing of STRs.

When it comes to identifying individuals connected to financial flows listed in reports, the efficient handling of STRs is directly dependent on the extent to which the information provided can be processed electronically. It is therefore vital that entities list all of those sending the funds in question, together with their complete contact details¹², in the relevant sections of the STR¹³, and not simply under «Presentation of the facts».

Furthermore, the beneficiary/ies of the funds should also be mentioned in the «Presentation of the facts» and should be included as individuals mentioned in STRs in the information in the entity's possession. Lastly, in the case of multiple senders and recipients, it is up to the reporting entity to identify those individuals or legal entities that, based on his or her analysis, are the primary actors in the fraudulent scheme in question. These must be duly declared as «persons» in the STR.

In addition to the need to provide reliable data, Tracfin would like to emphasise, in accordance with the prescriptions of the joint Tracfin/ACRP¹⁴ guidelines, the importance of the analytical work carried out by the reporting entity with respect to the atypical transactions detected. These guidelines state that, «...only those transactions deemed to be suspicious should be reported to Tracfin. Financial organisations are not obliged to report all unusual or high-risk transactions carried out by their customers»¹⁵. Therefore, the analysis of the facts leading to a report should figure prominently in the STR. It must be set out in the «Presentation of the facts» section. It is advisable to attach a summary table of the suspicious transactions in keeping with the analysis of the facts.

The Unit would like to point out the outstanding responsiveness of the sector, to which it sent 3,007 requests for information during the year, compared with 1,242 in 2015. This significant increase demonstrates the importance of payment institutions, which are in the front line of AML/CFT efforts.

¹² Within the limits of the data-processing capacities of the ERMES system.

¹³ Specifically, the fields «Individual's civil status», «Individual's contact details» and/or «Information about the identity of the legal entity».

¹⁴ Specifically, paragraphs 49 to 62 of the «ACPR/Tracfin Joint Guidelines on Reporting and Disclosure Obligations with Respect to Tracfin».

¹⁵ See paragraph 52 of the «ACPR/Tracfin Joint Guidelines on Reporting and Disclosure Obligations with Respect to Tracfin».

act sheet 5 - Electronic money institutions

Electronic money can be stored on an electronic device or a server. Such storage that is unrelated to a bank account takes many forms: prepaid bank cards, digital wallets, gift cards sold in stores or as part of a distribution network, cell phone chips, prepaid tickets, etc.

In addition to issuing, managing and making Electronic money available, Electronic money institutions may also offer payment services.

In 2016, there were 36 submissions from Electronic money institutions, up from 10 in 2015. Nevertheless, these figures are fairly modest compared to the volume of STRs from other parts of the financial sector.

And yet, there are certain aspects of Electronic money that increase its vulnerability in terms of AML/CFT: distribution by local shops outside of any banking network, the partial or complete anonymity of storage devices, the speed of transactions, etc.

It is therefore vital that these stakeholders take AML/CFT risks into account.

CROWDFUNDING

Crowdfunding allows project leaders (whether individuals, non-profit organisations or businesses) to seek funding outside normal channels, via a crowdfunding platform.

The sector has three main activities: investments, loans (with or without interest) and donations.

If a project is seeking investments, the crowdfunding platform must be registered as a crowdfunding adviser with ORIAS¹⁶, or be authorised by the Prudential Supervisory and Resolution Authority (ACPR) to operate as an investment service provider supplying consulting services.

If an Internet site allows individuals to support projects through loans or donations, the platform must register with ORIAS as a crowdfunding intermediary.

In 2016, only 6 Suspicious Transaction Reports were filed by crowdfunding intermediaries. Nevertheless, thanks to the reporting activity of their payment service provider, the Unit was able to identify various frauds and offences in connection with crowdfunding transactions. These included tax evasion, scams, misuse of fundraising for the purpose of financing terrorism, etc.

Tracfin would like to point out that, under Article L.561-15 of the French Monetary and Financial Code, crowdfunding stakeholders must declare «sums that they know, suspect or have good reason to suspect are derived from an offence punishable by at least one year's imprisonment or are part of terrorist financing», similar to their payment service provider or digital currency establishment.

¹⁶ A central registry for insurance, banking and financial intermediaries.

VIRTUAL CURRENCY

The expression «VIRTUAL currency» is generally used to describe a currency that is not created by a State or monetary union but rather by a group of individuals or legal entities, and which is used to settle, via a digital support, multilateral exchanges of goods and services within that group.

A system may be closed (non-convertible to an official currency) or open (the possibility to convert digital funds to an official currency). Virtual currencies are not legal tender in the strict sense of the term.

They are created within the Internet outside of any control or form of regulation. The non-transparent nature of digital currency creates a high risk of money laundering and terrorist financing.

All virtual currencies share the same set of characteristics:

- They are used in cyberspace: transactions cannot be linked to a specific geographic area. In this, their use differs from a regional system in which goods and services are swapped between individuals. Virtual currencies are designed to exist beyond the reach of controls by regulatory bodies.
- They allow for completely anonymous transactions that may take place either directly between individuals or via service providers. All stakeholders operate outside the traditional payment service sector. Usage ceilings and ID thresholds do not apply to them.

As it acts as a gateway between the legitimate and underground economies, and ensures that transactions remain anonymous, virtual currency carries a high AML/CFT risk.

The inherent characteristics of virtual currency makes it appealing to organised criminal groups. By its very nature, it renders transactions non-transparent.

For these reasons, since 1 January 2017, Article L.561-2 7°bis of the French Monetary and Financial Code stipulates that digital currency intermediaries are subject to AML/CFT obligations.

European-level harmonisation is vital, and was the subject of commitments in the European Commission's Action Plan to strengthen the fight against terrorist financing, issued on 2 February 2016.

Fact sheet 6 - Financial market professionals

Financial investment advisers

With 32 Suspicious Transaction Reports submitted in 2016, the reporting activity of financial investment advisers continues to give cause for concern. This observation concerns consulting activities provided to both individuals and companies (sale or handing on of businesses, external growth transactions, capital increases, etc.). The low number of submissions is even more striking due to the fact that a significant portion of STRs from these entities were not submitted in connection with the activity of financial investment adviser, but rather with that of insurance or reinsurance broker.

Nevertheless, there was an increase in the number of entities submitting STRs (24 in 2016, compared with 17 in 2015).

Given their roles and the documents provided by their customers, these entities are in a position to assess the consistency of the transactions carried out or planned in view of customers' assets, income and investment length. And yet, STRs submitted by financial investment advisers only rarely draw a line between these elements and the suspicious events.

The participation of financial investment advisers in the AML/CFT system is thus far from ideal.

Investment management companies

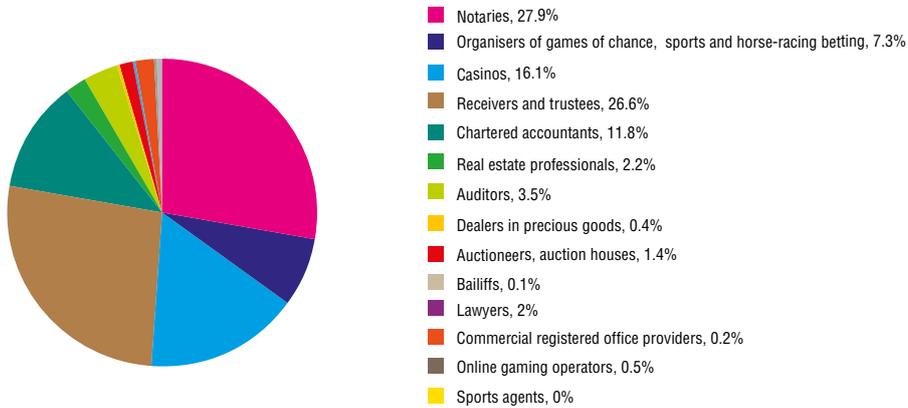
In terms of their activities that fall within the scope of the AML/CFT system, the reporting activity of investment management companies continued on an upward path in 2016 (a 3.4% increase over 2015). It remains low, however: 60 STRs were submitted in 2016, with most of these coming from a handful of companies – 70% of reports were submitted by just four reporting entities. The facts presented by investment management companies vary, and include financial misdemeanours, fraud involving employee savings plans, suspicions about the origin of managed assets, suspicions connected to real estate transactions as part of property asset management, etc. This variety speaks to the wide-ranging nature of activities by entities operating in this sector.

As part of managing on behalf of third parties, investment management companies must be able to trace the origin of the assets entrusted to them by their customers, particularly assets transferred from overseas. If

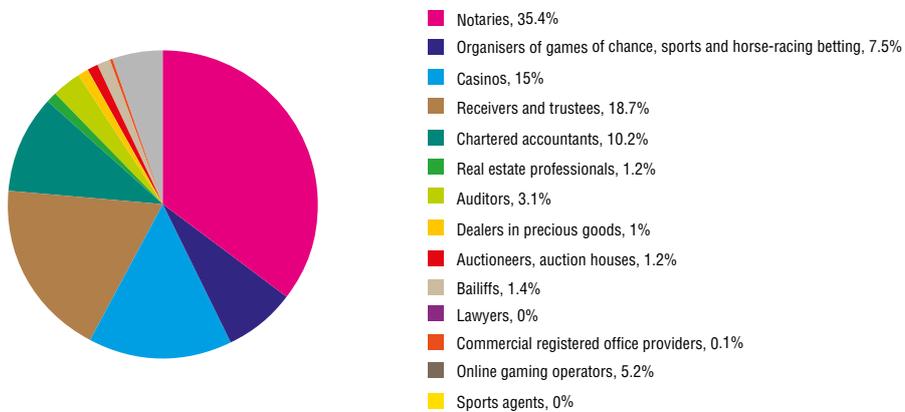
not, an STR should be submitted under the conditions provided for in the French Monetary and Financial Code.

NON-FINANCIAL REPORTING ENTITIES

Breakdown of reporting entities within the non-financial sector in 2016



Breakdown of reporting entities within the non-financial sector in 2015



Fact sheet 7 - Notaries

In 2016, the number of STRs submitted by notaries continued to hover around 1,000 (1,044 in 2016 against 996 the previous year). These results are not commensurate with the upswing in the real estate market. The number of real estate transactions liable for transfer duty following death is expected to exceed 850,000 in 2017, with a sharp increase in new housing¹⁷. There is a great deal of room for improvement, given the profession's reporting potential and money laundering risks.

When we break down submissions by geographic zones, we see that there are noteworthy regional disparities. Three regions – Greater Paris, Provence-Alpes-Côte d'Azur and Auvergne Rhône-Alpes – account for 59% of total STRs submitted by notaries (616 in all). Conversely, 13 regions submitted fewer than 20 STRs. Reporting activity in the Grand Est region surged, with significant increases in the Bas-Rhin and Moselle *départements*. Submissions from Guadeloupe also rose. The lack of Suspicious Transaction Reports from entities in Saint Martin and Saint Barthélemy continues to raise concerns.

As in 2015, only 13% of notary offices submitted at least one STR to Tracfin. This percentage shows that reporting activity is confined to a small share of notaries, and that there is room for improvement.

Most STRs had to do with real estate purchases with a value of between €100,000 and €500,000. During the year, there were also reports connected with transactions in excess of €10m, which indicates the extent to which luxury real estate is an AML/CFT risk.

The quality of STRs submitted by notaries was such that they could be easily processed – which is to be expected for a profession that has been subject to AML/CFT reporting requirements for more than two decades. Nonetheless, there was room for improvement for nearly 40% of them. On the one hand, the quality of the description of the facts did not allow the Unit to understand why the notary had drawn up the STR. For example, investigations by Tracfin identified politically exposed persons among the customers mentioned in the reports. The notary may have found this information by means of a simple search in public databases. In addition, documents connected to a transaction (sales

agreements, notarial deeds, personal identification) were all too often lacking. This lack meant an increase in the number of requests for information and unnecessarily prolonged processing times.

The types of cases detected by notaries during the year fell into three categories:

- Detection of money or transactions derived from various crimes and misdemeanours integrated into the legal economy: organised criminality and transactions by foreigners involving ill-gotten assets
- Suspicion of embezzlement or offences involving legal entities, such as misuse of company assets
- Suspicion of tax evasion

These various types of cases reveal that notaries are in the front line and are involved in all of the stages of money laundering, from placement to integration. This exposure to AML/CFT risks can be seen in the variety of warning signs that led notaries to submit an STR. These include a difference between the issuing account and the recipient account following a return of funds after the cancellation of a sales agreement, the existence of a substitution clause and an abrupt change in beneficial owner, and the under- or over-estimation of the value of property.

Lastly, even though there has been an upswing in the use of the Hermes platform (+18%), the continued use of paper-based submissions is a regular source of STRs being inadmissible¹⁸. Tracfin encourages the continued use of Hermes in the coming years, and the reporting entities' goal of 75% electronic submissions.

Fresh impetus is needed in terms of training, understanding of typologies, increased involvement in the AML/CFT system and building a constructive partnership with Tracfin.

¹⁷ FNAIM, «Marché immobilier : bilan 2016 et perspectives 2017».

¹⁸ During the year, 55% of the 300 STRs deemed to be inadmissible were submitted by notaries.

Fact sheet 8 - Lawyers

Traditionally, there is little or no AML/CFT reporting activity from the legal profession. In 2016, lawyers submitted a total of 4 Suspicious Transaction Reports.

These entities have always had a certain reticence when it comes to the AML/CFT system.

Nevertheless, the 4 STRs provided relevant information. In 2 cases, lawyers exercising due diligence were unable to eliminate doubts about the origin of funds involved in the sale of a business and in the seizure of property. The third case involved a request for the disbursement of money from an escrow account to a foreign company whose legal existence could not be confirmed. Finally, an STR from a lawyer brought a claim concerning over-bidding on a seized property to the attention of Tracfin. Tracfin's initial investigations revealed that the over-bidder was known to the police.

These elements provide an indication of the special position lawyers occupy in complex transactions that fall within the scope of financial, real estate or trust-related activities, and for which they are subject to AML/CFT reporting requirements. There is a pressing need to get the legal profession more involved in these efforts.

REQUESTS FOR INFORMATION FROM CARPA

The order of 1 December 2016 enacting the Fourth Directive into French law and strengthening the fight against money laundering and terrorist financing empowered Tracfin to submit requests for information from the *Caisses Autonomes des Règlements Pécuniaires des Avocats*, or CARPA, a financial settlement fund for lawyers. Due to confidentiality rules governing the legal profession, financial institutions with access to CARPA's accounts cannot perform due diligence, particularly to obtain information concerning the economic justification for a transaction involving a CARPA account. Tracfin's power to request was determined after constructive dialogue with representatives of the various bars and thanks to the very helpful involvement of the National CARPA Union. The importance of the continuity of the «banking chain» has been reconciled with strict compliance with the attorney-client privilege principle.

Although legally the scope of these requirements is quite narrow, some cases justify seeking to boost the participation of lawyers, who are far more exposed to AML/CFT risks than they imagine.

Fact sheet 9 – Real estate professionals

In 2016, real estate professionals submitted 84 STRs, which represents an improvement in the reporting practices of this sector.

Nevertheless, this number is still largely insufficient, particularly when it comes to independent real estate agencies. The upswing in the real estate market for both new and older properties led the Unit to expect a much higher number of submissions¹⁹.

As in the previous year, there was a very uneven breakdown of submissions: one single large banking group was responsible for nearly 80% of all STRs. The traditional involvement of banks in AML/CFT efforts accounts for this trend, but the fact is that much work remains to be done with respect to other agencies. Discussions should be held on the best way to involve a profession whose regulatory body is different from those of other non-financial reporting entities.

In 2016, 65% of STRs concerned transactions involving sums under €500,000. This breakdown shows that AML/CFT risks with respect to real estate can affect every member of the real estate community, regardless of their core business or their economic model. During the year, there was an increase in STRs dealing with high-end real estate transactions²⁰.

The booming real estate market in the Greater Paris region and in Provence-Alpes-Côte d'Azur (PACA) resulted in a high concentration of STRs from these two regions (52 reports).

With 21 STRs received, compared with 2 the previous year, the PACA region was responsible for a significant portion of submissions.

¹⁹ In 2016, there were an estimated 850,000 real estate transactions liable for transfer duty following death.

²⁰ STRs concerning transactions involving sums over €1 million.

THE DIRECTORATE GENERAL FOR COMPETITION POLICY, CONSUMER AFFAIRS AND FRAUD CONTROL (DGCCRF) – THE SUPERVISORY AUTHORITY FOR REAL ESTATE PROFESSIONALS

Since 2009, as the supervisory authority with respect to AML/CFT reporting and due diligence requirements to which real estate professionals are subject, the DGCCRF has been working to improve the reporting system and its adoption by these reporting entities.

It organises exchanges with real estate professionals to help them better understand what is at stake. The first of these meetings, which was held on 6 April 2016, brought together the 20 largest real estate agencies and luxury real estate dealers. Tracfin was asked to provide operational insight into the AML/CFT issues that are common to this sector.

It should be admitted that, despite commitments made by the meeting's participants, no real momentum was created by the very clear impetus that was given. The 2010 guidelines are in urgent need of an overhaul.

As in 2015, the most common types of cases concerned issues around tax evasion²¹ and complex arrangements involving the use of non-trading real estate investment companies. Non-transparency issues concerning the identity of the beneficial owner should lead professionals to file an STR. However, KYC procedures – as the submitted reports show – is a more intuitive process. Few professionals appear to have a risk assessment and management system in place, either with regard to individual or operational risks. Thus, the few STRs received say little about the reporting entity's due diligence efforts that led to the submission of the STR.

There is a great deal of room for improvement in terms of quality²². All too often, suspicions are not justified and there is a lack of supporting documentation. Although it is true that these professionals' involvement is upstream of the actual real estate transaction, they nevertheless have enough information to determine whether a transaction is illicit: personal identification, proof of residence and the planned financial structure of a transaction. Real estate professionals must be encouraged to rely more on their knowledge of the risks, as well as on the documents to which they have access, such as the sales agreement, and which they should submit with their STRs.

Finally, particular attention must be paid to the use of escrow accounts and other manipulations of funds that carry with them high risks of money laundering.

THE FOURTH DIRECTIVE – EXPANDING THE SCOPE OF THE REPORTING REQUIREMENTS APPLICABLE TO REAL ESTATE LETTING AND SUB-LETTING PROFESSIONALS

The order of 1 December 2016 enacting the Fourth Directive into French law and strengthening the fight against money laundering and terrorist financing expanded the scope of activities covered by AML/CFT reporting requirements. The French Monetary and Financial Code now covers property letting and sub-letting transactions. This change means that real estate professionals must incorporate new risks into their mapping efforts, including terrorist financing, rent payments in cash and doubts about the origin of the funds.

²¹ This is particularly true in cases of concealed donations.

²² Tracfin newsletter, «L'immobilier, un secteur à risque en matière de lutte contre le blanchiment et le financement du terrorisme», June 2016 (www.economie.gouv.fr/tracfin).

Fact sheet 10 – Bailiffs

A quantitative analysis of the number of STRs received in 2016 shows that bailiffs' participation in AML/CFT efforts is low. During the year, out of 3,276 bailiffs practising their profession in France, Tracfin received a total of 73 STRs.

Over the past four years, submissions have been on the rise, and basically doubled between 2015 and 2016 (39 STRs against 73 in 2016). The recent involvement of the *Chambre Nationale des Huissiers de Justice* (CNHJ), in the form of meetings with professionals and the distribution of an AML/CFT handbook, is the sign of the profession's growing awareness that it needs to take a more proactive stance.

STRs submitted by bailiffs concern relatively small sums, and most deal with cash payments arousing suspicions as to the fraudulent origins of the money. Although the special position of bailiffs allows them to reveal cases of this type, the reports received lead us to think that the profession has not fully integrated the full range of risks to which it is exposed, and which could become vectors for money laundering. Our meetings and exchanges with the CNHJ, and a comparative analysis with other regulated professions, appear to indicate that some of bailiffs' concurrent, auxiliary activities – such as amicable recovery of debts – present high AML/CFT risks. As it turns out, this procedure can be used by two accomplices to use a bailiff as a money laundering vector.

As in 2015, there were very few STRs submitted by bailiffs in the Greater Paris region. This is a surprising trend, given the number of bailiff offices and the wide variety of money laundering schemes observed in the region by other reporting entities. Although the Auvergne Rhône-Alpes region was the source of the highest number of STRs, most reports were submitted by a small number of entities.

From a quality standpoint, STRs submitted by bailiffs are brief and offer few details. They offer no analysis of the facts or the suspicion, while the contextual elements are rarely specified. Lastly, these reporting entities generally do not provide the court order that was the source of the business relationship.

Fact sheet 11 – Court-appointed receivers and trustees

The number of STRs submitted by court-appointed receivers and trustees has been increasing in recent years, nearly doubling between 2015 (528) and 2016 (995). Given the number of entities (314 trustees and 117 receivers registered in 2015), this trend is indicative of a highly compliant non-financial reporting entity in terms of quantity.

This forward momentum should be seen in light of the information resources and significant training efforts offered by the National Association of Court-Appointed Receivers and Trustees (CNAJMJ). This nationwide action plan targeted between 900 and 1,000 professionals, including office staff, who play a key role in detecting financial anomalies. AJMJs now have a much better grasp of the concept of «suspicion».

INADMISSIBLE STRS

About one-fifth of STRs received from AJMJs were deemed to be inadmissible, all professions taken together. There are simple ways to improve this situation, including making certain sections of forms mandatory and using online forms. For security reasons, AJMJs are advised to systematically make use of the Ermes online submission platform (only 28% of STRs were submitted electronically in 2106).

The submission practices of this sector speak to a concentration of reports from the country's most dynamic areas in which the economic recovery has taken hold. These include the Greater Paris region (22%), Aquitaine (18%), PACA (16%) and Auvergne Rhône-Alpes (15%). Training sessions by the CNAJMJ have had a tangible impact on the volume of STRs received, particularly from Aquitaine, where reporting activity, which had plateaued in 2015, picked up in 2016.

From a quality standpoint, there is room for improvement in the STRs submitted by AJMJs. Many still do not state the amounts of atypical flows and the financial stakes involved. This was very marked in 2016. Many entities found it difficult to calculate the amounts connected to a fraudulent activity. There was much progress, however, in terms of the form. Whereas in

previous years, most STRs were rather brief, this portion was negligible in 2016. The profession also made efforts to systematically attach supporting documentation.

A close look at the STRs submitted by AJMJs also shows that a significant number of them led to the disclosure of criminal acts to the public prosecutor's office. AJMJs are now fully aware of the compatibility between the stipulations of Article L.814-12 of the French Commercial Code and the rules governing the submission of a suspicious transaction report. The reporting potential of these professions could be further developed. In the coming months, court-appointed receivers and trustees could perfect their due diligence processes with respect to AML/CFT risks and underlying criminal factors, such as misuse of company assets, provision of funds of illicit origin, fraudulent schemes, etc.

JOINT GUIDELINES

The CNAJMJ and Tracfin are drafting joint guidelines concerning the AML/CFT obligations of AJMJs. These guidelines will incorporate changes connected with the enactment of the Fourth Anti-Money Laundering Directive, and feature case studies and operational examples to help professionals improve their day-to-day understanding of the risks to which they are exposed and perfect their risk maps. These guidelines will be a vital contribution to awareness-raising and training efforts for the profession.

A CLOSER PARTNERSHIP WITH THE NATIONAL ASSOCIATION OF COMMERCIAL COURT REGISTRARS

In 2016, as part of the partnership agreement between Tracfin and the National Association of Commercial Court Registrars (CNGTC), a joint action plan was drawn up to raise the awareness of registrars. In 2017, the National Association will continue to play a key role in this area. A structure for establishing information about suspicions was developed, and Tracfin received 20 reports from commercial courts in 2016, compared with 2 the previous year.

Fact sheet 12 – Commercial registered office providers

Few STRs were received from commercial registered office providers in 2016 (9). This is a surprising result, given the estimated number of such companies (between 2,500 and 3,000). There is progress to be achieved in terms of reporting volume.

A thorough analysis was not possible, given the low number of submissions. However, the data that Tracfin does possess shows that most of the atypical financial flows detected by registered office providers involves sums under €100,000.

Moreover, the STRs submitted by this sector offer little detail including about the various criteria or elements leading to the suspicion, nor the due diligence performed by the entity. These professionals do not have access to their customers' accounting documents. However, they are required to have complete knowledge of their clients, particularly those active in sectors that are exposed to risk (construction, short-lived companies). They are also responsible for providing vital data concerning the beneficial ownership of companies, and complex arrangements designed to render certain financial circuits non-transparent.

As was the case in 2015, most of the STRs submitted contained the supporting documentation needed for Tracfin's investigations: leasing agreements, identification elements gathered when the company was being set up, as well as updates to these elements.

The types of cases indicated in the STRs from commercial registered office providers included fraud schemes, fraud involving the public purse (both tax- and benefits-related) as well as complex arrangements involving shell companies and recipients of atypical flows from sensitive countries or regions.

This at-risk sector requires significant efforts to engage entities in AML/CFT efforts. It has been difficult to establish partnerships with the sector's representative bodies.

Fact sheet 13 - Auditors and chartered accountants

In 2016, Tracfin received 574 STRs from accounting professionals, an increase of 53% over 2015.

These two sectors are governed by different mobilisation strategies and take their cues from either their supervisory authority or their representative body.

The Governing Council of Chartered Accountants (CSOEC) is the one body tasked with raising awareness amongst accountants of the AML/CFT system. A training programme introduced in 2015 by the CSOEC's AML Committee was rolled out to more than 44% of chartered accountants. This far-ranging action plan was the subject of a direct mailing campaign sent to all accountants.

The High Council of Auditors (H3C), which was affected by European auditing reforms and by new remits, turned increasingly for support from efforts by the National Company of Auditors (CNCC) and various regional companies.

Reporting entities	2015	2016	Change (2015-2016)
Chartered accountants	286	442	+54.5%
Auditors	88	132	+50.0%

RISKS CONNECTED WITH INVESTMENTS IN OVERSEAS FRANCE

The tax breaks introduced by the Girardin Act of 21 July 2003, which was designed to boost productive investments in Overseas France, allowed investors to deduct a portion of their investments from their income tax. The financing method involves a range of stakeholders, including investors in mainland France, who are shareholders in the special-purpose company and receive tax breaks, the special-purpose company itself that is responsible for financing the investment, which is dissolved as soon as the title is transferred, and finally the overseas operator (or lessee), which pays the special-purpose company rent for the use of the property, which is then used to repay the bank loan. Heightened vigilance is called for on the part of overseas professionals in view of the variety of stakeholders involved in this type of transactions and the complexity of financial arrangements connected to special-purpose companies. Generally speaking, accounting professionals need to exercise particular due diligence with respect to tax incentives that are propitious for fraud.

Despite the increase in STRs submitted by accountants and auditors in 2016, efforts need to be made to support this positive trend. Given the number of chartered accountants operating in France (some 20,000), there is a significant reporting potential, both due to the extent of financial flows processed, but also due to these professionals' proximity to and knowledge of their customers. Thus, tax evasion and misuse of company assets detected through the fraudulent use of shareholders' current accounts are cases that are most clearly identifiable by chartered accountants.

Auditors also have a significant reporting potential. The variety of organisations that are audited and the significant sums of money involved (over 40% of STRs submitted by auditors concern transactions over €500,000) have led the Unit to conclude that more could be done to increase the number of reports submitted.

Our observations from 2015 remain unchanged with respect to the geographic breakdown of STRs, which mostly were concentrated in regions of high economic growth:

the Greater Paris region (22%), Auvergne Rhône-Alpes (16%) and Provence-Alpes-Côte d'Azur (9%). Although there is a certain correlation between economic growth

and reporting activity, the fact remains that regions with less appeal are also exposed to the risks of both organised crime and fraud against the public purse. From this standpoint, the low number of STRs submitted from Corsica or Overseas France shows that there is much room for improvement.

In terms of quality, it is clear that more care is being taken with drafting STRs. This being said, Tracfin's comments from 2015 remain pertinent: all too often there is a lack of supporting documentation (accounting documents, company register extracts, etc.).

Fact sheet 14 - Gaming sector professionals

In 2016, growth in the gaming sector was primarily fuelled by the increasing popularity of sports betting. This type of betting, however, has vulnerabilities, particularly as regards identification of customers, monitoring cash payments on the Française des Jeux network, and the risk of money laundering heightened by players that master the risks of a fixed-odds betting system. More generally, games that offer players high rates of return are popular with individuals seeking to launder money of illicit origin in this sector.

There was an increase in the number of reports submitted by traditional gaming sector professionals. Nevertheless, with 20 STRs submitted, the online gaming sector registered a new dip in its reporting activity in 2016.

Operators subject to an exclusive licence continue to bolster their due diligence efforts. They are fully engaged in dialogue and partnering with Tracfin to put operational means in place, including hiring staff specialising in AML/CFT issues and developing ad hoc tools.

In 2016, the increasing power of the National Enforcement Committee and AML inspections carried out by the Central Racing and Gaming Unit (SCCJ) have contributed to the casino sector becoming increasingly aware of its due diligence and reporting obligations in terms of AML/CFT.

Legal changes brought about by the enactment of the Fourth Anti-Money Laundering Directive represent a first stage in improved monitoring of operations across the gaming sector. Up to now, obligations for individuals to present identification were determined solely on the basis of sums earned by winning players.

However, this data does not allow the Unit to grasp the financial commitments of players. The new Article L.561-13 of the French Monetary and Financial Code establishes a requirement to present ID when bets are placed, according to a threshold set by decree. This obligation provides the sector with better knowledge of its customers.

This new article is an initial response to recommendations by the Government Audit Office in its report on the assessment of gaming regulations, which in particular emphasise the need to:

- «Make mandatory the use of the Carte Joueur or any other means of identification, beginning with those games that are most susceptible for addiction, fraud and money laundering.» ;
- «Standardise ceilings for the use of cash for both bets and winnings in order to fight fraud and money laundering».

Casinos

With 601 STRs, casinos' reporting activity rose sharply in 2016 (+42.4%). This upward trend is progressively expanding throughout this sector. The number of entities who submitted at least one STR during 2016 rose 28.7% over the previous year.

The quality issues noted in 2015 remain: a lack of description of the suspicion, few elements as regards customer identification and gaming operations, and a lack of supporting documentation such as the establishment's books concerning winnings.

It should also be pointed out that, despite efforts by Tracfin, relations with this sector have cooled in the wake of inappropriate behaviour by certain stakeholders.

The joint guidelines signed by the Central Racing and Gaming Unit and Tracfin on 22 November 2016 stipulate the full range of due diligence measures to put in place. They also detail the warning signs that should alert the profession and what the Unit expects in terms of STRs. The guidelines are designed to make it easier for sector professionals to fulfil their obligations.

It is important to note that the most complete STRs can be used to initiate legal proceedings. Identification of players based on the circulation of cash has helped to reveal, following investigations, cases of misuse of company assets for the purposes of financing a gaming addiction and other types of criminal behaviour.

La Française des jeux (FDJ)

La Française des Jeux submitted 118 STRs in 2016, a 22.9% increase over 2015. These reports stand out due to the quality of the operator's analyses, the cooperation with support departments and the use of data available from public databases.

In terms of improvement, *La Française des Jeux* needs to satisfactorily report the gaming transactions carried out by its more risky customers. There are still a number of STRs that only note an increase in turnover at a specific point of sale. If these reports do not identify players or winners, they are of limited operational use.

From this point of view, 2016 was a transitional year for *La Française des Jeux*. Tracfin hopes that the AML tools that are expected to be put into use in 2017 will result in a significant increase in reporting activity, particularly with regard to new types of risks, and that they will help improve KYC procedures.

Improvements to *La Française des Jeux's* AML toolkit are particularly eagerly awaited at a time when reports passed on by Tracfin are generally based on discrepancies between a player's financial commitment (bet/winnings gap) and the player's financial means (declared income). This trend, which is not a risk type in itself, has revealed various underlying criminal activities, including laundering of the proceeds of drug trafficking, undeclared work and even embezzlement.

PMU

In 2016, *Pari Mutuel Urbain (PMU)* submitted 102 STRs, compared with 101 the previous year. The quality of submissions has improved. Analyses of the facts are more complete and therefore easier to use, and nearly all STRs had supporting documentation included. This can be attributed to the availability of a renewed toolset and to the PMU/Tracfin partnership that was launched in November 2015. The partnership and dialogue have influenced the PMU's compliance policy, which is expected to ramp up in the coming years.

Although higher turnover cannot serve as the only warning sign to bolster due diligence, the Unit notes a higher number of STRs dealing with points of sale whose turnover has increased exponentially. The risk types identified after investigation show that these cases had links to the underground economy, particularly counterfeiting.

After a series of meetings, it appeared that the focus of the operator in 2017 was on improving its reporting practices in terms of both quality and quantity. This will only be possible through identifying regular players from the start of the betting process, in order to have access to the amounts bet and won.

Online gaming

Act 2010-476 on the opening up to competition and regulation of the online gambling sector lays down a specific legal framework for the fight against money laundering. Stakeholders who have been approved by ARJEL (the Online Gaming Regulatory Authority) operate in a secure environment.

At a time when the sports betting sector is booming, 2016 witnessed a new and sharp drop in STRs submitted by sector stakeholders (20 submissions, a fall-off of 86.3% over the previous year). Moreover, online gaming operators and regulatory authorities need to pay attention to players' use of new means of payment (prepaid cards and electronic money). Operators should remain vigilant with respect to the age of players, their ability to lose significant amounts of money and the use of multiple credit cards, including those in the name of legal entities.

Gaming circles

2016 represented another transition for this sector, which is limited to Paris-based establishments, in the run-up to the introduction of gaming clubs.

Both circles submitted 53 STRs during the year, against 13 in 2015.

THE SPORTS SECTOR

The «Football Leaks» website attests to how vulnerable the sports sector is to fraud. Sports that receive the most media attention are the subject of increasing investment, which manifests itself in a wider variety of investors and the use of complex financial structures involving the use of offshore financial centres.

As part of this, supervision of the sports sector should not be left to sports agents, who have not filed a single STR since 2010, the year in which they became subject to AML/CFT requirements.

This sector should be subject to particular vigilance by banks, but there should also be greater involvement by stakeholders in professional sports. To make this a reality, new tools have been rolled out as part of greater enforcement of «Ethics, regulation and transparency in professional sports». In particular, this involves bolstering the oversight authority of the National Management Control Directorate (DNCG).

Fact sheet 15 - Auctioneers and auction houses

After little change over the past three years, the reporting activity of auctioneers and auction houses rose sharply in 2016, with 51 STRs received²³. It should be noted, however, that half of these were submitted in November and December. This end-of-year shift appears to be linked to efforts by the National Union of Auction Houses (SYMEV), which reminded members of their AML/CFT obligations.

Although the upward trend in the number of STRs deserves to be pointed out, this level is still too low given the financial stakes and the high AML/CFT risks that are prevalent in this sector. The rising share of Internet-based sales organised by auction houses also represents a weak point. In 2015, these sales accounted for nearly 30% of total auctions, all transactions combined (€825 million). The volume of Internet-based auctions has skyrocketed since 2011²⁴. Online sales (which are entirely electronic and take place in a virtual auction house) accounted for 79% of Internet-based sales. So-called «live» sales, which are connected to an actual auction taking place in a brick-and-mortar room, have grown sharply in recent years. In these cases, the speed at which sales take place and the variety of means of payment, together with the intercession of intermediaries, hamper professionals' ability to learn the identity of buyers. Moreover, the sector is also exposed to the issue of free-trade zones, which were initially set up to store raw materials – and later manufactured goods – for short periods in exemption of duties and taxes. In practice, they are used to defer payment of taxes for long periods and to render goods untraceable. At a time when trafficking in cultural goods from Syria and Iraq is a constant threat, it is difficult to account for the low volume of STRs from auctioneers and auction houses.

Of the 22 professionals who submitted STRs in 2016, 7 were located in the Greater Paris region, which is directly in relation to the 139 auction houses located there. The second-largest group of submissions came from the Auvergne Rhône-Alpes region. The upward trend was most noticeable in submissions by auctioneers: 21 STRs submitted in 2016 against 6 the

²³ Total for both auctioneers and auction houses.

²⁴ 2015 annual report by the Voluntary Auction Council (CVV) (p. 116).

previous year). Only one of the top ten auction houses offering voluntary sales²⁵ submitted an STR. There is an inverse relationship between professional involvement and turnover, capacity to invest in AML/CFT systems and exposure to risk due to the sums involved.

Art and collectibles account for the largest number of STRs, particularly in comparison with those for used vehicles and industrial equipment. Nevertheless, the latter sector experienced the highest growth in terms of sales in 2015 (+15.4%, or 46% of the total)²⁶. The reporting trend for auctioneers and auction houses is not in sync with market trends.

In terms of quality, the STRs submitted could do a great deal more. Often, reports consist solely of a brief description of the suspicion with no supporting documentation. However, it is difficult to process an STR without information about the customer. In addition, the STRs received rarely provide useful details about the goods being sold: type, amount paid, gap between sale and estimate, rarity, origin, etc.

Among the types of suspicions raised, the most common is the lack of correspondence between the holder of the account making the payment and the name of the buyer. There are also regular cases in which it is impossible to identify the buyer (particularly in the case of online sales) and attempts to pay in cash. Information available to the Unit reveals two interesting elements. On the one hand, the due diligence measures concerning buyers are just as critical as those for sellers. On the other hand, professionals need to focus more on potential links between buyer and seller.

THE AML/CFT SYSTEM AMONG ART AND ANTIQUITIES DEALERS IS NOW MONITORED BY THE DGDDI

Traditionally, there has been no authority for either monitoring or enforcing art and antiquities dealers' AML/CFT arrangements. However, given the rising risks to the profession, particularly when it comes to terrorist financing²⁷, the enactment of the Fourth Directive into French law includes the designation of the General Directorate of Customs and Excise (DGDDI) as the supervisory authority given its expertise in the area of art and of the National Enforcement Committee as the enforcement authority.

The entire art sector is an area in which AML/CFT risks are high, particularly due to poor participation by all stakeholders.

Tracfin is continuing its efforts by recruiting a specialist contact person to conduct awareness-raising efforts and to detail specific types of cases in the run-up to the FATF's Mutual evaluation of France in 2019-2020.

²⁷ See the financial vigilance structure with respect to ISIS, published and available on the DG Trésor website, and updated in June 2016.

²⁵ According to a 2015 ranking by the Voluntary Auction Council (CVV), available from the CVV website.

²⁶ 15 annual report by the CVV.

ADMINISTRATIVE REPORTING

Aside from suspicious transaction reports, Tracfin also receives information from various public bodies or bodies with a public service mandate. This includes government departments, local authorities, government-funded institutions or any other entity with a public service mandate. The Unit also receives reports connected with money-laundering activities identified by supervisory authorities and professional associations as part of their duties. Reports transmitted in this way have the same legal value as suspicious transaction reports, and can be used as a basis for in-depth investigations by Tracfin.

In 2016, Tracfin received 1,105 administrative reports, an increase of 78% over the previous year.

The government departments that sent the most reports continue to be our partners within the intelligence community and the Ministry for the Economy and Finance (DGFIP, DGDDI and DG Trésor, which sent 500 reports.

In 2016, there was a significant upswing in reports from supervisory authorities, first among them the Prudential Supervision and Resolution Authority (ACPR), which submitted 384 reports (254 in 2015).

This is due to the stepped-up controls by the ACPR and their detailed analysis of transactions that were deemed worthy of an STR. It is also proof of the quality of the partnership and stronger ties between the ACPR and Tracfin.

ARTICLE L.561-27 OF THE FRENCH MONETARY AND FINANCIAL CODE

The Unit, which is mentioned in Article L.561-23, receives, at the initiative of central government departments, local authorities, government-funded institutions, the organisations referred to in Article L.134-1 of the French Financial Courts Code, and any other entity with a public service mandate, all of the information required to carry out its mandate, and can request information from these entities.

For the purposes of performing its duties, Tracfin has:

- 1) A direct access to files used for the purposes of tax assessments, audit and collection of taxes
- 2) A direct access to the processing of personal data set out in Article 230-6 of the Code of Criminal Procedure, including data concerning ongoing court proceedings but excluding those relating to persons registered as victims.

The courts, legal courts and CID officers may also submit information to Tracfin for the same purposes

SYSTEMATIC INFORMATION DISCLOSURES (COSI)

Act 2013-100 of 28 January 2013 and the Separation and Regulation of Banking Activities Act of 26 July 2013 introduced the Systematic Communication of Information (COSI) system for credit, payment and electronic money institutions, which must send Tracfin information relating to fund transfer transactions carried out through a cash transfer or using a digital currency, when these transactions exceed €1,000 per transaction and €2,000 per customer per calendar month.

The Decree of 25 March 2015, derived from the July 2013 Banking Activities Act, introduced a new obligation for financial institutions: cash deposits and withdrawals into deposit accounts, as well as cash payments totalling more than €10,000 in one month, must also be systematically reported to Tracfin.

Systematic information disclosures regarding transfers of funds

In 2016, Tracfin received some 2.6 million COSIs relating to fund transfer transactions, which was roughly the same as the previous year (-1.1% compared to 2015). More specifically, recorded transfers of funds grew by

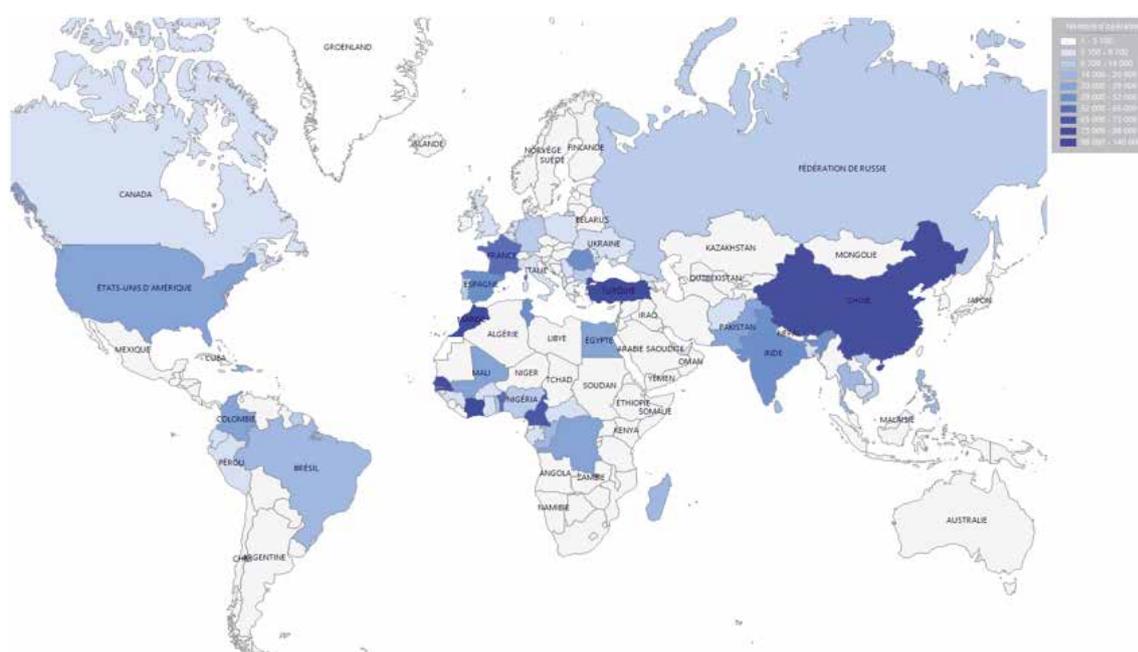
2.2%, and fund receptions shrank by 8.6%. In value, transfers of funds accounted for nearly €24.2 billion in 2016 (+15.3%) and reception of funds only €1.5 billion (-2%).

In contrast to STRs, COSIs are transmitted on the basis of objective criteria (thresholds) for identifying transactions that are AML/CFT risks. They give Tracfin heightened investigative powers.

COSIs received by the Unit are checked in order to enhance information about individuals and legal entities mentioned in STRs to confirm a suspicion or redirect it towards another beneficiary mentioned in the COSIs.

A geographic analysis of these financial flows (see below) can reveal or confirm the extent of certain types of fraud schemes; grouping together similar cases can help provide clarity to ongoing investigations. The types of fraud are quite varied, and include the purchase of undeclared goods and counterfeit items from Asian countries, fraudulent real estate announcements from a West African country and the sale of drugs from a country in South America. This data is used to enhance clues found in the cases under examination.

Geographic breakdown of fund transfers in 2016



Systematic information disclosures regarding cash deposits and withdrawals

Disclosures concerning cash deposits and withdrawals entered into force on 1 January 2016. The reporting entities involved are listed in 1°, 1 bis and 1 ter of Article 561-2 of the French Monetary and Financial Code: credit, payment and electronic money institutions. The transactions in question are carried out with respect to deposit or payment accounts whenever payments total more than €10,000 in one month (in euros and/or their equivalent in other currencies). COSIs concern all deposit and payment accounts of individuals and legal entities, with the exception of those opened in the names of the persons listed in 1° to 7° of Article L.561-2 of the French Monetary and Financial Code.

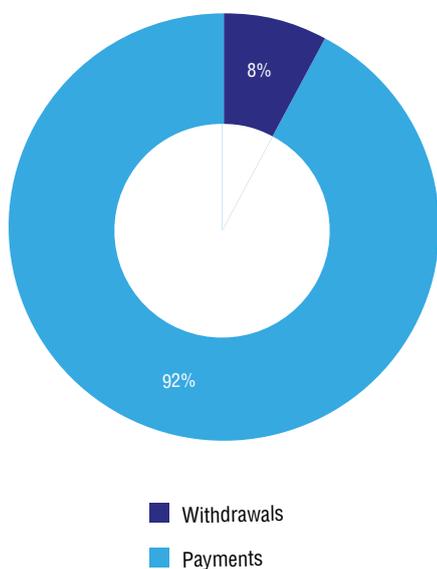
In 2016, Tracfin received more than 52.9 million transaction reports for an overall total of more than €311 billion.

The transactions concerned more than 320,000 legal entities and nearly 285,000 individuals.

This data is systematically checked in order to enhance information about individuals and legal entities mentioned in STRs.

The volumes of data to process are much higher than the initial COSIs and have led Tracfin to bolster its IT capacities. Efforts include redesigning our storage infrastructures, our text search engine and our analytical tools, as well as increasing the security of the IT system.

Withdrawals and deposits in 2016 (in volume)



NOTEWORTHY CASES

Case study 1: International drug trafficking by organised crime – money laundering

The facts

Tracfin received information on staggered cash transfers to the Balkans by ten French senders based in mainland France.

Tracfin’s investigations

The examination of these transactions concerning international money orders and the investigations brought to light a “many-to-many” fund transfer system:

- By sending high unit value money orders staggered over limited time periods, that established a connection between the ten senders and seven others who were freshly identified, meaning that 17 individuals were involved in all; the cash transfers were repeatedly made from a number of institutions in border areas
- Several of these senders had criminal records for drug trafficking

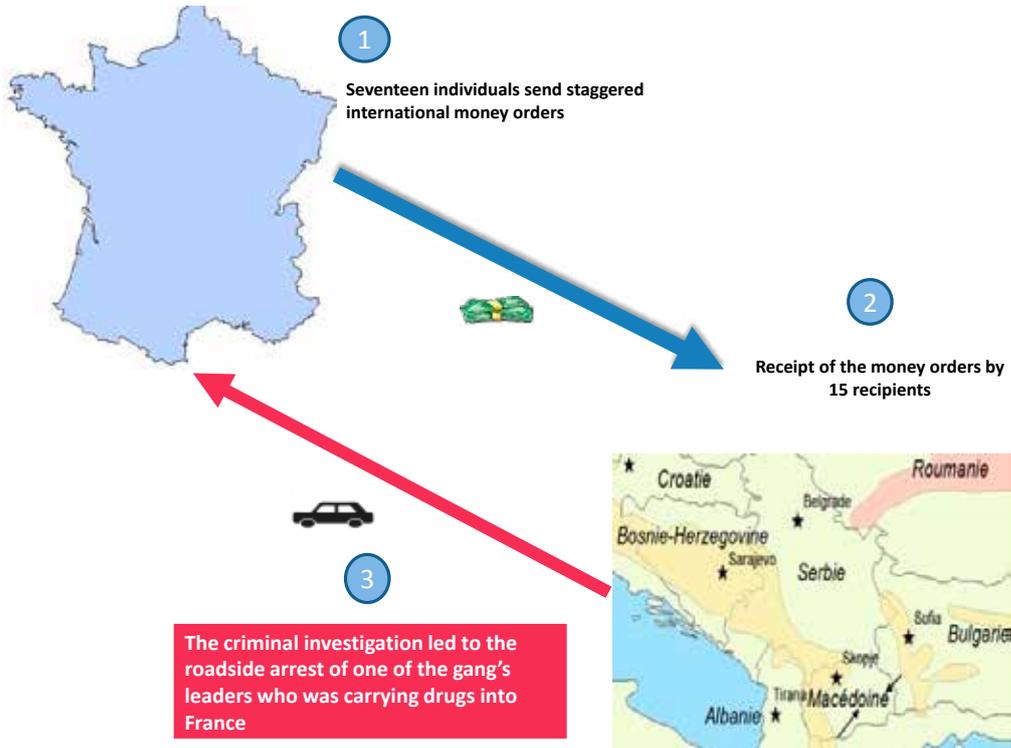
- Receipt of the money orders by 15 recipients residing in the same area of the Balkans, some of whom belonged to the same family and received the money orders within very short timeframes
- A total amount of €350,000 in cash was sent by international money orders between January 2015 and July 2016

Given the criminal circles with which the individuals associated, their lifestyles that were inconsistent with their income and the financial flows along a sensitive route, this evidence was referred to the competent public prosecutor’s office. Suspicions focused on the existence of a gang involved in international drug trafficking in Europe as well as laundering of the proceeds.

The criminal investigation unveiled an active network trafficking cocaine, heroin and cannabis, and laundering the proceeds of this trafficking, between France, Switzerland, the Balkans and Greece. The criminal investigation department arrested the main offenders and seized both cash and drugs.

Warning signs

- Staggered transfers reflected, in particular, by the time stamping of the transactions
- Geolocation of the transfer issuing and receipt institutions
- Financial flows along a sensitive route



Case study 2: Gaming sector – money laundering

Tracfin received information on casino transactions carried out by an individual who purchased over €1,400,000 in chips over a 20-month period. Concurrently, the Unit received a report from a bank concerning transfers to and from individuals amounting to several tens of thousands of euros.

The investigations centred on a cross-analysis of these bank and gambling transactions. The evidence gathered pointed to mass use of cash not held in a bank account which may have originated from illicit activities.

The facts

In 2014, an Asian individual, Ms X, declared €10,000 in salaries from her job as a waitress for tax purposes. Her bank accounts were mainly credited with cheques and transfers from individuals. Not many living expenses were debited from these accounts. However, they did show casino-related movements that were much lower than the volume of the transactions carried out in these establishments. In particular, the Unit flagged up the lack of major cash withdrawals.

Tracfin's investigations

According to the casinos' records, Ms X played table games (particularly blackjack) and used slot machines.

As regards the table games, during several hundred visits to casinos, she purchased €1,400,000 in chips and sold back chips totalling €1,100,000. She also deposited €11,000,000 in chips, and she recovered €10,000,000 of this amount in chips or cash.

As regards the slot machines, Ms X gambled €6,500 and recovered over €700,000 in cash. A rash interpretation of these facts could conclude that she actually won this amount.

However, she did not win any jackpots and, during certain visits, did not place any bets. The two explanations are that gamblers can insert banknotes directly into certain slot machines and that they do not have to systematically provide proof of identity when purchasing chips.

On average slot machines pay out 85% of amounts gambled and Ms X very probably betted a lot more money than she recovered.

To sum up, Ms X handled large amounts of cash in casinos whilst her bank accounts showed very few cash movements.

This could be explained by the fact that these funds did not actually belong to her. During thirty or so visits to casinos, Ms X did not place any bets but deposited or exchanged a large number of chips for cash. Once again, these transactions may relate to the gambling activities of third parties.

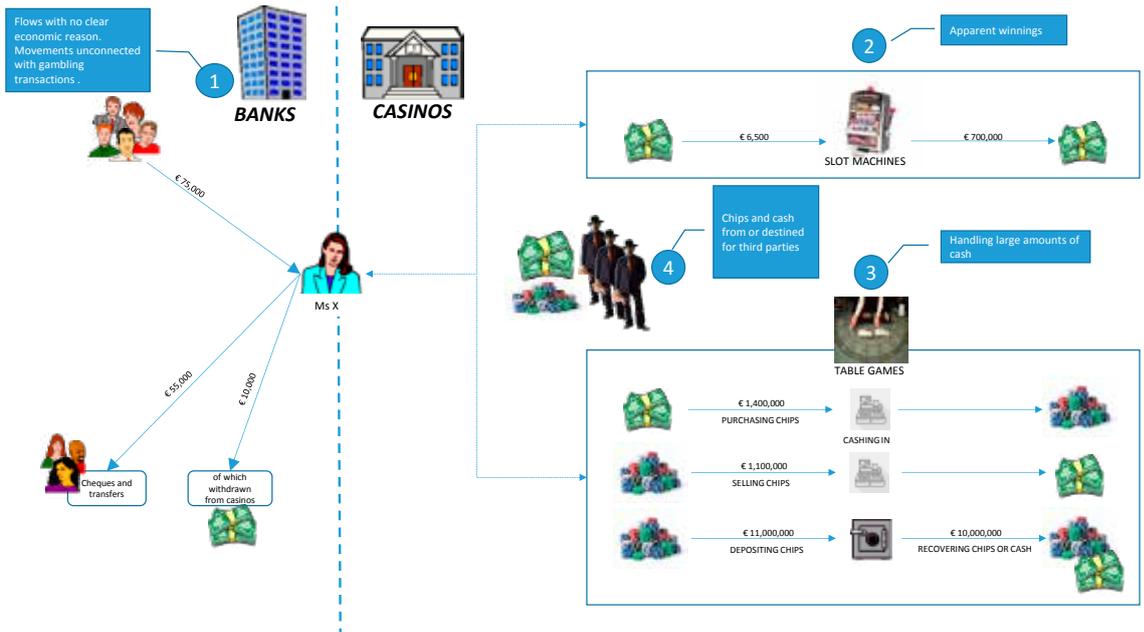
All this evidence was sent to the public prosecutor's office with territorial jurisdiction on the grounds of laundering the proceeds of fraudulent behaviour.

Warning signs – bank

- Few bank movements
- Few living expenses
- Flows with individuals, with no clear economic reason
- A number of transactions connected with gaming establishments

Warning signs – gaming

- Intensive gambling
- Substantial losses
- Mass deposits of chips with the establishments



Case study 3: Corruption and influence peddling by a politically exposed person (PEP)

The facts

The Unit received information concerning amounts received without proper justification by a local elected official, Mr A, from a non-profit training organisation officially managed by Ms B, his associate.

Tracfin's investigations

The investigations, that covered all Mr A's accounts and those of two other non-profit organisations that he managed, led to the following findings.

- On Mr A's personal accounts:
 - Credits widely in excess of his official income, essentially comprising cash deposits and payments received from both non-profit organisations and companies, totalling almost €250,000 over a three-year period
 - Expenditure that was non-commensurate with his known circumstances, with large amounts being gambled
- On the accounts of the non-profit organisations managed by Mr A or his associate:
 - A non-profit training organisation, the main payments of which were in favour of its manager, Mr A, either directly or through a third party, without a clear reason
 - A political group with few bank transactions but again with the majority of payments being sent to Mr A, its head

- A non-profit cultural organisation funded by companies under sponsorship arrangements, with the amounts being inconsistent with its actual activity

The investigations, which focused on the companies making payments to the latter non-profit organisation and to Mr A himself, revealed that they had all won procurement contracts awarded by the local authorities to which Mr A had been elected.

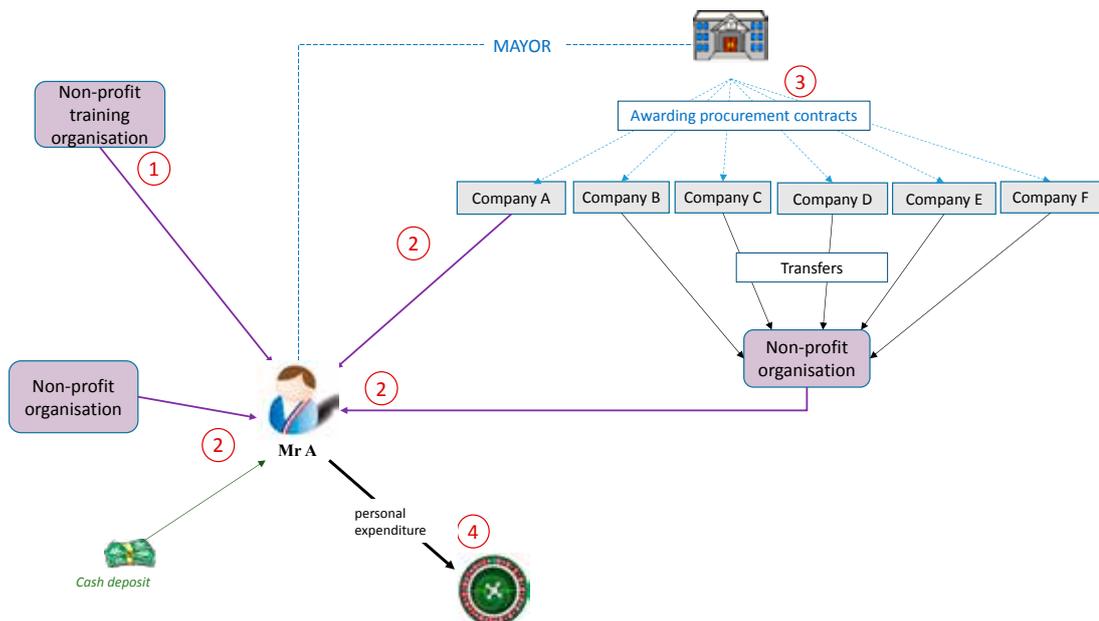
The evidence gathered was sent to the public prosecutor's office with territorial jurisdiction on the grounds of presumption of influence peddling, favouritism or corruption.

Warning signs relating to the accounts of a politically exposed person (PEP), a local elected official

- Income and expenditure non-commensurate with his or her official resources
- Receipt of payments by cheque and transfer without established consideration that appear to vary in line with the beneficiary's personal financial requirements
- Receipt of payments from a company holding a procurement contract or from its manager
- Non-justified cash deposits

Warning signs relating to the accounts of non-profit organisations

- Abnormal activity on the accounts of a non-profit training organisation, including substantial non-justified payments to a PEP
- A non-profit cultural organisation managed by an elected official, sporadically receiving significant amounts from local construction firms



Case study 4: Ill-gotten gains, property and works of art

The facts

Tracfin was alerted by cash purchases made by a non-resident and by transfers from abroad to acquire two properties.

Mr X is a businessman who works as an intermediary and entrepreneur in West African countries. He is considered to be a politically exposed person. As part of his business activities in Africa, Mr X is suspected of having committed a large number of financial offences, in particular corruption, misuse of funds and failure to comply with procurement regulations.

He set up a non-trading real estate investment company in France which acquired two properties in the Greater Paris region for a total amount of over €10 million. He also purchased numerous works of art, with over €1.3 million being paid in cash.

Tracfin’s investigations

The Unit’s investigations did not turn up a bank account in France. An examination of the individual’s assets and cooperation with foreign FIUs showed that the properties acquired in France were financed from his own funds. The funds came from accounts in West Africa and had passed through accounts in the US and Germany.

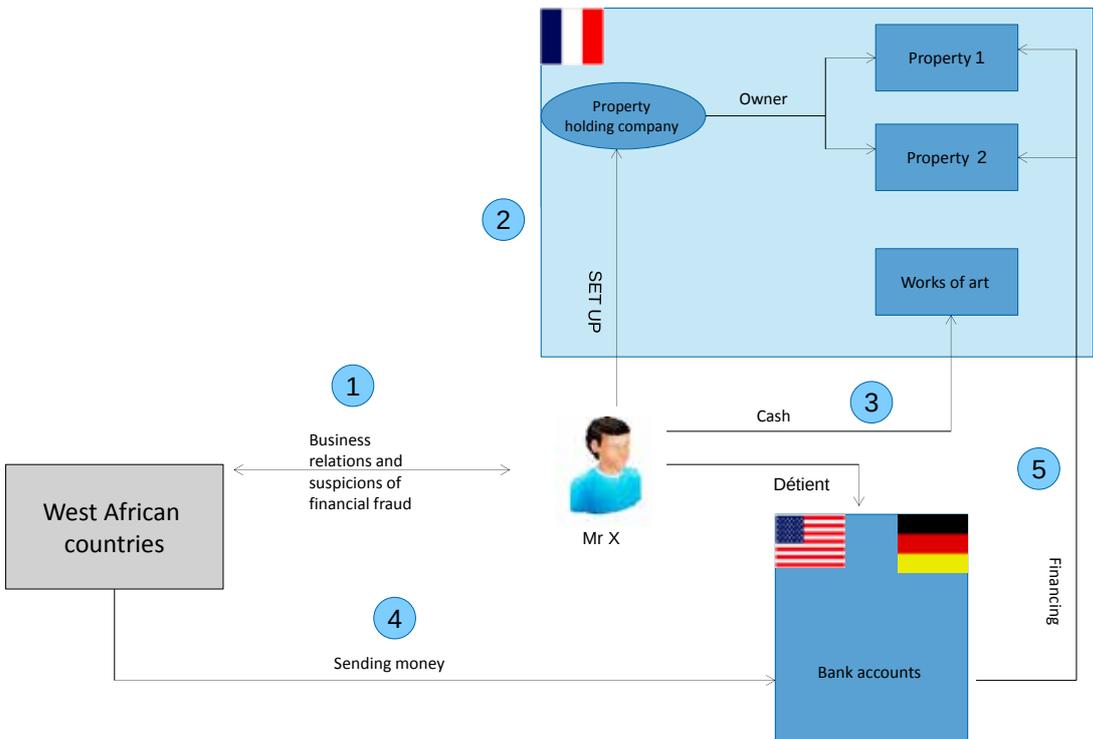
Moreover, the origin of the funds used to acquire the works of art was unable to be determined. Investigations revealed that the individual was already well known to the customs authorities for failure to declare offences; he had brought €113,000 in cash into France without filing a customs declaration whereas this is mandatory for all amounts of €10,000 or more.

All the evidence was sent to the public prosecutor with jurisdiction on the grounds of money laundering and to the Directorate General of Customs and Excise for potential violations of declaration obligations.

Concurrently, Tracfin noted breaches of due diligence obligations by an art dealer and duly informed its supervisory authority.

Warning signs

- Individual known in public records for having possibly committed financial offences
- Cash purchases of works of art
- Property acquisitions financed by funds from abroad
- Country of origin of the funds inconsistent with KYC information



Case study 5: Conspiracy to defraud on investments in “virtual” diamonds and laundering of part of the proceeds of the fraud in France

The facts

Company X, a diamond and gemstone trader and broker, received a total of €8.8 million during its first ten months of existence. The credits mainly consisted of transfers and cheques from individuals based throughout France. Over the same period, €8.6 million was debited from the company’s accounts, over €6 million of which was sent abroad.

Company X’s sales strategy was to offer investments in “virtual” diamonds. It provided its clients with the opportunity of purchasing diamonds which were then kept in safes under its responsibility. In return, the purchasers were “exempted” from VAT on their purchases under customs warehousing arrangements. This entitlement could have enabled them to improve the profitability of their investment pending a subsequent sale through the platform made available to them by the company. On its website, the company presented diamonds as a promising investment that should give an annual return of more than 6%.

Tracfin’s investigations

The Unit’s investigations brought to light a body of evidence throwing doubt on the reality of company X’s activity. The activity of the entities receiving the funds abroad was either difficult to pinpoint or had no connection with company X’s alleged business activity.

An analysis of the invoices presented by the company to justify the flows in light, in particular, of its tax returns and customs declarations, revealed a number of inconsistencies with the flows recorded on its accounts. This led to the

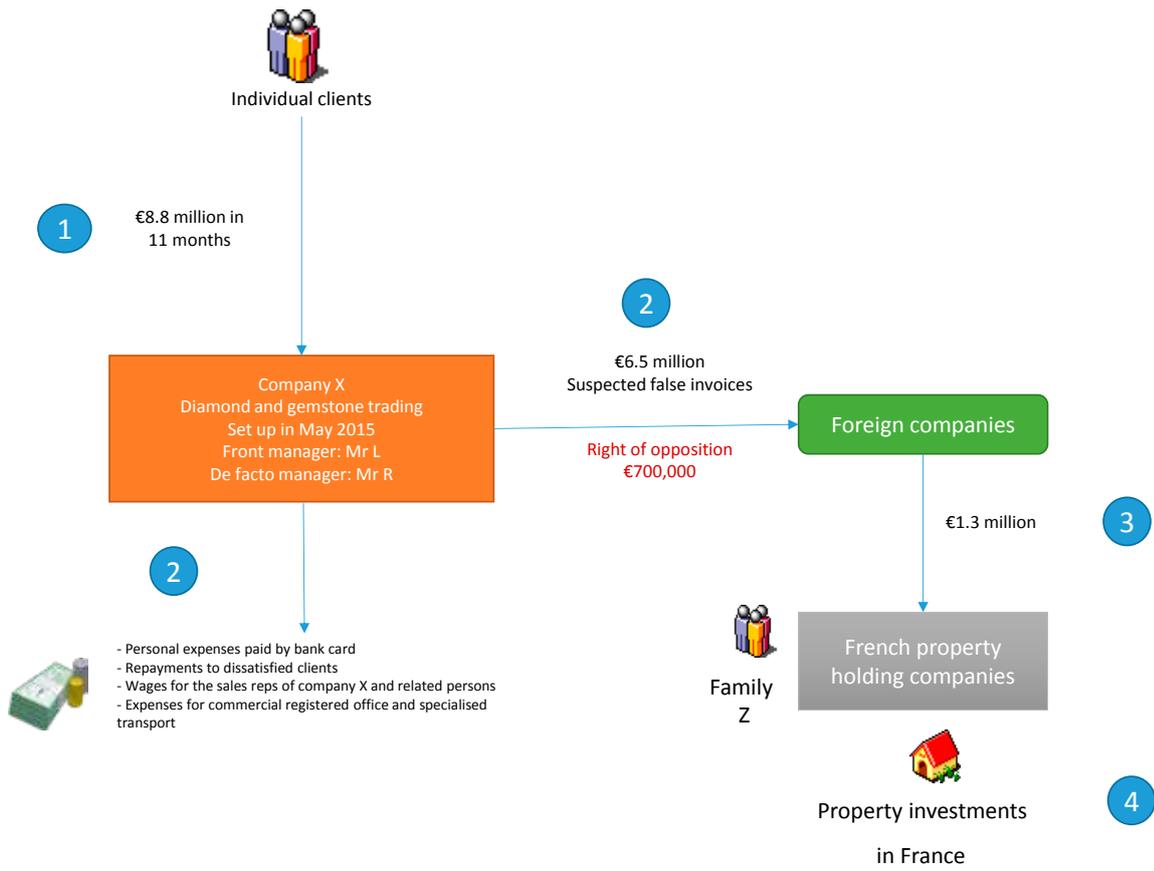
suspicion that false invoices had been presented to the various banks. In addition, the purchasing conditions offered to clients raised questions about the reality of the sold diamonds. The clients did not take possession of the sold goods and did not seem to have any proof of ownership. Company X’s systematic use of virtual office addresses heightened doubts as to the reality of its business activity. The investigations revealed a French network of related companies.

On the debit side, there were expenses for sales reps’ wages, repayments to dissatisfied clients and substantial flows abroad. An examination of information received from the Unit’s foreign counterparts led to confirmation of the laundering in France of part of the funds sent by company X abroad (€1.3 million was identified). These funds were reinvested through non-trading real estate investment company which acquired property on behalf of family Z whose members had no declared source of income.

On two occasions during its investigation, the Unit exercised its postponement power concerning a number of transfers abroad totalling €700,000. Fast identification of the possible victims and the companies suspected of being related to the fraudulent network enabled the judicial authorities to subsequently carry out a precautionary attachment of around €2 million on the French bank accounts of the suspected perpetrators.

Warning signs

- A recently-created company
- A high-risk investment activity, subject to warnings from the supervisory authority
- Registered office with a commercial registered office provider
- Change of management
- Substantial credits recorded over a short period of time
- Debit flows abroad



Case study 6: Economic predation

The facts

Tracfin received information concerning the financial activity of a French company that manufactured sensitive digital equipment, and which was subject to court-ordered reorganisation. Although its business activity had slumped, this company was transferring an increasing amount of money to one of its foreign subcontractors totalling more than €510,000.

As part of the bankruptcy proceedings, a takeover bid of €210,000 was made for this French SME by a consortium of its Asian subcontractors registered in Hong Kong. The French company's capital, its patents and contracts could therefore have become the property of foreign legal entities.

Tracfin's investigations

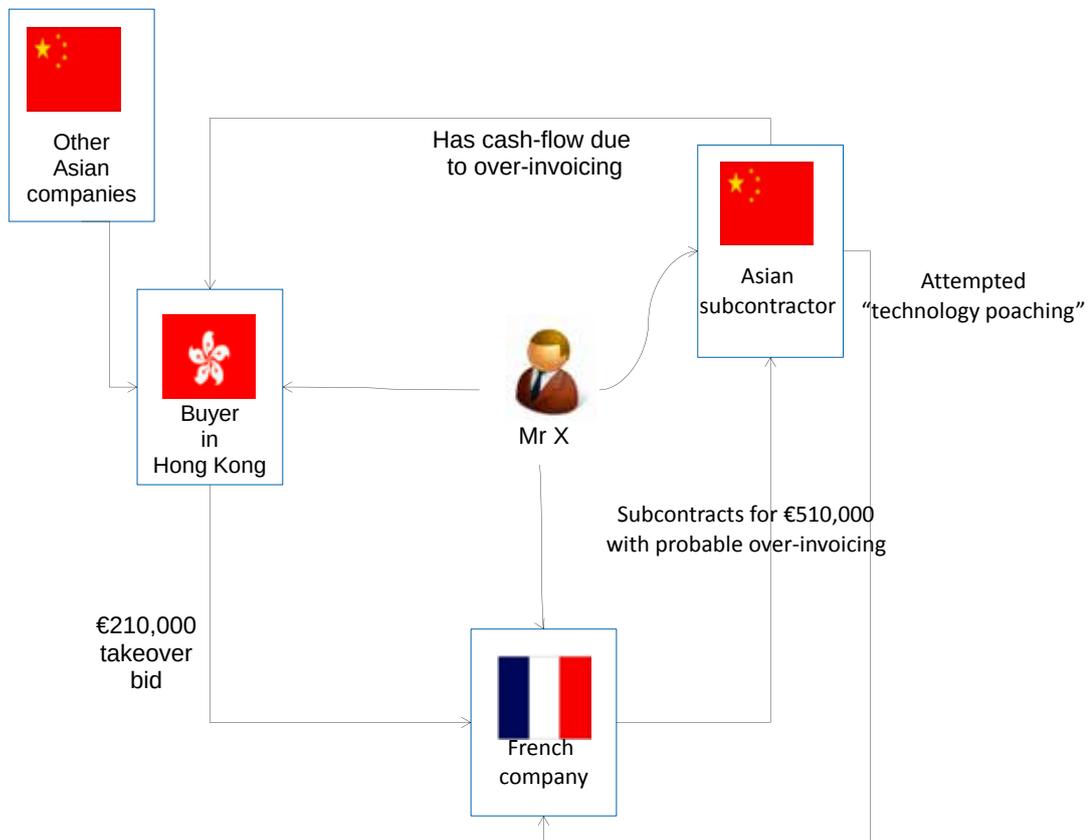
Tracfin familiarised itself with the financial transactions carried out by both the targeted company and the foreign company having submitted the takeover bid. On the basis of the evidence gathered by the Unit, the takeover offer may have been instigated, at least partially, by the French manager.

Mr X had the authority to carry out financial transactions coming from one of the members of the Asian consortium whilst also using his authority to transfer amounts from the struggling company that he managed. The cash flow of the beleaguered company fed into that of the foreign subcontractor that submitted the takeover bid. Moreover, the amount of subcontracting services invoiced by the Chinese company appeared high and, in all likelihood, the services had been over-invoiced.

These actions represented the voluntary weakening of a target company by trapping it in a web of complicity between stakeholders both inside and outside the company.

Warning signs

- Business activity in a sensitive or high-tech sector
- Financial difficulty
- Financial flows with foreign customers or suppliers
- Foreign employees, managers or shareholders



Case study 7: Carrousel fraud network in the IT equipment sales sector

The facts

Tracfin was alerted to non-standard financial transactions on the accounts of a company that had been recently set up.

Company A had no operating resources and no outstanding declaration obligations in respect of VAT. For its first four months of business, it booked receipts of more than €6 million from French wholesalers, essentially in respect of IT equipment. It recorded payments for the same amount to companies based in other EU countries.

Invoices issued by company A to its clients were drawn up “inclusive of taxes” whereas those established by its European suppliers were “exclusive of taxes” for the same amount.

From the arrangements made, it would appear that company A’s customers were the main beneficiaries of the VAT fraud noted as they were able to deduct the tax from the illicit invoices. Moreover, they could even apply to have the VAT credit refunded.

The Public Finances Directorate General (DGFiP) had put tabs on the majority of these companies owing to their involvement in a carousel network as “deducting” companies.

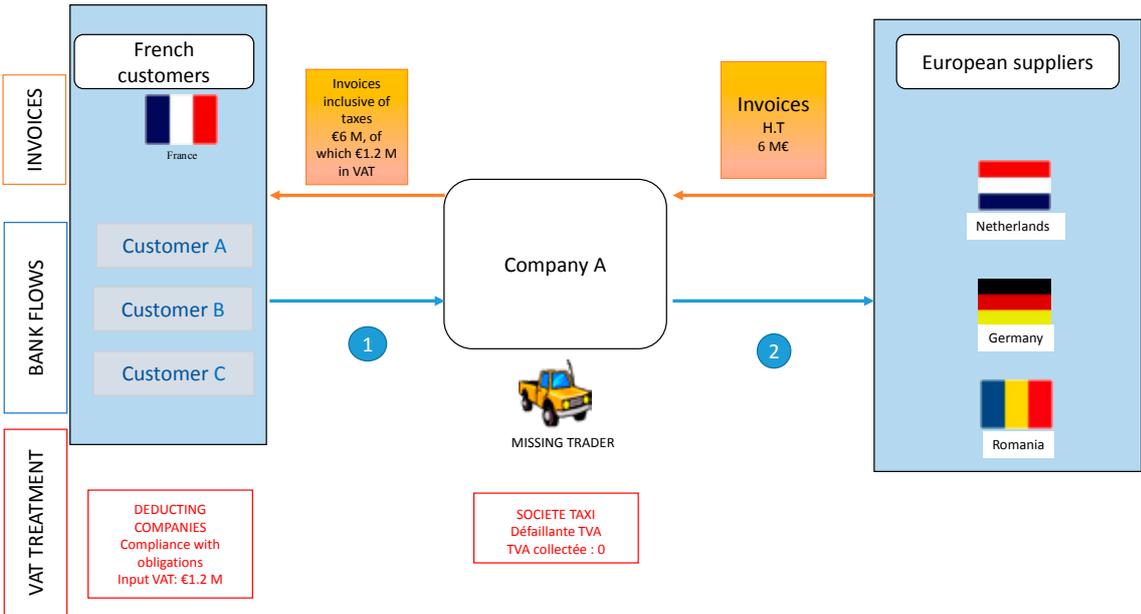
Tracfin’s investigations

After searches on tax and social security databases, it was established that the company in question had no operating resources. An analysis of the invoices presented to justify the bank flows and searches on customs databases led to the identification of the foreign suppliers having declared flows of goods and those that were simply billing companies.

Owing to the ongoing coordinated tax audits, the evidence was sent to the DGFiP to allow it to look into this company, which was suspected of being a new missing trader involved in a carousel network and was already subject to a tax audit. In addition, a study of company A’s bank flows enabled other deducting or shell companies, that had not yet been discovered by the tax authorities, to be identified.

Warning signs

- Recently set up company operating under the simplified VAT regime thus delaying reporting obligations
- Lack of operating resources
- Sudden major financial flows
- Payments almost exclusively made to foreign companies



Case study 8: Second-hand vehicle trade, false invoices and settlement scheme

The facts

Tracfin was alerted by very substantial cash deposits into the accounts of three companies trading second-hand vehicles with Africa. These companies were managed by the same individual. The cash deposits reported to the Unit varied from several tens of thousands of euros for one entity to several million for another.

Tracfin's investigations

An examination of the companies' contextual circumstances revealed that they had the same corporate purpose (import-export of automobiles), the same manager, common shareholders and the same logos and signs. The two most-recent entities appeared to be sales offices for the first one.

A consolidated analysis of the finances of the three companies brought to light credit flows of more than €15 million over a 33-month period, around €12 million of which were cash deposits. Inter-entity flows represented approximately €400,000.

Debit flows were essentially comprised of around €11 million in transfers mainly to foreign maritime shipping companies. These movements appeared to suggest that the companies had a real business activity.

Anomalies were discovered when the invoices were examined. In many cases, the cars were not listed in the vehicle

register, the last-known owners were not the individuals who put them up for export, or the vehicles had been flagged up as stolen. Many of these "customers" were in fact front men. It was also noted that many of the vehicles were old, showed signs of obsolescence and some were even unfit to be driven.

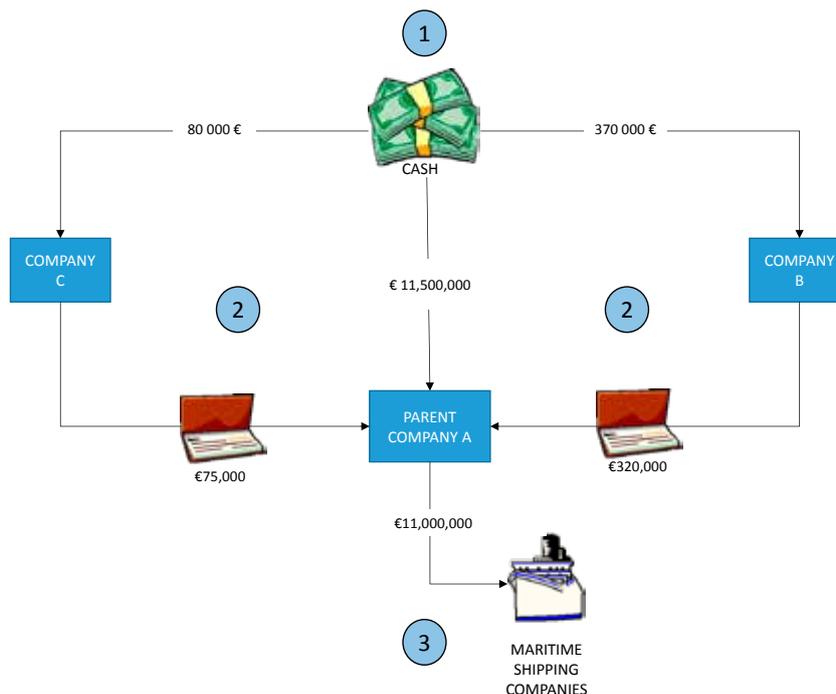
In light of the foregoing, these companies could have aided and abetted the export of second-hand or even stolen vehicles using false invoices. Similarly, there is a chance that no vehicles were delivered subsequent to the issuing of certain suspicious invoices.

In addition, questions were raised concerning the substantial cash deposits, the problems in identifying the persons paying these funds, the anomalies on certain invoices and the transfers to foreign companies. It is possible that these cash deposits in France were part of a settlement scheme with financial transactions carried out in Africa.

The file was sent to the competent public prosecutor on the grounds of possible handling of stolen vehicles, exporting end-of-life vehicles and laundering the proceeds of illicit activities.

Warning signs

- Substantial cash deposits
- Several legal entities with the same corporate purpose and having common managers or shareholders
- Invoices from the three companies with the same format and same logos
- Invoices incomplete or with anomalies



Case study 9: Financing terrorism using discreet means of payment and money collection websites to facilitate the return of jihadists

Tracfin had cause to investigate a financing network set up by Mr X to support French jihadists in the Syrian-Iraqi zone and their families. To this end, Mr X's accomplices took out a large number of consumer loans with banks using false documents. The funds were then transferred to the accounts of the jihadists' families, withdrawn in cash and sent to Turkey using a transfer operator. In Turkey, individuals working on behalf of Islamic State forwarded the funds to the real beneficiaries.

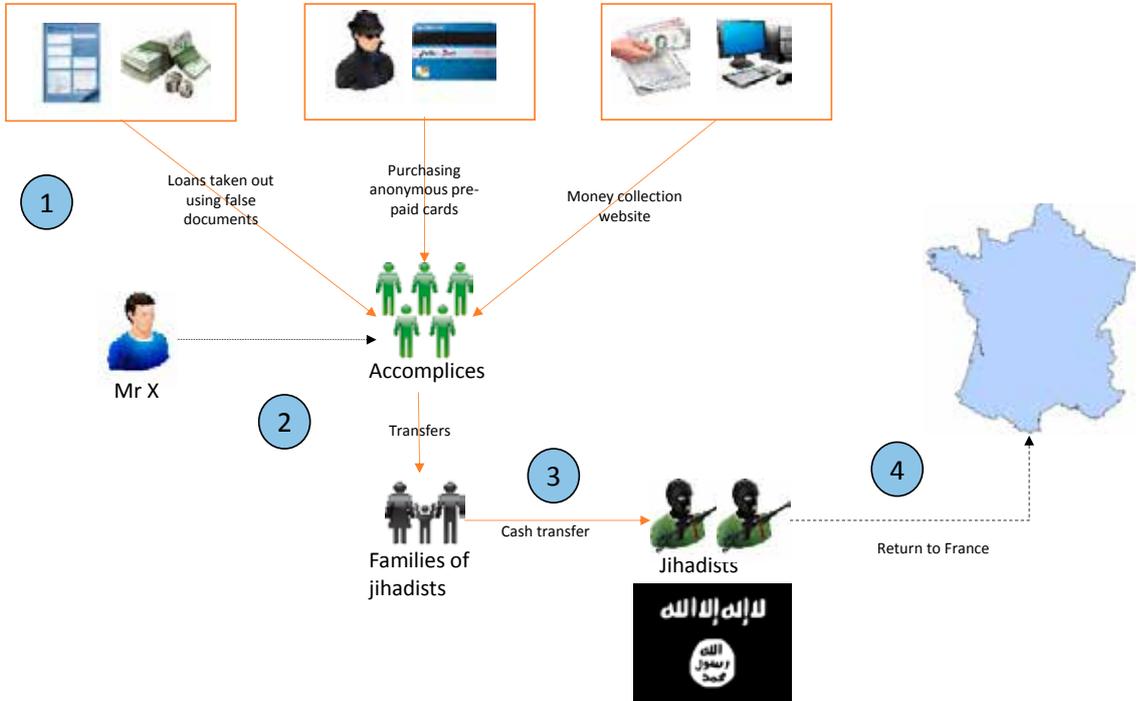
Lastly, prepaid cards were purchased online in a foreign country to pay the various participants. With the help of its foreign counterparts, Tracfin was able to provide statements of the transactions carried out on these cards thus enabling the extent of involvement of each accomplice to be determined.

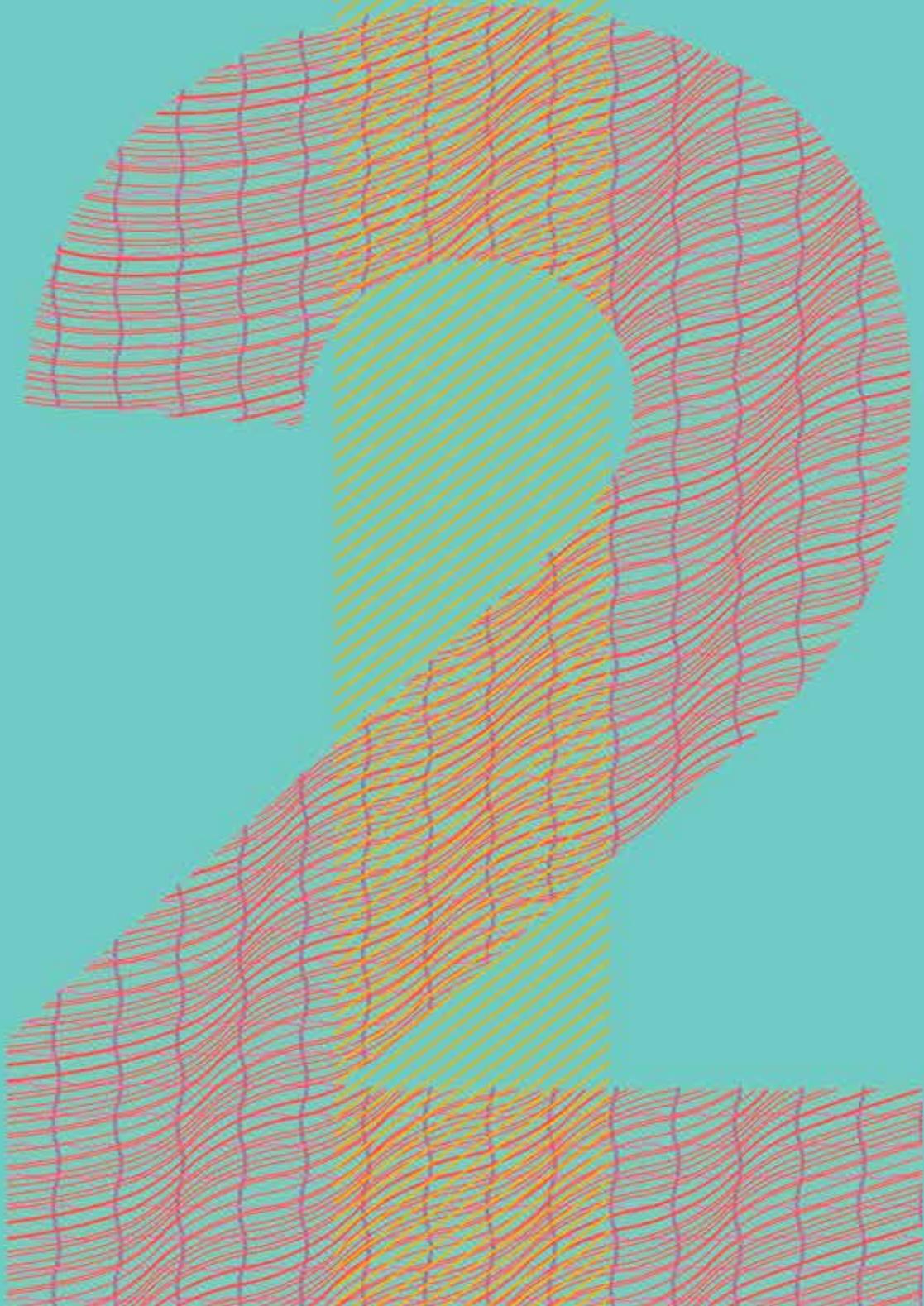
Concurrently, a link to a money collection website was posted on social media. Donations were requested to help repatriate French jihadists from the Levant. Using new legislation, Tracfin was able to obtain details about the founder and participants from the website's manager. All the individuals were based in other European countries.

This information, which was passed on to the intelligence services, allowed the process's anonymity to be bypassed.

Warning signs

- Taking out consumer loans using false documents
- Cash withdrawals
- Cash transfers from France to a destination close to the Syrian-Iraqi zone
- Purchasing pre-paid cards
- Setting up money collection websites with varied purposes and rallying individuals based in a number of European countries



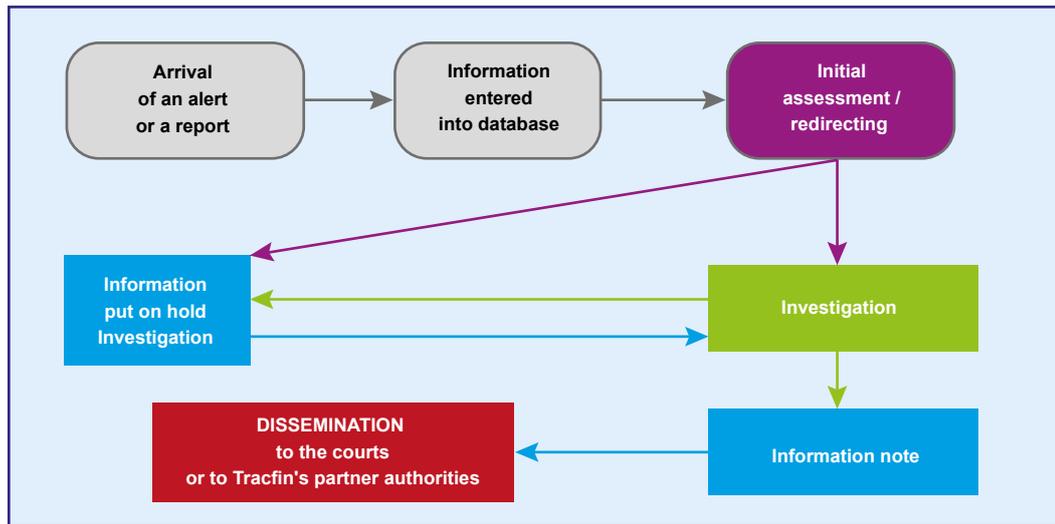


TRACFIN'S ACTIVITY IN 2016

HOW INFORMATION IS PROCESSED

From the STR to the completion of an investigation

How information is processed within Tracfin



50

INTEGRATING INFORMATION

The Unit is authorised to receive information about potentially illicit financial flows from reporting entities subject to AML/CFT requirements. Tracfin neither self refers nor processes anonymous accusations.

Once the quality of the information and the formal admissibility of the STRs and reports received have been verified, they are entered into a secure database. The quality is checked by a formal control of incoming information and correlation with individuals in the database (merging or creating links and aliases). Reporting entities must supply the precise identity of individuals (first and last name, date and place of birth) and legal entities (SIREN/SIRET no.). In 2016, this information was supplied for 80% of individuals reported, but for 15,340 individuals, the profile was incomplete. For legal entities, the profiles were complete in 81% of cases.

In 2016, out of the 62,259 STRs, 1,408 were received in paper format, up 25% compared to 2015. In 2016, 298 STRs were subject to amendment requests, as against 213 in 2015 (+40%). 146 reports were able to

be amended following positive replies to these requests. For the remainder, 152 letters were sent to the relevant entities to advise them that their reports were definitively inadmissible.

THE CONDITIONS GOVERNING THE ADMISSIBILITY OF SUSPICIOUS TRANSACTION REPORTS

Decree No. 2013-480 of 6 June 2013 sets the conditions for the admissibility of STRs submitted in accordance with Article L.561-15 of the Monetary and Financial Code. Aside from rewording the requirements for the form of STRs, it introduces a procedure for their admissibility if these requirements are not met or the correct submission methods are not used. This inadmissibility procedure does not concern the content of STRs, such as the quality of the information sent and the analysis of suspicions, but only their form.

Accordingly, any reporting entity that does not use the Ermes platform or the mandatory electronic form (for the individuals and legal entities referred to in point 2 and points 6 to 17 of Article L.561-2 of the Monetary and Financial Code), or that fails to provide one or several mandatory items of information, will be asked to rectify their STR within one month. Otherwise, the entity will be informed by Tracfin of the inadmissibility of its STR. This inadmissibility has significant consequences for the reporting entity, as it will be deprived of the benefit of the provisions of Article L.561-22 of the Monetary and Financial Code absolving it of civil, criminal and professional liability.

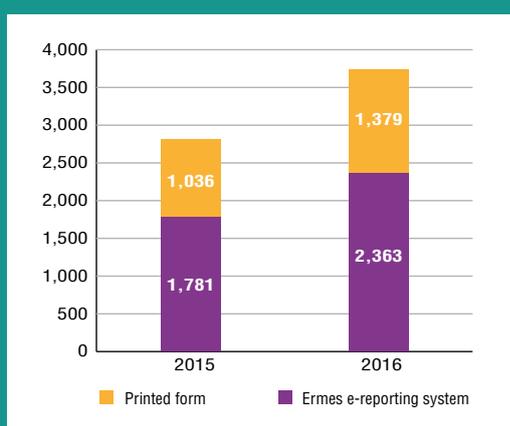
The main non-financial reporting entities using the printed STR Form

Reporting entities	2016
Court-appointed receiver and trustee	720
Notary	340
Casino	116
Chartered accountant	112
Auditor	56
Real estate professional	12
Bailiff	9
Auctioneer and auction house	6
Lawyer	4

THE ERMES E-REPORTING SYSTEM

Non-financial reporting entities, for which Ermes is not mandatory, used it for 56% of their submissions (compared with 59% in 2015). Nevertheless, due to the increasing number of declarants, in 2016 there was a significant increase in the number of STRs submitted by non-financial reporting entities (+38% over 2015). A great many first-time declarants in 2016 were determined to send their first STR in paper form, which explains the marked increase in paper-based STRs received by the Unit in 2016 (+47% over 2015).

Breakdown by means of transmission of STRs received from non-financial reporting entities (ERMES e-reporting system/printed form)



* 2015 figures have been updated. In Tracfin's 2015 annual report, a number of financial sector professions were inadvertently included in the list of non-financial reporting entities.

ANALYSING AND REDIRECTING INFORMATION

Once it has been integrated, the information is compared with other pre-existing data. Tracfin retains information for ten years, and this time-period can be extended for another ten years in the case of disclosures to the courts.

If the information received can be used, Tracfin employees contextualise the suspicion by comparing the information received with other relevant data that they find among the administrative files to which they have direct or indirect access, and with data from partner government departments (criminal investigation departments, customs, intelligence services, tax authorities, social services, etc.). Public-access databases are also consulted.

Redirecting is the first step in processing information. Information either leads to an investigation or is put on hold if the report appears to be potentially unusable, or the suspicion unclear, or if any doubts are resolved after enquiries. It may, however, be reactivated in light of new information subsequently received by the Unit.

All of the information received by Tracfin is analysed and passed on by the Unit. In 2016, 13,592 reports led to an in-depth analysis – 9,451 based on information received in 2015 and 4,141 based on information that had been received earlier and reactivated.

INFORMATION ENHANCEMENT

A suspicious transaction report or information leading to an investigation being opened is then subject to a number of analyses that are more or less in-depth depending on the complexity of the suspicion and the traceability of the financial flows. The initial analyses focus on contextual details concerning the individuals mentioned in STRs. Then, additional information is used to round out the context of the suspicion reported and/or enhance it so as to assess whether or not an information note should be sent to the public prosecutor's office, partner authorities or foreign financial intelligence units. These searches are carried out through investigative measures.

Investigative measures involve directly or indirectly consulting files (National bank accounts register – Ficoba –, tax authority or customs files, company data or gendarmerie or police files), mining open databases and questioning other members of the intelligence community, foreign intelligence units or other central government departments.

Foreign FIUs are also consulted when financial or legal connections (registration of companies, etc.) are discovered to obtain fresh evidence that could help identify the beneficial owners of a financial flow.

Finally, using its power to request, Tracfin staff gathers and analyses any relevant documentation received from reporting entities (bank statements, notarised deeds, articles of association, accounting documents, invoices, documents required to open a bank accounts, etc.).

In 2016, the Unit carried out 57,706 investigative actions, including 30,785 uses of the power to request, 1,454 requests sent to foreign FIUs and 25,467 consultations of files, open databases and questioning of institutional departments.

The use of the postponement power

Tracfin may also exercise the power to postpone a transaction that has been reported, and to suspend its completion for 10 business days (compared with five days up to the end of 2016), after which the judicial authorities can take over and, where necessary, order a seizure.

REQUESTS FOR INFORMATION: NEW LEGISLATION IN 2015 AND 2016

To carry out its assignments, Tracfin may obtain information from various sources. This power to request is governed by legislation which stipulates to whom these requests may be made.

Since it was set up in 1990, Tracfin has had a power to request vis-à-vis all reporting entities (Article L.561-25 of the French Monetary and Financial Code).

The Unit may also obtain information from central government departments, local authorities, government-funded institutions, the organisations referred to in Article L.134-1 of the French Financial Courts Code, and any other entity with a public service mandate (Article L.561-27 of the Monetary and Financial Code).

The scope of these information providers has gradually been extended to include private persons other than the reporting entities. During 2015 and 2016, various legislation enshrined such a power vis-à-vis:

- Road, rail, sea or air transport firms, travel or holiday agencies, land, sea or air transport vehicle rental companies (Act no. 2015-912 du 24 July 2015 on intelligence followed by Order no. 2016-1635 of 2 December 2016 - II bis of Article L.561-25)
- Payment and withdrawal card systems managers (Act no. 2016-731 of 3 June 2016 - II ter of Article L.561-25)
- Money collection websites (Order no. 2016-1635 of 2 December 2016 - II quater of Article L.561-25)
- Lawyers' Financial Settlement Funds - CARPA (Order no. 2016-1635 of 2 December 2016 - Article L.561-25-1)

In 2016, the Unit exercised its postponement power 19 times, an increase over 2015, when it was exercised 12 times.

The Unit uses this power very cautiously. It is used in strict consultation with the judicial authorities and only when there is an immediate risk that the funds will disappear (cash withdrawals, transfer to non-cooperative jurisdictions, etc.).

For instance, in January 2016, an individual charged with the offence of conspiracy to defraud, with the loss assessed at over €6 million, had his accounts attached by the court. The next day, to avoid the remainder of his assets also being attached, he attempted to cash in his life insurance policies for a total amount of €1 million and have the funds immediately transferred to a foreign account. The Unit was able to postpone this transaction and the funds were attached as part of the legal proceedings to be used to partially compensate the victims.

DISCLOSING INFORMATION

If, at the end of its investigations, Tracfin discovers evidence of money laundering, an offence punishable with a custodial sentence of more than one year, or terrorist financing, Tracfin submits an information note to the public prosecutor with territorial jurisdiction²⁸. Concurrently, the Unit may decide to disclose its information to other recipients stipulated in the French Monetary and Financial Code, including other intelligence services²⁹, when the information relates to acts with one of the purposes listed in Article L.811-3 of the French Internal Security Code.

DISCLOSURES TO COURTS

In 2016, Tracfin submitted 662 notes to the courts, compared with 595 in 2015:

- 448 notes concerning suspicions of one or more criminal offences
- 214 disclosures to judges and the criminal investigation departments (including 61 responses to judicial requisitions)

²⁸ See Article L.561-30-1 of the French Monetary and Financial Code.

²⁹ ee Article L.561-31(2) of the French Monetary and Financial Code.

Disclosing notes concerning a suspicion of a criminal offence to the courts

In 2016, 448 cases concerning a suspicion of a criminal offence were referred by Tracfin to the courts. This was the same figure as in 2015.

This figure does not provide a true picture of the Unit's work as, although the number of referred cases remained the same, the number of highly-complicated cases, involving substantial amounts of money and requiring numerous investigative measures, rose constantly.

The financial amounts at stake in these disclosures may be estimated at €1,517 million in 2016, compared with €896 million in 2015.

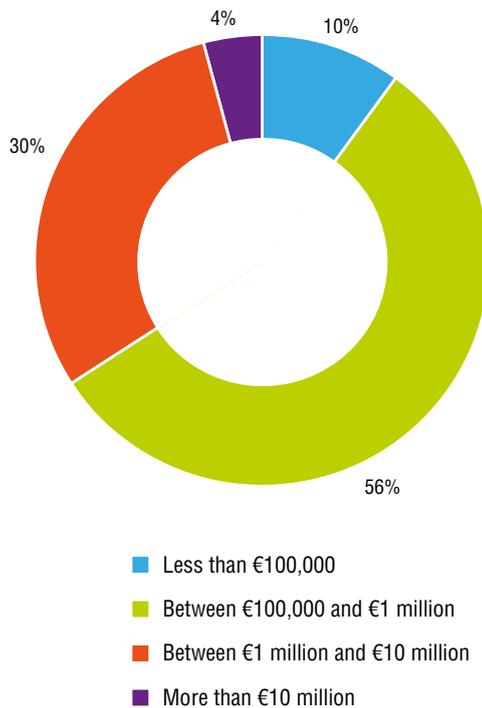
Sums involved in cases referred to the courts by Tracfin since 2010 (in € m)



In 2016, out of the 448 notes referred to the courts, 10% concerned amounts of less than €100,000, 56% amounts between €100,000 and €1m, 30% amounts between €1m and €10m and 4% amounts in excess of €10m.

These sums correspond to the amount of money uncovered by the Unit's investigators during the investigation phase. Following a court disclosure, the proceedings often reveal much higher amounts of money. Nevertheless, they serve as a benchmark to value Tracfin's activity.

Estimated sums involved in cases in 2016



Disclosures to the courts relating to suspicions of criminal offences also contain (except for urgent cases) the opinion of the Unit's legal adviser, who is a seconded judicial magistrate. The opinion states whether the evidence referred by Tracfin to the courts provides sufficient proof of the offences (Article R.561-34 of the Monetary and Financial Code).

Court disclosures by category of primary underlying offence

In 2016, as in 2015, the five categories of predicate offence that were the most frequently reported were tax evasion, breach of trust, scam (ordinary or aggravated), undeclared work and misuse of company assets.

There is a certain stability in the type of offences that are most-often reported by the Unit to the courts.

Origin of reports and defining of the offences giving rise to disclosures to the courts

A court referral may result from one or more reports received by the Unit. Many cases may be put together by combining reports from different reporting entities operating in separate sectors.

The notes referred to the courts contain a potential categorisation of the offences at the origin of the flows noted. This categorisation is purely a suggestion and in no way commits the judicial authorities, which are solely authorised to decide what action to take in response to the Unit's reports. It merely reflects Tracfin's assessment based on the information at its disposal at the time of its investigations.

A court referral may also help to later reveal other facts that could not have been detected by the reporting entity or by Tracfin, either at the STR stage or during the subsequent administrative investigation by the Unit.

Primary offence observed	Number
Tax evasion	99
Money laundering	97
Breach of trust	93
Undeclared work	85
Misuse of company assets, misuse of credit, abuse of power	68
Scam	67
Abuse of weakness	49
Other crime or offence	38
Handling stolen goods	33
Aggravated fraud	20
Fraudulent organisation of insolvency	12
Forgery / Falsifying certificates / Use of forgeries	12
Corruption	10
Illegal practice of an industrial and commercial business	8
Extortion	7
Violation of legislation on poisonous substances, narcotics and doping agents	7
Bankruptcy	6
Theft	5
Embezzlement of public assets	5
Customs violation	3
Conspiracy to commit a crime	2
Influence peddling	1
Unlawful taking of interest	1
Procuring in prostitution	1
Falsifying, using stolen or falsified means of payment	1
Counterfeiting	1

Recipient Courts of Appeal of Tracfin's information notes

	2011	2012	2013	2014	2015	2016
Paris	204	214	182	197	207	195
Aix-en-Provence	54	58	46	36	31	41
Versailles	34	31	54	39	45	36
Lyon	19	23	21	19	13	19
Douai	25	19	22	28	9	18
Rennes	20	15	7	9	14	17
Montpellier	13	16	12	5	8	11
Orléans	7	3	5	3	2	7
Colmar	4	11	6	7	11	7
Metz	4	3	3	2	5	7
Rouen	3	6	6	6	8	7
Chambéry	4	7	5	7	6	6
Dijon	4	2	3	1	2	6
Riom		3	3	6	6	6
Bordeaux	14	16	10	15	10	6
Grenoble	11	4	7	4	5	6
Nîmes	3	9	2	6	4	5
Pau	6	4	4	7	4	5
Amiens	4	11	6	10	9	4
Nancy	1	5	5	7	2	4
Nouméa		1			2	4
Basse-Terre	5	2	2	2	1	3
Poitiers	3	2	3	4	3	3
Bastia	13	14	14	7	11	3
Bourges	2	2	1	2	1	3
Caen	3	2	2	2	4	3
Agen	1	3	3	2	2	3
Toulouse	9	10	9	9	7	2
Papeete	4	3		1	1	2
Angers	5	4	5	9	3	2
Besancon	4	2	1	3	1	2
Limoges				2	1	2
Cayenne	2	1	2	1	1	1
Fort-de-France	3	6	1	2	3	1
Grand total	495	522	458	464	448	448

Three courts of appeal stood out in terms of the number of referrals. The Paris Court of Appeal remained largely in the lead with 195 referrals (versus 207 in 2015). Paris's *Tribunal de Grande Instance* (Court of First Instance, TGI) was the primary recipient, with 117 referrals. The Parquet National Financier (French Financial Prosecutor's Office)³⁰ received 15 referrals and the TGIs of Bobigny, Créteil and Evry, 39, 13 and 6 referrals respectively.

For 2016, the Aix-en-Provence Court of Appeal received 41 referrals (against 31 the previous year), including 18 for the Marseille TGI alone, and the Versailles Court of Appeal received 36 referrals (against 45 in 2015).

Next were the Courts of Appeal of Lyon with 19 cases referred (13 in 2015), Douai (18 referrals in 2016, 9 in 2015) and Rennes (17 referrals in 2016, 14 in 2015).

Breakdown of court referrals in the Greater Paris region's départements:

Bobigny 39 (35 in 2015)
Créteil 13 (18 in 2015)
Evry 6 (15 in 2015)
Fontainebleau 2 (1 in 2015)
Meaux 2 (1 in 2015)
Melun 1 (0 in 2015)
Nanterre 14 (21 in 2015)
Paris 117 (128 in 2015)
Pontoise 13 (13 in 2015)
Versailles 6 (8 in 2015)

Breakdown of court referrals in France's overseas départements:

Basse-Terre and Pointe à Pitre 3 (1 in 2015)
Cayenne 1 (1 in 2015)
Fort de France 1 (3 in 2015)
Nouméa 4 (2 in 2015)
Papeete 2 (1 in 2015)
Saint Denis de la Réunion 0 (2 in 2015)

³⁰ This figure does not include cases initially referred to the public prosecutors' offices with territorial jurisdiction, and then mentioned by the French Financial Prosecutor's Office due to its concurrent jurisdiction.

Disclosures to the courts and criminal investigation departments

Besides disclosures concerning a suspicion of a criminal offence, Tracfin can provide the courts with any relevant information for the latter's assignments.

In this respect, the Unit may send evidence which does not establish a suspicion of an offence itself but that may enrich or shed light on an ongoing judicial investigation, in particular concerning the financial circumstances of the persons being investigated.

It may also provide the competent courts with information relating to the non-criminal assignments of the judicial authorities, especially as regards commercial matters or to draw their attention to vulnerable persons who may require protective measures.

As with any disclosure, the source of the information will be strictly protected. The Unit's legal adviser, who is not obliged to issue an opinion in such cases, will also be consulted before information is sent to the judicial authorities.

The information note sent to the competent judicial authority on this basis will constitute an exhibit that may be included in the case file.

The number of information notes sent to the courts and the criminal investigation departments to enrich ongoing investigations jumped from 97 in 2015 to 153 in 2016 (not including responses to judicial requisitions). 125 of these notes were to public prosecutors and 28 were sent to the criminal investigation departments (compared to 46 and 51 respectively in 2015).

36 of these notes were transmitted to the Paris public prosecutor's office's counter-terrorist unit or to criminal investigation departments that specialise in counter-terrorism. Close coordination between Tracfin's work and that of the judicial authorities in this respect was ensured by very regular contacts between the Unit's legal adviser and the judge responsible for terrorist financing matters in the Paris public prosecutor's office's counter-terrorist unit.

Judicial requisitions

Both magistrates and criminal investigation departments may send two types of judicial requisitions to

Article L.561-30-II of the Monetary and Financial Code

of these requisitions may be to obtain:

- Any information held by Tracfin that may shed light on an ongoing investigation
- The disclosing of a suspicious transaction report, solely in cases where a criminal investigation reveals that the reporting entity might be involved in the money-laundering or terrorist-financing scheme exposed (Article L.561-19(2) of the Monetary and Financial Code). In 2016, Tracfin received one judicial requisition aimed at incriminating a reporting entity (financial sector professional).

The judicial authorities or Criminal Intelligence Directorate (CID) officers cannot use a warrant or requisition to obtain the disclosure of a suspicious transaction report directly from a reporting entity. The principle of confidentiality in the reporting of suspicious transactions is in fact enforceable against the judicial authorities and CID officers, who can only request the disclosure of a suspicious transaction report in the above mentioned case (Article L.561-19(2) of the Monetary and Financial Code).

Certain reporting entities may, however, inform them that they have disclosed information to Tracfin. Pursuant to Article L.561-19(2) of the Monetary and Financial Code, judicial authorities or CID officers may ask Tracfin for confirmation of the existence of this report.

These rules, which are derogations from ordinary law, are justified by the priority afforded to protecting the reporting entity and the source of the information received by the Unit.

Daily, active interactions with the judicial system

Tracfin's Legal and Judicial Division provides a permanent interface with the courts and CIDs to better coordinate the Unit's work with that of the judicial authorities.

Its staff provide support services and explain the notes sent by Tracfin to the legal authorities. They also contact magistrates and judicial investigators to find out whether certain information received by the Unit may be useful for ongoing proceedings.

Moreover, they answer requests from the judicial authorities regarding any information that Tracfin may possess relating to their proceedings.

In 2016, the Legal and Judicial Division's liaison officers were questioned by the courts and CIDs about around 4,000 individuals and legal entities.

In particular, coordination with the judicial authorities has bolstered the effectiveness of processing legal cases containing foreign elements, such as scams involving social engineering (so-called executive impersonation fraud), investment fraud (binary options, FOREX, etc.) and, more broadly, money laundering abroad.

In 2016, Tracfin sent a number of requests to freeze funds to its foreign counterparts with an eye to keeping these amounts at the disposal of the French justice system. The effectiveness of such requests is dictated by the ability of the reporting entities and/or police and gendarmerie departments to immediately provide Tracfin with the relevant information.

DISCLOSURES TO PARTNER AUTHORITIES

To intelligence services

In 2016, there was a fresh rise in exchanges of financial information with the intelligence community. The number of information notes sent once again mushroomed from 349 in 2015 to 488 in 2016.

Over 73% of these notes were on individuals or legal entities suspected of terrorist activities.

Tracfin also sent information on the French financial and property transactions of politically exposed persons (PEPs) and foreign businessmen that could represent money laundering owing to the investors' dubious reputations. Information was also sent on the arms trade/trafficking, proliferation and economic predation.

To the tax authorities

In 2016, Tracfin sent 350 information notes to the tax authorities (a drop of 14%). Concurrently, the average stakes per case rose from €1.33 million in 2015 to €1.41 million in 2016. In 2016, many of the tax-related reports received by Tracfin had international repercussions requiring extended processing timeframes. This essentially concerned cases referred by foreign counterparts that cooperate effectively on tax matters (Jersey, Guernsey, Singapore).

DGFIP's use of notes submitted by Tracfin

At 31 December 2016, 1,494 tax audit proposals had been instituted on the basis of information notes sent by Tracfin since 2009, the date when the Unit's remit was extended to include tax evasion. The total revenue includes more than €620.4 million in reassessed taxes and more than €249.6 million in penalties³¹.

³¹ It is worth noting that 2010 and 2011 were exceptional years due to a limited number of carbon tax-related cases (€455 million in taxes and €137 million in carbon tax).

THE OFFICE SPECIALISING IN ECONOMIC AND FINANCIAL PREDATION

In July 2015, an office specialising in economic and financial predation was set up within Tracfin. Its investigators are tasked with analysing and using information relating to facts, actions or attempts to interfere with capital, know-how, human resources and the research efforts of French firms. Using financial analysis and background checks, investigations concern customer poaching, fraudulent operations or offences committed when taking over struggling companies, infringements of a business's intellectual property, and anything that harms France's economic interests.

Special relationships have been forged with the specialist departments to identify examples of predation, as part of preventive actions. The Unit can analyse investments in the capital of companies based in France which are reported to it as part of AML/CFT arrangements.

Lastly, since 1 January 2017, Tracfin has been able to exchange information with the Strategic Information and Economic Security Department, SISSE (Article L.561-31 8° of the Monetary and Financial Code), and it takes part in inter-ministerial meetings arranged by this department on matters of economic security.

In 2016, the Unit sent nine judicial reports and 53 spontaneous disclosures to partner departments.

For the last four years, the additional amounts originating from the DGFIP's audits conducted on the basis of Tracfin information notes are as follows:

	2013	2014	2015	2016
Number of completed audits	138	156	231	231
Amount of tax reassessed	€28.1m	€26.4m	€45.7m	€39.6m
Total amount of penalties	€25.1m	€15.9m	€26.7m	€23.4m

A DGFIP LIAISON OFFICER JOINS TRACFIN

On 1 July 2016, Tracfin and the DGFIP executed an agreement for the secondment of a DGFIP senior executive to Tracfin as from 1 September 2016.

Having a tax audit background, he is tasked with further bolstering relations between the two structures by heightening mutual knowledge of their positioning and skillsets.

The idea is also to round out the system for using intelligence between the structures and to foster mutual data processing enhancement to fight money laundering and tax evasion.

The main typologies encountered

The widespread presence of tax evasion in reports received by Tracfin reflects the two sections of Article L.561-15 of the French Monetary and Financial Code. The first is due to the fact that tax evasion is very often associated with other forms of reported fraud: misuse of company assets, scams, undeclared work, etc.

The second is connected with point II of this Article which covers "tax evasion when there is at least one criterion that has been defined by decree".

A small number of STRs concern complex tax avoidance schemes that have been clearly identified by the reporting entities.

The most frequently mentioned subjects are:

- Financial structures involving funds or entities located in non-cooperative countries or territories
- Transfer, repatriation or possession by French residents of financial assets derived from border countries or tax havens

- Suspicions connected to flows originating from trusts, most often to individuals of foreign origin residing in France
- Suspicions of carousel fraud or participation in networks designed to illicitly obtain VAT refunds
- Attempts to organise insolvency in connection with a tax procedure
- Suspicions of an undeclared business activity or the partial concealment of an activity or turnover, sometimes using third-party accounts. For instance, a recurrent business activity for buying/selling vehicles acquired in countries bordering France.
- Failure to file corporation tax and/or VAT returns. This is often related to a suspicion of employing labour that has not been declared to URSSAF (Entity responsible for collecting some social contributions).
- Suspicions of exercise of an undeclared professional activity in addition to a salaried activity, or combined with the reception of minimum social benefits. These cases involve heterogeneous sums, and may be the subject of parallel disclosures to the relevant social protection body.
- Financial transactions carried out with an eye to unduly benefitting from tax exemption arrangements such as non-eligible capital gains deposited in a share savings plan (PEA) or invalid application of capital gains tax exemption arrangements when retiring.
- Improper or fraudulent application of the tax relief regime in France's overseas *départements*, regions and communities (DOM-COM) under the *Girardin Act*
- Financial transfers between individuals or legal entities in the form of loans which are often unjustified and granted under highly favourable terms (interest-free, repayment date non-commensurate with the lender's age, amount loaned disproportionate as regards the borrower's financial resources, etc.). The purpose of these transactions is often to conceal donations.
- Asset-based issues that are sometimes connected to handling large amounts of cash (reducing wealth tax liability, hidden donation, inheritance, etc.)

To social welfare agencies

Tracfin receives numerous STRs that directly address social security fraud issues or that have repercussions in this area to a greater or lesser degree. This information can be split into two major categories:

- **Social security contribution fraud:** Principally use of undeclared labour, with salaries paid outside any legal frame. As a result, social security contributions are not paid on all or part of these wages (sometimes the compensation paid is partially declared). The same may be true for self-employed workers, adhering to the RSI (RSI stands for the social security entity for independent workers) social security scheme or the MSA social agricultural mutual fund, who only officially declare part of their business activity.
- **Social security benefit fraud:** This involves people unduly or improperly receiving social security benefits (unemployment benefit, RSA (social inclusion benefit), AAH (disabled adults allowance), APL (personalised housing benefit), etc.) to which they are not, or are no longer, entitled to (income received from carrying on an undeclared business or failure to comply with a special condition governing entitlement to a social security benefit, for example, the condition of French residency). Sometimes individuals present false ID papers to illegally obtain social security benefits.

Tracfin also receives STRs concerning fraud involving health professionals whose financial dealings or conditions for practicing their profession may have alerted the reporting entities.

Financial implications vary from one case to the next, and cases that appear the most complicated, with major financial flows, or that reveal organised crime rings, are handled as a priority through disclosures to the judicial authorities.

In 2016, 165 information notes were sent to social welfare agencies. This represented a fresh rise (+51%) compared to 2015 when the trend started. Over a two-year period, the number of notes sent by Tracfin has doubled.

The ACOSS (Central Agency for Social Security Bodies) is still the primary recipient with 82% of information notes sent (versus 78% in 2015) in the social security field.

€139.5 million is at stake (against €70 million in 2015), representing an average of €0.84 million per case.

The main types of social security fraud

In 2016, the main types of social security fraud resulting in an information note were as follows:

- **Social security contribution fraud:**
 - Suspicion of undeclared work and failure to declare the use of labour
 - Understatement of the base for calculation of social security contributions by concealing a major or minor proportion of professional activity
- **Social security benefit fraud:**
 - Carrying out regular undeclared work while at the same time collecting unemployment benefit, the RSA (social inclusion benefit) or other mean-stested benefits
 - False declaration of residence
 - Suspicion of the diversion of pension benefits via “collection accounts”
 - For health professionals, defrauding supplementary mutual funds

Sector-based breakdown

As for previous years, the construction sector is by far the largest employer of undeclared labour. After having remained stable for two years, the security sector is on the rise. The emergence of the private car hire (VTC) business is having a *de facto* impact on the transport sector and the textile sector made an appearance this year.

FRAUD USING COLLECTION ACCOUNTS

This technique involves large-scale use of a small number of collection accounts to deposit wire and/or cash transfers made from a large number of French bank accounts by French residents and foreigners. The vast majority of these people (residents or not) have worked in France and therefore receive welfare benefits (in particular, pensions from the National Pension Fund, CNAV) although these persons are dead.

In early 2013, a special investigation into Algerian collection accounts was instituted under the aegis of the National Anti-Fraud Office (DNLF) by Tracfin and the CNAV.

Overall, since July 2013, 31 spontaneous reports have been sent to the CNAV (17 in 2013, 10 in 2014, 3 in 2015 and 1 in 2016). Each report enabled one or more collectors to be identified.

This information covered 1,443 identified pensioners with over €7 million in pensions having been paid out.

While this report was being drafted, 130 cases were in the process of being audited.

The amounts reassessed after audits carried out by the National Family Allowance Fund (CNAF) on the basis of information notes came to:

Years	Cases closed	Total amounts notified
2012	4	€13,575
2013	4	€63,446
2014	12	€203,467
2015	1	€27,953
2016	1	€35,278
Total	22	€343,719

While this report was being drafted, 11 cases were in the process of being audited.

The amounts reassessed after audits carried out by Pôle Emploi on the basis of information notes came to:

Years	Cases closed	Total amounts notified
2012	7	€117,588
2013	2	€0
2014	2	€29,062
2015	3	€82,033
2016	3	€63,026
Total	17	€291,709

While this report was being drafted, one case was in the process of being audited.

Geographic distribution

The Greater Paris region remains the most-affected region with 77% of cases (versus 70% in 2015). Central Paris alone accounts for 42.5% of the region's cases. Other noteworthy *départements* are the Val d'Oise and the Yvelines.

Social security fraud: detailed report

A detailed report of Tracfin information notes sent to social welfare agencies is drawn up twice a year under the aegis of the DNLF.

The amounts reassessed after audits carried out by the ACOSS (the primary target of social security fraud) on the basis of information notes came to:

Years	Cases closed	Total amounts notified (€m)
2012	27	6.3
2013	37	3.1
2014	34	13.9
2015	51	37.4
2016	10	10.7
Total	159	71.4

THE URSSAF LIAISON OFFICER

Since 1 January 2016, an URSSAF collection inspector has been working as a social security liaison officer with Tracfin. He is tasked with ensuring permanent contact between the ACOSS and Tracfin to foster exchanges both centrally and nationally, but also at URSSAF regional directorate level. He thus provides the Unit's investigators with technical support and honed expertise. This involves managing investigative measures by providing responses to Tracfin's exercising of the power to request. These requests may cover, for instance, a company's situation as regards its declarations to the URSSAF office to which it reports or the existence of an audit procedure against it.

The social security liaison officer validates the information notes sent to the ACOSS. As part of this process, discussions are held to improve, for heightened effectiveness, the relevance of these notes and any supplementary information which may be of use to the URSSAF inspectors. He checks the consistency of the information sent to make it easier to use.

An experiment is underway to help fight undeclared work. To be more responsive vis-à-vis the shell companies that employ undeclared workers, Tracfin and the ACOSS are working in close collaboration to conduct investigations directly on building sites. A circuit has been set up to illustrate the interest in taking fast and effective action to fight undeclared work.

The social security liaison officer also provides training to the Unit's officers on social security fraud. He uses his expertise to draw up study projects of mutual interest that require knowledge of both social security legislation and management, audit and collection practices.

To the Directorate General of Customs and Excise (DGDDI)

Customs fraud, such as the warehousing and distribution of counterfeit products and the undeclared movement of prohibited goods (weapons, smuggled tobacco, alcohol, precious metals, protected species), raises worrying financial and security issues.

In 2016, Tracfin sent 87 information notes to the Directorate General of Customs and Excise (DGDDI) compared to 43 in 2015. The presence of a DGDDI liaison officer is making itself felt in a sustained manner and contributed to this increase.

Information provided to the investigators of the National Directorate for Customs Investigations and Intelligence (DNRED) have enabled their findings to be bolstered, in particular as regards alcohol smuggling which has high stakes in terms of excise duty and VAT. Other information used in administrative investigations ultimately led to citations (Article 40 of the Code of Criminal Procedure) for offences other than customs violations: undeclared work, tax evasion, VAT fraud, suspected misuse of company assets.

2016 witnessed heightened contact with the customs authorities, in particular in respect of combating terrorist financing and through discussions of common topics (electronic money, the issue of free trade ports, the movement of precious metals, etc.).

In the coming months, work will be focused on developing strategies to fight major frauds, starting by pooling information on counterfeit trafficking connected with non-banking financing circuits.

Shared use of information from the network of bureaux de change, on one hand, and the antiques and works-of-art trade, on the other, for which French Customs has been the supervisory authority since the 4th AML/CFT Directive was written into French law (new Article L.561-36 of the French Monetary and Financial Code), is also being planned.

To the supervisory authorities

In 2016, Tracfin sent 14 information notes to the supervisory authorities and professional associations. This information is provided pursuant to Article L.561-28 of the French Monetary and Financial Code which stipulates:

- A mutual exchange of information that may be relevant for carrying out their respective assignments. As part of this process, Tracfin may not only provide details of the level and standard of the reporting but also of the responsiveness of the entity to the information requests sent to it.
- Information to Tracfin about any facts uncovered during their oversight mission which may be related to money laundering or terrorist financing. The reports are based on suspicions.

EXCHANGES BETWEEN TRACFIN AND THE ACPR

In 2016, the Prudential Supervision and Resolution Authority (ACPR) sent information on 384 cases to Tracfin which were processed by analysts. This represents a sharp rise over 2015 (+53.6%).

As it does every year, Tracfin presented the ACPR with a statistical and qualitative survey of all financial organisations in the bank and insurance sectors. In 2016, the review was enhanced, inter alia, by an examination of the systematic disclosure of information on fund transfer transactions, and by a chapter devoted to the combating of terrorist financing.

COMBATING TERRORIST FINANCING: STRONG COORDINATION WITHIN THE INTELLIGENCE COMMUNITY

As a member of the French intelligence community since 2008, Tracfin implements exchanges and forges ties with all the community's stakeholders. In 2016, Tracfin sent 396 "Combating terrorist financing" notes, 352 of which were sent to the specialist departments, up 110% compared to the 168 disclosures in 2015, and up 517% compared to 2014 (68 notes).

These were broken down as follows:

- 16 to the DGSI (Directorate General for Domestic Security)
- 260 to the inter-agency unit at the DGSI
- 37 to the DGSE (Directorate General for External Security)
- 21 to the DRM (Military Intelligence Directorate)
- 4 to the DRSD (Defence Intelligence and Security Directorate)
- 14 to the CNR (National Intelligence Coordinator)

Tracfin's ever-increasing role in the community, and even more so in shared inter-departmental structures, illustrates the importance of financial intelligence in the fight against terrorism. The results reflect the Unit's commitment following the 2015 terrorist attacks and the creation of 10 positions (in 2015 and 2016) enabling a Combating the Financing of Terrorism Division to be set up³².

An officer from this division has been seconded on a full-time basis to an inter-departmental unit. Within the operational timeframe, this officer is able to coordinate the information sent by Tracfin and to draw on his experience to advise partner departments.

This demonstrates the determination to introduce the smoothest possible organisational structure allowing for real time exchange of relevant information to thwart terrorist financing actions instigated throughout France.

³² This Division was set up in October 2015.

The Combating the Financing of Terrorism Division enriches and maintains close relationships with the other specialised divisions of European and international FIUs that are joined in the fight against terrorism. Operational and strategic projects and studies are conducted jointly to tackle all aspects of a blight afflicting the majority of nations.

Besides its intelligence work and in keeping with its obligations, Tracfin also refers cases to the courts which lead to the opening of investigations into terrorist financing. With the help of its reporting entities, the Unit is continuing to monitor radicalisation scenarios and people wishing to leave for the jihad. Tracfin is examining the structure of networks that support and provide financial aid to jihadists in the war zone and is also anticipating the funding of potential returns. The profiles established can be shared with the compliance departments of France's major financial stakeholders to further bolster their detection capabilities.

Lastly, like the other domestic anti-terrorism stakeholders, Tracfin is involved in the various government action coordination bodies (CNR, SGDSN (Secretariat General for Defence and National Security), UCLAT (Antiterrorist Action Coordination Unit)).

ANTI-TERRORIST FINANCING EFFORTS – KEY FIGURES FOR 2016

RECEIPT AND ANALYSIS

> 1,177 reports received and analysed in 2016
(a 47% increase over 2015).

INVESTIGATIONS

On 31 December 2016, 162 cases were being processed.

DISCLOSURES

In 2016, Tracfin disclosed 396 "Combating terrorist financing" notes (+121 %).

> 352 notes were sent to intelligence services

> 44 notes were sent to courts or to the criminal investigation departments tasked with fighting terrorism.

Case study Suspected radicalisation

Mr A is married to Mrs B and they have two young children. The couple's resources are essentially comprised of unemployment benefit and the social inclusion benefit (RSA). Mr A does not have a bank account and has a power of attorney for his wife's account that he uses to receive his benefits.

During the first half of 2016, there were frequent payment defaults on Mrs B's account and a number of unusual transactions were noted throughout the year:

- Increased purchases in community stores and Salafi bookshops
- Many cash withdrawals accounting for 43% of the amounts credited to the account
- Withdrawals abroad (Belgium, Netherlands, Spain)

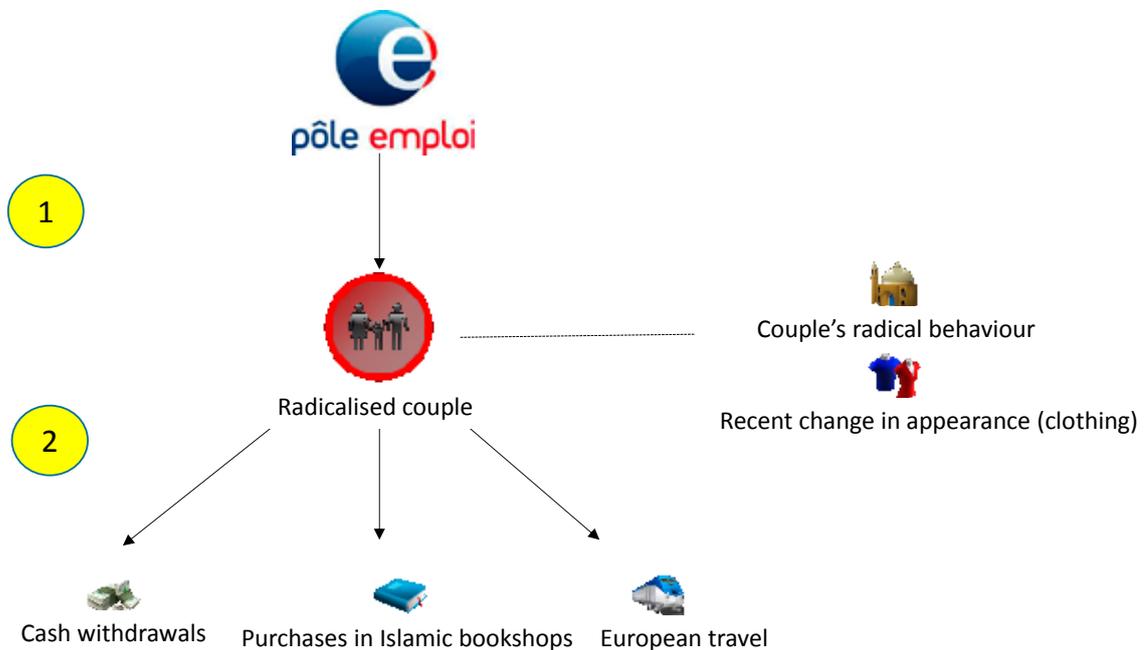
When they visited the bank branch, it was noted that the couple's appearance and behaviour had changed: Mrs B was wearing a full face veil and Mr A was wearing a tunic over

traditional trousers and a kufi on his head. Mr A refused to allow his wife to remove her veil in the presence of other men so that her identity could be checked. It was thought that the couple had been recently radicalised as the previous bank branch holding their account had not noticed any change in Mrs B's appearance.

Tracfin compiled all the evidence and forwarded it to its partner departments. The profile of the couple, who had already been identified as potentially Salafist, had changed and particular vigilance was applied to the individuals.

Warning signs

- Increased purchases in Islamic bookshops and community shops
- Many cash withdrawals
- European travels
- Recent change of appearance (clothing)
- Couple's behaviour (refusal to remove veil)



Case study Terrorist financing via a “collector”

As part of its investigations into the financing of jihadists, the Unit took an interest in Mr X, a Syrian based in Beirut.

Mr X received funds from Mr Y who was known for his involvement in a previously-identified terrorist financing network. He also received funds from Ms Z, a European national, who was acting as “collector” for a French family whose mother had been charged and taken into custody as part of a judicial investigation into terrorist financing (support for her child who was fighting for Islamic State).

An analysis and cross-referencing of various information concerning Mr X enabled a possible alias to be identified: Mr XX. Searches conducted on the basis of this identity unearthed dozens of other aliases, all of which shared common information such as date of birth, telephone numbers and addresses.

Network XX operated from January 2014 to September 2016 and was responsible for more than 800 financial transactions involving over 150 people in 29 countries and totalling

some \$330,000 under standard arrangements for terrorist organisation “collectors”.

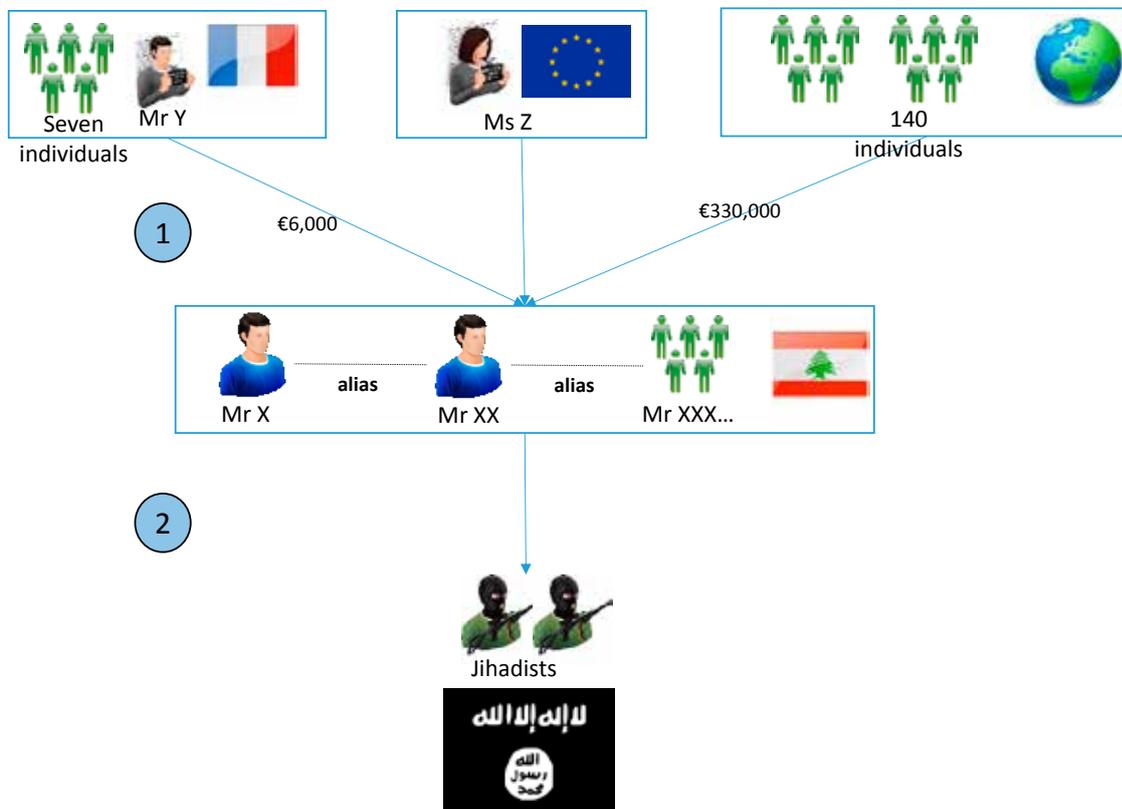
Within the global XX network, France was represented by eight people who were responsible for 12 transactions amounting to \$6,000 between March 2015 and July 2016.

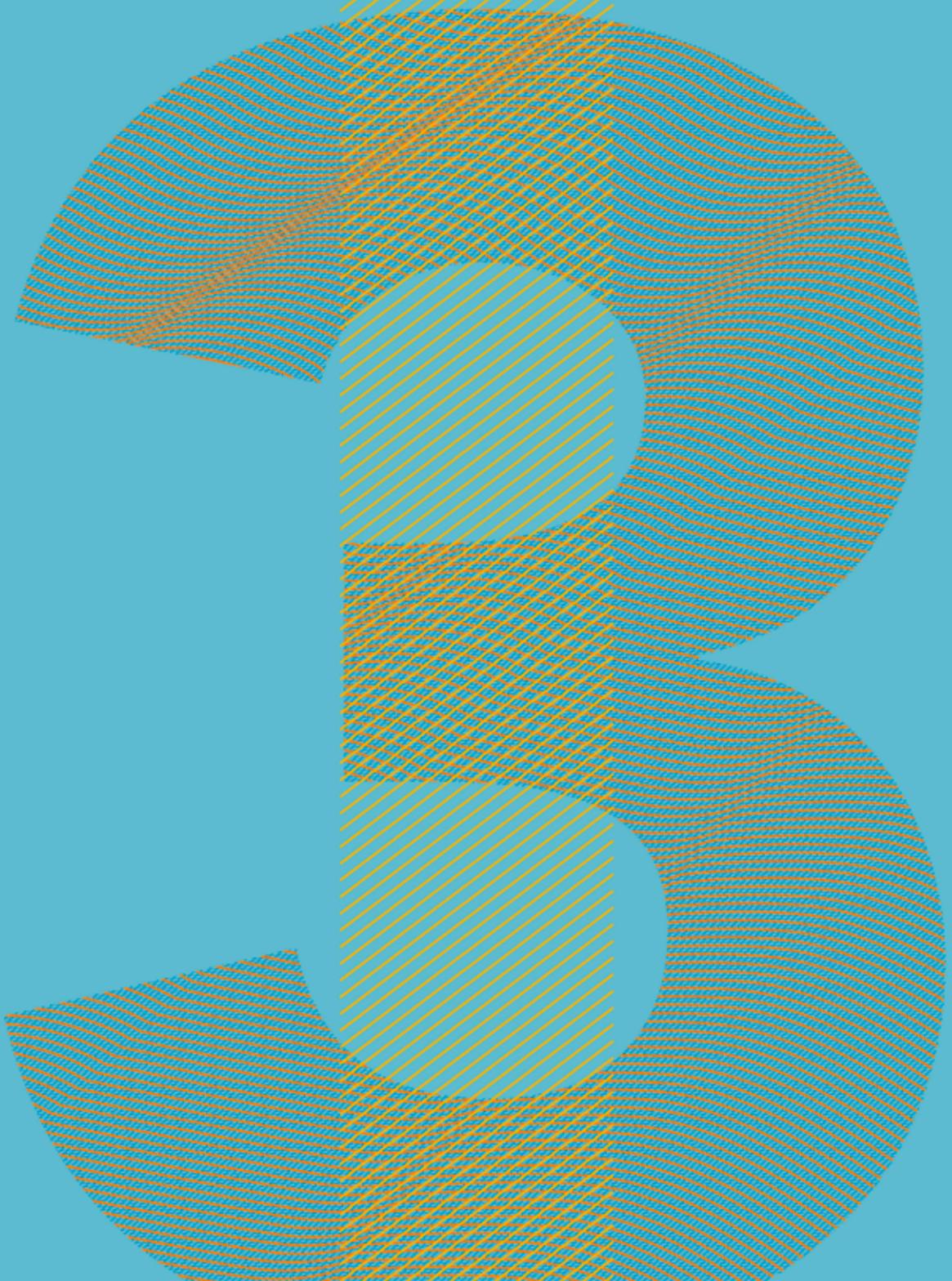
Investigations led to the identification of individuals with no previous record of involvement in terrorist financing and providing financial support to French jihadists in the war zone who had not yet been referenced.

All the evidence was sent to the courts to bolster ongoing proceedings as well as to partner departments.

Warning signs

- A number of micro-financing transactions
- Staggered transfers by single transfer or limited numbers per person
- Many countries involved, including numerous European countries
- Certain senders having links with radical factions





TRACFIN ABROAD

TRACFIN WITHIN THE INTERNATIONAL COMMUNITY

TRACFIN'S CONTRIBUTION TO THE FATF AND MONEYVAL

The Financial Action Task Force (FATF) was founded in 1989 at the Paris G7 Summit and it has 35 member countries and two regional organisations (European Commission and Gulf Cooperation Council). The current mandate (2012-2020) reasserts the international organisation's objectives, which are to produce standards and promote the effective application of legal, regulatory and operational measures for the combating of money laundering, terrorism financing and related threats, so as to ensure the integrity of the international financial system. It is also tasked with fostering political support in this respect.

The FATF assesses the implementation of its standards by its members and the countries belonging to the nine regional FATF-type groups.

Tracfin's role within the French delegation is to manage the work led by the Working Group on Typologies. In 2015, one of Tracfin's officers, together with a representative from the US, were commissioned to write an Emerging Terrorist Financing Risks report which was published in October 2015. The report was sent out to the reporting entities during 2016.

Tracfin was also involved in other documentary projects, particularly concerning information sharing between intelligence services.

The Unit also participates in the work and meetings of Moneyval, which is the Council of Europe's regional FATF group. France is a full member until August 2017. France's special status, awarded by the Chairman of the FATF to two of its Member States, allows it to directly participate in Moneyval's work, in particular, in the assessment of these organisation's members.

EVALUATION OF EFFECTIVENESS USING THE FATF'S NEW METHODOLOGY

For money laundering and terrorist financing to be combated effectively, the standards must be met by as many countries as possible.

Following the adoption of the 40 new recommendations in February 2012, the initial assessments based on this new methodology took place in 2014.

The subsequent assessments have enabled initial lessons to be learned with an eye to France's assessment which is scheduled for 2019/2020. It is essential to understand the risks of money laundering and terrorist financing, both as regards technical compliance with the first recommendation "Assessing risks & applying a risk-based approach", and for gauging the system's effectiveness. The FIU's responsibilities, access to information, independence and effectiveness are measured in relation to its collaboration with all its partners, in the private sector, within competent authorities, and with its international counterparts.

OPERATIONAL COOPERATION BOOSTED BY THE EGMONT GROUP

International cooperation initiatives have spurred Tracfin's officers to forge contacts and coordinate bilateral relations with their foreign counterparts, particularly in Belgium and Qatar. In addition, Tracfin continues to drive the work of the Egmont Group, an organisation which represents 154³³ FIUs throughout the world. This work is directed by a number of working groups (Information Exchange, Policy and Procedures, etc.) and several annual meetings allow members to discuss topics of mutual interest. Moreover, Tracfin is involved in the Workshop for French-speaking FIUs, an informal discussion forum within the Egmont Group, which it coordinates through sundry events, in particular training sessions.

Consistent with the new cooperation agreement signed in 2015, a visit to the People's Republic of China in December 2016 allowed the representatives of the two FIUs to discuss their respective responsibilities and the potential for operational exchanges. The issues of fighting corruption and money laundering were also raised and could form the basis for fresh momentum in bilateral cooperation. A number of follow-up initiatives are planned in 2017 to bolster this partnership.

Tracfin initiated a day of discussions with its US counterpart on the sharing and effectiveness of financial intelligence in combating the financing of terrorism. This follows on from last year's visit from members of the US Congress and the Unit's address to the same institution (October 2015). Against the backdrop of a serious terrorist threat for both countries, Tracfin considers heightening operational cooperation with its counterparts in this respect as a priority.

VISITS FROM DELEGATIONS

Tracfin met with delegations from a number of countries:

- Argentina (FIU): February 2016
- Egypt (fighting corruption): April 2016
- Madagascar (FIU): June 2016
- United States (FIU): October 2016
- Ukraine (fighting corruption): October 2016
- Belgium: June and November 2016
- Poland (FIU): October 2016
- Tunisia (fighting corruption): November 2016
- Italy (parliamentary delegation): December 2016

³³ When this report was being drafted, the Egmont Group represented 154 FIUs. Its most-recent members are Kosovo and Cape Verde, which were admitted at the meeting in February 2017.

PROCEDURES FOR INTERNATIONAL INFORMATION SHARING

REQUESTS FROM FOREIGN FIUS

Information requests from foreign FIUs are handled by the Unit in the same way as STRs. Based on these requests, Tracfin can exercise the same powers as when investigating STRs submitted by a reporting entity. It may in particular exercise a power to request vis-à-vis the relevant professionals, or request additional information from the national public authorities.

The quality of the Unit's reply is depends on the clarity of the reasons for the request relating, in particular, to the context of the case and the identification of the targets.

As exchanges are subject to the principle of reciprocity, requesters may only ask for information that they themselves would be able to obtain in their own countries.

Foreign FIUs may also send spontaneous information to Tracfin that does not require a response.

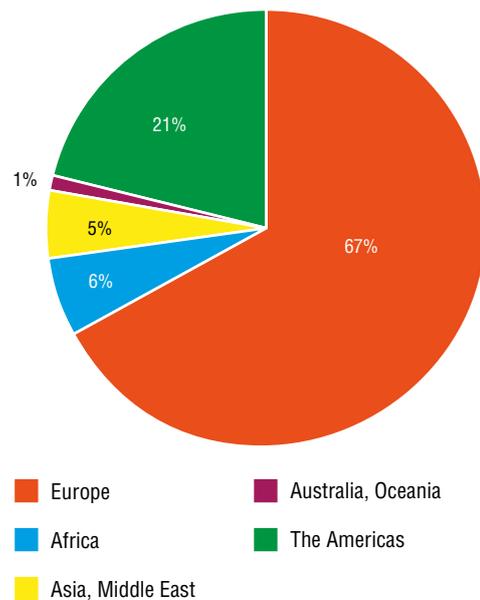
In 2016, the number of reports received from foreign FIUs rose sharply compared to the previous year. Tracfin received 1,365 reports (up 1.4%) relating to over 7,500 individuals and legal entities. Whilst the overall number of requests remained stable, the number of persons involved increased significantly (+15 %).

This information was in the form of:

- 815 requests
- 550 spontaneous reports

There were 688 exchanges with EU partners (+8%), 160 spontaneous reports and 528 requests for information.

Breakdown of incoming information (requests and reports) by geographical area



The Unit exchanges more with certain countries on the basis of specific criteria:

- Luxembourg, Belgium and Switzerland: Owing to the geographic and linguistic proximity, there are strong financial flows. They may concern money laundering, tax evasion or terrorist financing.
- The US: A large number of spontaneous reports potentially related to terrorist financing were received.
- The UK: An area of interest for tax matters and a specialist in complex arrangements. There has been a sharp rise in operational cooperation on criminal issues.
- Jersey/Guernsey: Receipt of a large number of spontaneous disclosures from these FIUs relating to French citizens having assets which are not necessarily declared to the French tax authorities and British citizens who are resident of France for tax purposes.
- Singapore and Hong Kong: Free trade zones that could be used for the laundering of the proceeds of tax evasion where the FIUs are active.

- Russia: Exchanges primarily concerning the financing of terrorism and searches relating to the property and financial assets of certain individuals.

- Poland, Hungary, Czech Republic, Slovakia and Romania: Effective collaboration mainly concerning false transfer orders and fraudulent payments.

List of the countries having sent Tracfin at least 10 reports in 2016

Countries	Number of reports received in 2016
United States	232
Belgium	208
Luxembourg	205
Jersey	70
United Kingdom	60
Switzerland	55
Russian Federation	46
Netherlands	33
Singapore	24
Poland	20
Czech Republic	20
Guernsey	18
Italy	17
Germany	16
Hungary	16
Spain (incl. Balearic Islands)	14
Madagascar	13
Mauritius	13
Slovakia	11
Algeria	10
Australia	10
Cyprus	10
Israel	10

Overall, Tracfin received reports from 99 different FIUs in 2016.

DISCLOSURES TO FOREIGN FIUS

In 2016, Tracfin sent 924 replies (+17 %) to 791 different foreign requests (logged in 2015 and 2016). For this, the Unit sent 660 requests for information vis-à-vis reporting entities which were predominantly financial and payment institutions.

Independently of the information sharing with foreign FIUs, Tracfin provides information to its counterparts in two ways:

- Spontaneous disclosures that result from analyses based on domestic STRs received by the Unit. In 2016, Tracfin sent 121 (up 39%) information notes to its partners so that the intelligence gathered in the STRs received in France could be used abroad. The overall value of suspicious transactions totalled around €1.3 billion³⁴. The vast majority of these notes were sent to European FIUs (73 notes to 18 FIUs).

List of the 17 leading countries to which Tracfin sent spontaneous information notes

Countries	Number of unsolicited disclosures sent to FIUs in 2016
Italy	11
Belgium	9
United Kingdom	9
Romania	8
Monaco	6
Switzerland	6
Benin	5
Russian Federation	5
Germany	4
Luxembourg	4
Poland	4
Czech Republic	4
Slovakia	4
Bulgaria	3
Spain (incl. Balearic Islands)	3
United States	3
Ukraine	3

³⁴ One case sent to two FIUs represented a total of €500 million.

- Requests for information, particularly financial, on individuals and legal entities, by which Tracfin draws the FIUs' attention to the targets of investigations. In 2016, the Unit sent 1,454 requests concerning 534 cases being investigated to 91 different FIUs, with European FIUs receiving the most requests.

TOOLS FOR INTERNATIONAL OPERATIONAL COOPERATION

FiuNet

Council Decision no. 200/642/JHA of 17 October 2000 introduced the concept of appropriate and protected channels of communication between European FIUs. The FIU.net computer network was set up in 2002 by five countries, including France, with all the European FIUs gradually being connected as from 2004.

FiuNet is a secure and closed computer network that allows the EU's 28 FIUs to exchange different types of information pursuant to their operations. Exchanges may be either bilateral or multilateral. It enables the recovery or automated sending of structured data and provides an effective interface between the FIUs' databases. Processing European requests, the Unit's replies, requests sent by Tracfin and the replies received are all paperless. 567 requests were sent to Tracfin via this network in 2016.

EGMONT SECURE WEB (ESW)

This system, which was introduced in 1995, is also a secure network. It can be used by the 154 FIUs that are members of the Egmont Group. It provides access to a broad network of FIUs that share common operating standards. It is a vehicle for operational exchanges and is also used for institutional communication within the Group.

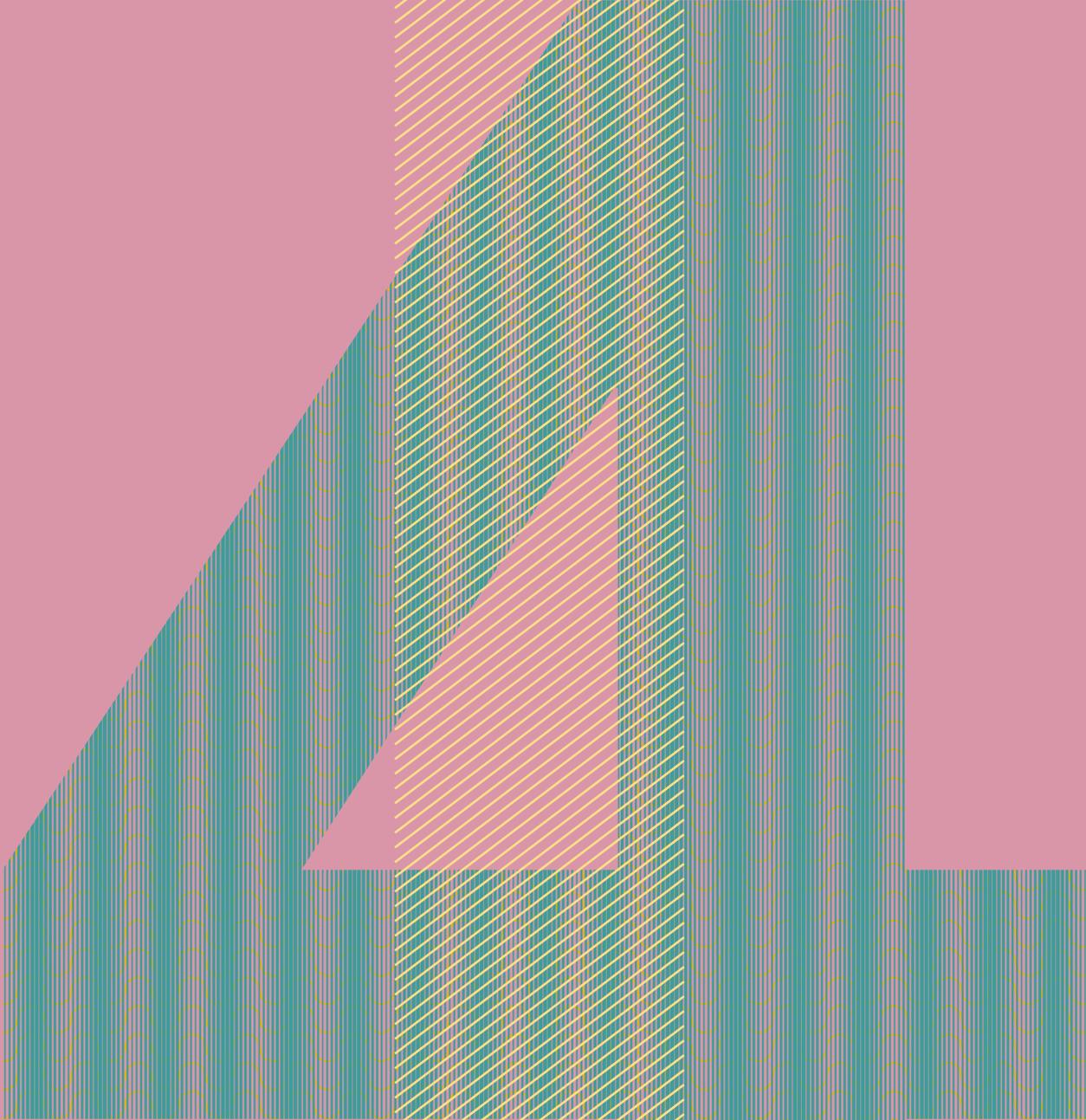
Unlike FiuNet, the structure of ESW's data does not provide Tracfin with an automated import process. In 2016, the Unit received 820 requests using this system.

INTERNATIONAL COOPERATION IN COMBATING TERRORIST FINANCING

The responsiveness of foreign FIUs following the 2015 terrorist attacks cannot be faulted and this cooperation continued for new cases in 2016.

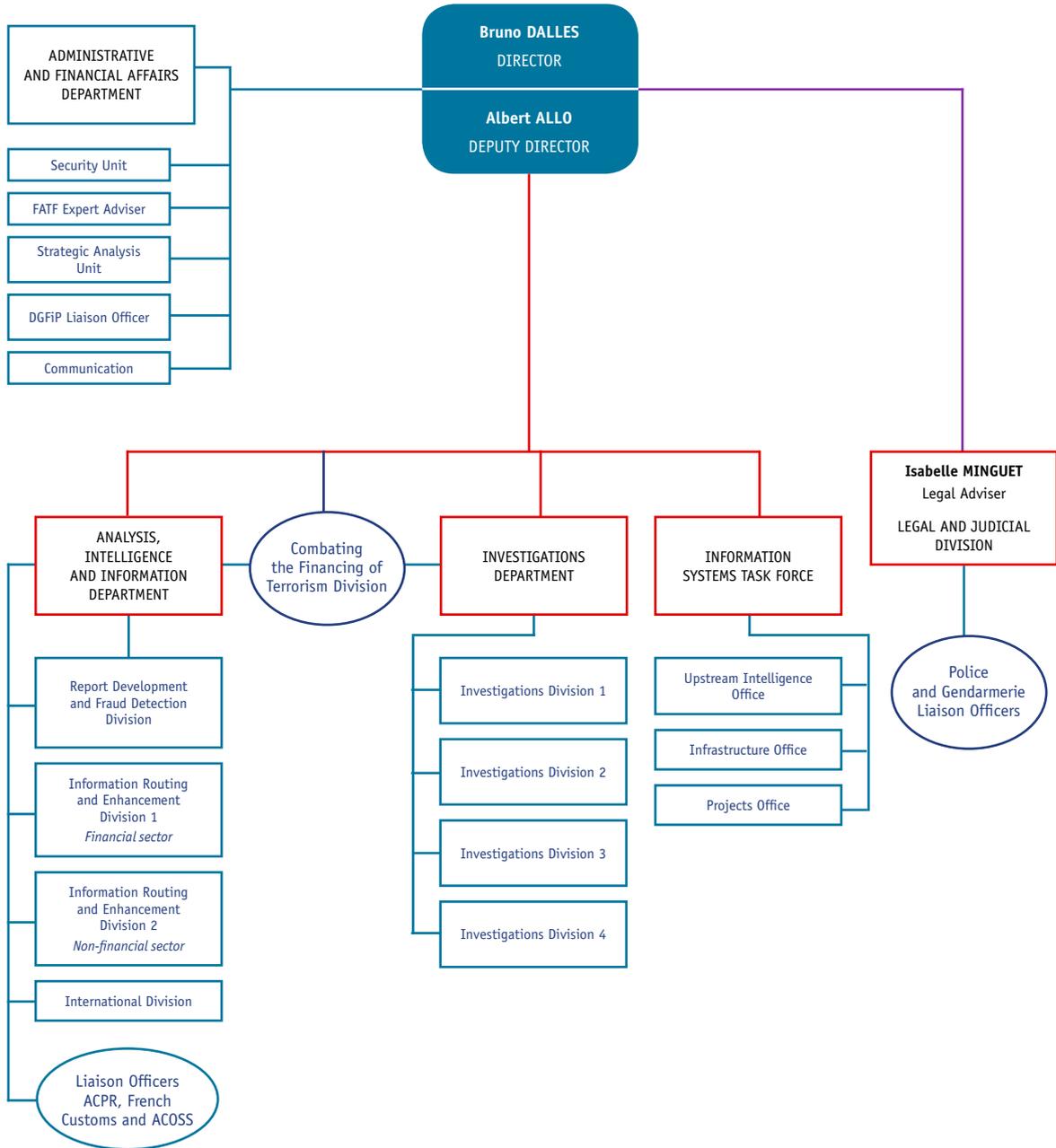
Replies to Tracfin's requests for information were received extremely rapidly and they were often decisive for the ongoing investigations in France. In this respect, Tracfin sent over 150 requests to its counterparts in 2016.

Foreign FIUs also sent a large number of spontaneous reports to the Unit. More than two hundred of these, that were deemed to be of relevance, were handled by the Combating the Financing of Terrorism Division. The Unit also replied to numerous foreign requests relating to this topic.



ABOUT TRACFIN

ORGANISATION



Pursuant to an Order dated 7 January 2011³⁵, Tracfin was equipped with an Analysis, Intelligence and Information Department, an Investigation Department, an Administrative and Financial Affairs Department and a Combating the Financing of Terrorism Unit.

Since then, Tracfin has set up an Information Systems Task Force and has transformed its Combating the Financing of Terrorism Unit into a Division. It has also formed a Legal and Judicial Division and a Strategic Analysis Unit (CAS).

Around forty officers work for the **Analysis, Intelligence and Information Department (DARI)**. It is tasked with collating suspicious transaction reports and information, with redirecting them, with examining financial intelligence and relations with reporting entities, and with international relations. Three liaison officers (DGDDI, ACPR and ACOSS) also work in the Department.

The Investigations Department (DE) consisting of four divisions. When a case so requires, the Department conducts in-depth investigations, and for all types of money laundering. Each division has its own specialised unit responsible for the gaming sector, non-banking financial circuits, economic predation, and complex legal structures respectively.

The Combating of Terrorist Financing Division (DLFT). Owing to the increase in staff laid down in the government programme presented by the Minister for the Economy and Finance in March 2015, a division to combat terrorist financing was set up in October of that year. It is tasked with processing the weak signals provided by private-sector reporting entities and with expanding the Unit's relations with the other specialised departments of France's intelligence community, and the administrative and judicial departments involved in fighting terrorism.

The Legal and Judicial Division

The Division is managed by a judicial magistrate providing legal advice to Tracfin within the meaning of the French Monetary and Financial Code. It is also comprised of a second magistrate, assistant to the head of the division, two paralegals, who are expert advisers, and a police liaison officer and gendarmerie liaison officer seconded to the division.

The division provides advice on all legal questions, helps draw up national and international AML/CFT legislation, manages litigation in relation with the Unit's work and monitors data protection issues. It also offers a daily interface with the courts and police, gendarmerie and judicial customs departments to ensure the best possible coordination between Tracfin's work and that of the judicial authorities. Lastly, the division's legal adviser provides an opinion on the reports to the judicial authorities that concern suspicions of criminal offences.

The Administrative and Financial Affairs Department (DAAF)

The DAAF is comprised of a manager and four officers responsible for local HR management, forward-planning for staff and fiscal monitoring.

The Strategic Analysis Unit (CAS) seeks to identify AML/CFT trends and patterns, either through the cross-cutting use of information received by Tracfin or by actively monitoring new issues which are only rarely mentioned in the STRs received. Three officers work in the Unit.

An expert adviser, reporting to the director, has ongoing relations with the Unit's foreign counterparts, in particular as part of the FATF.

Since 1 September 2016, a liaison **officer from the Public Finances Directorate General (DGFIP)** has been working for Tracfin. He is responsible for bolstering relations between the two structures and heightening mutual knowledge of their positioning and skillsets.

³⁵ See Order of 7 January 2011 on the organisational structure of Tracfin, a unit with national scope.

The Information Systems Task Force is responsible for current and future operation of Tracfin's information system. It has three offices: an Infrastructure Office tasked with maintaining workstations, systems, the network, and providing user support; a Projects Office that designs and rolls out the information system and

maintains current applications in operational condition; an Upstream Intelligence Office in charge of the standard of data and its integration into the system. The Task Force has an Information System Security (ISS) Manager and two data scientists.

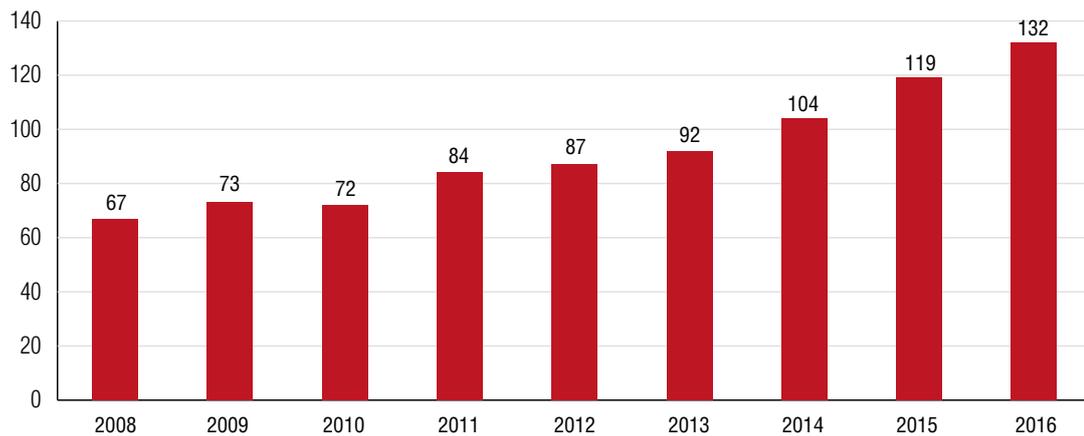
TRACFIN, AN EVER-CHANGING UNIT

When it was set up in 1990, Tracfin was not a unit with national scope but simply a specialist unit of the Directorate General of Customs. Over the last 26 years, there has been a permanent rise in staffing levels with employees from increasingly diverse backgrounds. This trend has been particularly marked over the last years.

The increase in staffing levels has been constant and particularly marked since 2010. From three officers in 1990, the Unit had 72 in 2010 and 119 in 2015. At 31 December 2016, there were 132 officers in Tracfin's teams (including seven liaison officers seconded from their original government departments).

The changing face of assignments and the amount of information received account for the constant rise in employee numbers.

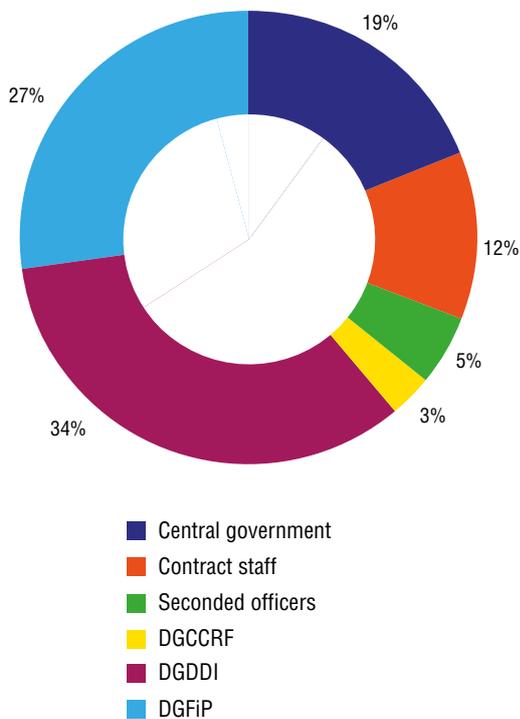
Tracfin's staffing levels between 2008 and 2016



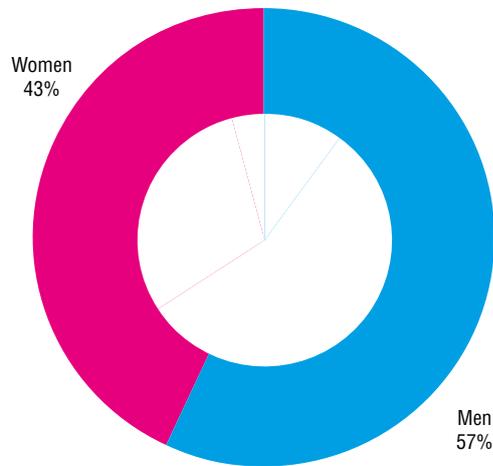
Tracfin is enriched by the diverse backgrounds of its staff

Since 2006, Tracfin has been a unit with national scope reporting directly to the Minister for the Economy and Finance. Whereas in 2002 Tracfin focussed exclusively on customs issues, its day-to-day operations have come to involve officers from customs (34%), from the DGFIP (27%), from central government departments (19%), contract staff (12%), from the Directorate General for Competition Policy, Consumer Affairs and Fraud Control, DGCCRF (3%), and seconded magistrates, and police and gendarmerie liaison officers made available to the Unit.

Breakdown of headcount by original department



Breakdown of headcount by gender (situation at 31/12/2016: 32 officers)



Average age: 41.8 years old

Tailored training programmes

In 2016, Tracfin continued its strategy to broaden and vary training initiatives that it had initiated in 2015. It approached institutional partners and used in-house resources to offer tailored theme-based training sessions.

Overall, over 665 days of training were provided representing an average of 5.3 days per officer (versus 5.03 in 2015).

Special stress was placed on training new recruits with crucial topics such as white collar crime and an overview of the judicial system. More-established officers were provided with longer training sessions such as those offered by the Intelligence Academy, the Centre for Financial and Technical Studies in Aix-en-Provence, the National Magistrates Academy, the Institute for Higher National Defence Studies and the European College of Financial Investigations and Analysis of Financial Crimes in Strasbourg.

In 2016, 92.4% of the Unit's officers attended at least one training session, down from 96.6% in 2015.

APPENDICES

THE FOURTH AML/CFT DIRECTIVE AND OTHER NEW LEGISLATION

Published in the Official Journal of the French Republic (JORF) on 2 December 2016, the main purpose of Order no. 2016-1635, bolstering the French AML/CFT system, was to write Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (the so-called Fourth Directive) into French law. A number of the measures introduced affect Tracfin directly.

A broader power to request

The Order extended the scope of entities to whom Tracfin can send information requests to include:

- Lawyers' settlement funds (CARPA)
- Land, sea or air transport vehicle rental companies
- All money collection websites

New reporting entities

The Order also extended the scope of reporting entities, a list of which is set forth in Article L.561-2. of the French Monetary and Financial Code, to include:

- Persons accepting payments in cash or by electronic money for an amount over and above a threshold set by decree and who sell the following goods: gemstones, precious metals, jewellery, furnishings and interior decoration items, cosmetics, textiles, leather goods, luxury food products, clocks and watches, and tableware
- Any person who, in the normal course of its business, acts as a counterparty or intermediary, for the acquisition or sale of any instrument containing non-monetary units in electronic format that may be kept or transferred in order to acquire a good or service, but which does not comprise a receivable held over the issuer (virtual currencies)
- The bank transaction and payment service intermediaries referred to in Article L.519-1 when they are acting under a power of attorney granted by a

client and they are entrusted funds in their capacity as the parties' agent

In addition, the reporting obligations of estate agents have been extended to their rental businesses and all crowdfunding platforms are now subject to these obligations, whereas previously this was optional.

A more effective power of postponement

Under Article L.561-24 of the Monetary and Financial Code (formerly Article L.561-25), Tracfin can oppose execution of a transaction for a period that has been increased from five to ten days by the enacting Order.

The Order also stipulates a starting point for payments by cheque that only begins once the cheque has been presented for payment by the beneficiary bank.

Heightened due diligence measures

The Monetary and Financial Code previously exempted reporting entities from rolling out due diligence measures in certain situations. Today, except for electronic money in certain conditions provided for by decree, reporting entities must systematically implement due diligence measures which may however be simplified:

- When they consider the risk of money laundering and terrorist financing to be minimal
- For persons or products specified by a decree adopted after consultation with the *Conseil d'État* (French Supreme Administrative Court)

Moreover, whilst foreign politically exposed persons (PEPs) were already subject to special due diligence, this now also applies to French PEPs, the list of whom will be set out in imminent regulations.

The penalties that may be handed down by the various enforcement authorities for breaches of AML/CFT obligations have been standardised. For instance, the notion of financial penalties has been mainstreamed to include all reporting entities.

More communication options with the administrative authorities

The Order supplemented the list of administrative authorities to which Tracfin can send information to (Article L.561-31 of the French Monetary and Financial Code). Financial courts, the High Authority for Transparency in Public Life (HATVP), the French Anti-Corruption Agency and the Strategic Information and Economic Security Department (SISSE) can receive such information.

Furthermore, whilst Tracfin and the supervisory authorities were able to exchange any information helping them to carry out their AML/CFT work, it became clear that Tracfin needed to be entitled to provide information concerning other areas to some of these authorities. As a result, since 1 January 2017, the Unit has been able to send any relevant information for carrying out all their assignments to the Prudential Supervision and Resolution Authority (ACPR), the Directorate General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF), the Central Racing and Gaming Unit (SCCJ) and the Autorité des Marchés Financiers (AMF).

Stricter confidentiality for information held and sent by Tracfin

The Unit has always given priority to the confidentiality of the information that it receives, holds and disseminates.

With an eye to tightening this requirement, the Order established an Article L.561-31-1 in the French Monetary and Financial Code which governs the processing of such information by the recipient departments. The latter may not disclose the existence or content of information received nor send it on unless Tracfin has given its consent.

The regulatory provisions are in the process of being drafted and are scheduled to be published during 2017.

Moreover, the revision of the Fourth Directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing is ongoing with an eye to further bolstering the AML/CFT system at European level.

Besides the above-mentioned changes brought about by Order no. 2016-1635, 2016 saw the introduction of new arrangements to boost Tracfin's resources.

Introduction of the power to call for heightened due diligence for transactions or individuals or legal entities representing a high risk of money laundering or terrorist financing

Act no. 2016-731 of 3 June 2016 laid down new arrangements allowing Tracfin to inform the reporting entities of transactions or individuals or legal entities representing a high risk of money laundering or terrorist financing (Article L.561-26 of the French Monetary and Financial Code). Decree no. 2016-1793 of 21 December 2016 specified the terms for enacting this measure (Article R.561-37-1).

Extended access to files³⁶

The Act of 3 June 2016 also extended Tracfin's access to the file for processing criminal records (TAJ) for all the Unit's assignments and not just the prevention of terrorism. An implementing decree will set out the terms and conditions for this access.

Decree no. 2016-1523 of 10 November 2016 granted Tracfin's officers direct access to the Wanted Persons File (FPR).

³⁶ When dictated by its investigations, Tracfin used to have access to the file for processing criminal records and the Wanted Persons File through the liaison officers working for the Unit.

ACRONYMS

ACOSS	Central Agency for Social Security Bodies
AMF	Autorité des Marchés Financiers
ACPR	Prudential Supervision and Resolution Authority
ARJEL	Online Gaming Regulatory Authority
CARPA	Lawyers' Financial Settlement Fund
CMF	Monetary and Financial Code
CNAJMJ	National Association of Court-Appointed Receivers and Trustees
CNR	French Intelligence Council
COSI	Systematic Information Disclosure
CRF	Financial Intelligence Unit
	National Association of Notaries
	Directorate General for Domestic Security
	Directorate General for External Security
	Directorate General of the National Gendarmerie
	Directorate General of National Security
DGDDI	Directorate General of Customs and Excise
	Public Finances Directorate General
DGT	Directorate General of the Treasury
DNLF	National Anti-Fraud Office
	National Directorate for Customs Intelligence and Investigations
STR	Suspicious Transaction Report
DSS	Social Security Directorate
FDJ	Public lottery and betting company
FATF	Financial Action Task Force
IFPPC	French Institute of Practitioners of Insolvency Proceedings
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
OCRGDF	Central Office for the Prevention of Serious Financial Crime
SCCJ	Central Racing and Gaming Unit
SCPC	Central Unit for the Prevention of Corruption
SGDSN	Secretariat General for Defence and National Security
SNDJ	National Customs Judicial Department
TGI	Court of First Instance
UCLAT	Antiterrorist Action Coordination Unit
URSSAF	Entity for the Collection of Social Security Contributions and Family Allowances

TEAR-OFF REPORTING SLIP: HOW TO SUBMIT AN STR

Two ways for reporting a suspicious transaction:

→ *Online*

Fast and secure: ERMES (<https://Tracfin.finances.gouv.fr>)

→ *Letter*

You must use the online reporting form

TRACFIN
10, rue Auguste Blanqui
93186 Montreuil-sous-Bois cedex

Tracfin provides you with instructions drawn up together with professionals. These instructions contain a step-by-step guide to reporting.

IMPORTANT, the form below must be typed and not handwritten, and must designate at least one person to be valid.

Designate a correspondent or reporting party

Who is the reporting party/correspondent

Professionals subject to AML obligations must designate vis-à-vis Tracfin and their supervisory authority, the managers or employees tasked with the responsibilities of “reporting party” and “correspondent” respectively.

If necessary, the same person may assume both these positions.

- The reporting party is in charge of sending reports to the Unit
- The correspondent provides the interface with Tracfin. He or she receives the acknowledgments of receipt for reports sent and handles requests for communication of evidence or documents

Designating a reporting party/correspondent Tracfin provides professionals with a special registration form at www.economie.gouv.fr/Tracfin/declarer





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