

TRACFIN ANNUAL REPORT 2017

TRACFIN FRANCE'S
FINANCIAL
INTELLIGENCE
UNIT (FIU)



MINISTÈRE
DE L'ACTION ET DES
COMPTES PUBLICS

TRACFIN - ANNUAL REPORT 2017

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FOREWORD

Once again, 2017 saw a substantial increase in Tracfin's activity. Information flows received and analysed by the Unit grew by 10% in one year and by 57% in two years. We bolstered both the resources and methodologies used to fight money laundering, fraud involving the public purse and terrorist financing.

Tracfin has received strong support from its line ministry, which approved a progressive increase in staff of 27% over two years.

The increase in reporting activity is the result of active vigilance on the part of professionals subject to AML/CFT requirements, particularly by adapting the compliance mechanisms set up by certain professions in the non-financial sectors. It is also part of a profound process of change initiated by the Unit. The use of data science has been developed to support the analytical work of our officers, and the adaptation of our new IT system is in its final phase.

In 2017, we also focused on ensuring that our business processes are in sync with these changes. Tracfin has set up additional accelerated («Flash») means for submitting reports, making it possible to disseminate financial information almost immediately. This has made it possible to provide factual information based on financial intelligence in the fight against tax fraud, and to alert our partners to an imminent CFT risk. When it comes to the courts, the system for referring additional notes concerning pending cases has been expanded.

This has been reflected in a sharp increase (38%) in notes transmitted during the year.

The strategic challenge for Tracfin is to maintain balance and improve its working methods to meet demand and anticipate needs.

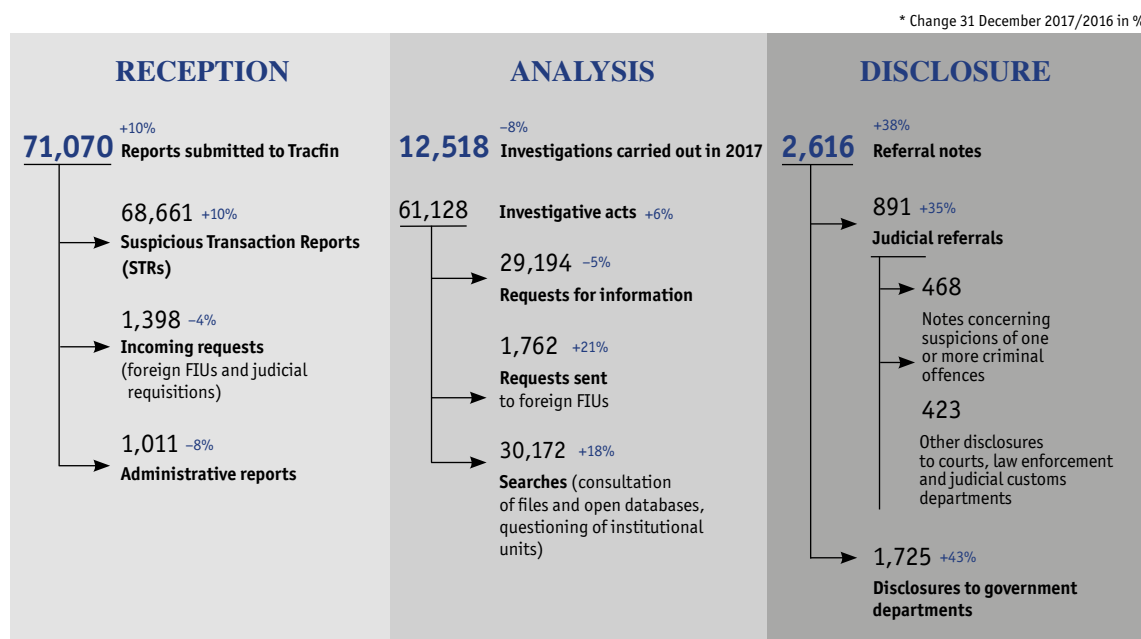
Strengthening links within the intelligence community should make it possible to ensure better use of intelligence techniques and a better integration of financial intelligence into joint action strategies. Coordinated work on shared objectives with several partner departments was trialled in 2017, and the first results augur well for the expansion of such initiatives.

Many strategic and tactical challenges remain in terms of improving collective performance, promoting an intelligence culture that integrates the specific nature of financial intelligence, defining a clearer outline for economic intelligence and generating actions in favour of the detection of tax intelligence. These challenges must be reconciled with secure information sharing, effective legal proceedings, greater pooling of resources, and bolstered national, institutional, bilateral and multi-lateral cooperation.

The prospect of the FATF's evaluation of France's entire AML/CFT system planned for 2020 is the priority roadmap for the action of Tracfin and of its officers. Tracfin remains an administrative start-up on a fast development track.

Bruno Dalles,
Director of Tracfin

KEY EVENTS IN 2017: AFTER A RECORD-SETTING YEAR IN 2016, REPORTING ACTIVITY REMAINED HIGH IN 2017 +10% MORE REPORTS RECEIVED IN 2017



→ After a record-breaking 2016 in terms of reports received (a 43% increase over 2015), the number of reports received and analysed by the Unit continued to increase in 2017, with **71,070 reports (a 10% increase)**. Reporting entities alone submitted 10% more STRs than in the previous year (68,661 in 2017 compared with 62,259 in 2016). **Information flows received by Tracfin during the year grew by 10% in 1 year, by 57% in 2 years and by 160% in 5 years. All reports received were analysed by Tracfin.**

→ During the year, Tracfin carried out 12,518 investigations. These investigations were the result of 8,478 reports received in 2017, and 4,040 reports submitted in previous years.

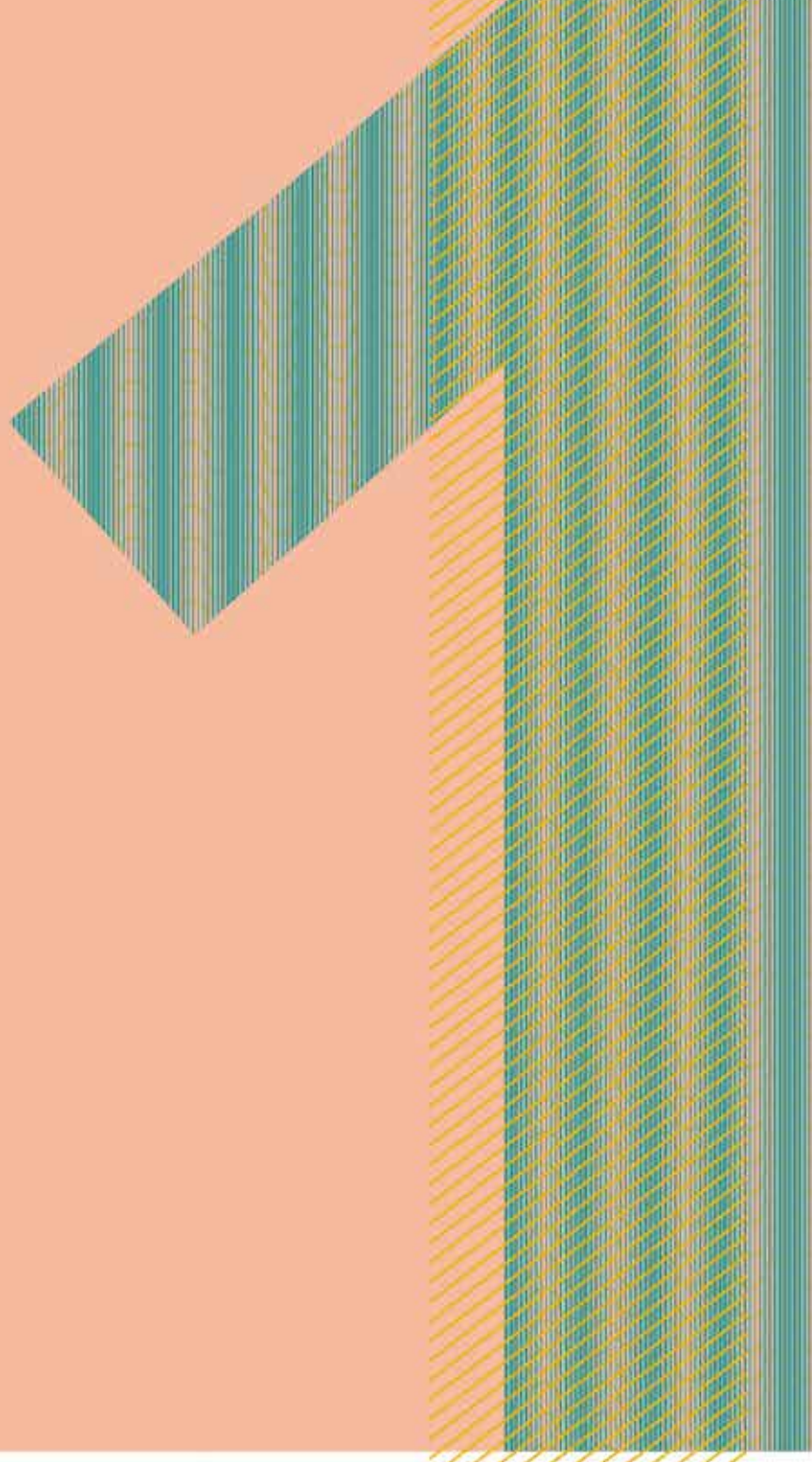
→ **61,128** investigative measures were carried out to add substance to existing data.

→ These investigations resulted in the **transmission of 2,616 notes: 891 notes to the courts** (including 468 notes concerning suspicions of one or

more criminal offences triggering a criminal Investigation) and **1,725 notes to partner authorities** (including the tax, social, customs and intelligence administrations). These represent a **38%** increase in information notes in **1 year** and a **118% increase in 5 years**.

→ Staff levels expanded by **14% in a single year, by 27% in 2 years and by 74% in 5 years**.

→ **Over the past decade**, there has been more than a fivefold increase in the number of reports received, and the number of referrals to the courts and to Tracfin's partner authorities has risen by a factor of **5.5**.



TRACFIN'S SOURCES OF INFORMATION

1. REPORTING ACTIVITY OF REPORTING ENTITIES

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 State bodies
- Information from foreign Financial Intelligence Units (FIUs).

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 of fraudulent origin.

In 2017, close to 96% of the reports received by Tracfin were sent by reporting entities (68,661 Suspicious Transaction Reports, up 10% over 2016).

Reporting entities	2012	2013	2014	2015	2016	2017	Change (2016-2017)
Credit institutions	19,288	21,950	29,508	31,276	46,901	46,882	=
Money changers	2,104	1,199	1,141	1,709	2,255	1,810	-20%
Insurance companies	1,059	1,169	1,423	2,159	3,200	4,939	+54%
Payment institutions	1,218	831	1,641	4,535	5,110	8,603	+68%
Money-issuing institutions	436	259	254	142	477	291	-39%
Investment companies	52	46	51	105	120	62	-48%
Mutual companies and provident institutions	35	60	139	320	213	241	+13%
Financial investment advisers	20	20	25	35	32	57	+78%
Insurance intermediaries	38	25	62	65	107	103	-4%
Investment management companies	13	20	23	58	60	63	+5%
Electronic money institutions	Not applicable	Not applicable	1	10	36	178	+394%
Crowdfunding intermediaries	Not applicable	Not applicable	0	0	6	23	+283%
Digital currency traders and intermediaries	-	-	-	-	-	13	-
Bank transaction and payment service intermediaries	-	-	-	-	-	209	-
FIUs – Crossborder*	-	-	-	-	-	570	-
Total for all financial reporting entities	24,264	25,579	34,268	40,414	58,517	64,044	+9%
Notaries	995	970	1,040	996	1,044	1,401	+34%
Real estate professionals	34	54	29	35	84	178	+112%
Gaming circles, games of chance, sports and horse-racing betting	120	127	185	212	272	259	-5%
Casinos	171	153	270	422	601	929	+55%
Online gaming operators	127	181	450	146	20	38	+90%
Court-appointed receivers	52	82	100	528	995	932	-6%
Chartered accountants	145	195	215	286	442	514	+16%
Auditors	54	72	84	88	132	151	+14%
Dealers in precious goods	3	12	16	29	15	8	-47%
Auctioneers, auction houses	7	25	26	33	51	67	+31%
Bailiffs	14	18	23	39	73	109	+49%
Lawyers	4	6	1	0	4	0	-100%
Commercial registered office providers	21	3	8	3	9	31	+244%
Sports agents	0	0	0	0	0	0	-
Total for all non-financial reporting entities	1,747	1,898	2,447	2,817	3,742	4,617	+23%
Total reporting entities	26,011	27,477	36,715	43,231	62,259	68,661	+10%

Please note: new groups of reporting entities have been ring-fenced to keep up with economic and regulatory developments. These are digital currency traders and intermediaries, under the terms of Order 2016-1635 of 1 December 2016 (7^o bis of Article L. 561-2 of the Monetary and Financial Code).

*The Crossborder information comes from a system of spontaneous provision of information by taxpayers from an EU Member State, involving France, to EU FIUs and made available by the latter pursuant to Article 53.1 of Directive 2015/849 known as the «Fourth Anti-Money Laundering Directive».

In 2017, amongst financial reporting entities, although the number of STRs submitted by credit institutions stabilised at a high level (46,882), those from payment institutions shot up by 68.4% (3,493 more reports in absolute value), as did those from insurance companies (a 54.3% increase, 1,739 more reports).

The participation of non-financial reporting entities also trended upward (23.4%) due to the increased number of reports from notaries (34.2%) – a result of Tracfin’s awareness-raising efforts that provided impetus. There was also a 54.6% increase in reports from casinos, following the publication of guidelines. Although the number of STRs received remains low, there were also notable increases in submissions from real estate professionals (111.9%) and bailiffs (49.3%), professions for which guidelines are being drafted.

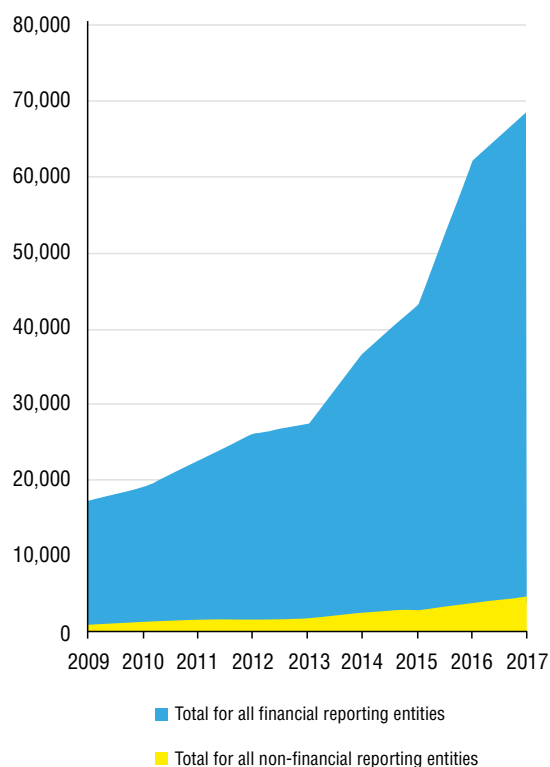
This upward trend, which is welcome, nevertheless masks very wide discrepancies between reporting entities, a reflection of their very variable levels of involvement. It should be noted that obligations in the fight

against money laundering and terrorist financing are twofold: on the one hand, entities have a **due diligence obligation**, based on the quality of the knowledge that entities have of their clients, the constant updating of this knowledge and the relevance of the risk-based approach developed by each entity. On the other hand, they have a **disclosure obligation**, which concerns sums or transactions deemed to be suspicious following a rigorous analysis. It should also be pointed out that there are no automatic STRs: each one must be the result of an analysis that transforms an alert concerning an atypical transaction into a genuine suspicion. In particular, the fact that a client is a Politically Exposed Person (PEP) or that there is an enhanced due diligence obligation is never sufficient grounds per se for an STR.

Finally, these measures must not be divulged to the client, to ensure the effectiveness of the Unit’s mission, of course, but also to protect the reporting entity itself*.

Since 2015, Tracfin has adapted its internal organisation to foster closer ties with reporting professionals, better monitor reporting activity, and provide them with regular feedback on reporting practices and areas for improvement (bearing in mind that Tracfin can only comment on what it receives and not on the quality of an entity’s AML/CFT system). Two divisions are dedicated to this remit. Each referent is in charge of monitoring several financial or non-financial reporting entities. Referents are the entities’ points of contact.

Reporting activity by financial and non-financial reporting entities, 2009–2017



* Article L.561-31 1° of the Financial and Monetary Code.

1.1 FINANCIAL SECTOR REPORTING ENTITIES

Fact sheet 1 – Credit institutions and issuing institutions

Although the banking sector was the primary source of STRs in 2017, its share of total financial sector submissions fell significantly to 73%, vs. 77.4% in 2015 and 80% in 2016. Its share of total STR submissions was 68%, down from 72.3% in 2015 and 75% in 2016.

1. Volumetric analysis

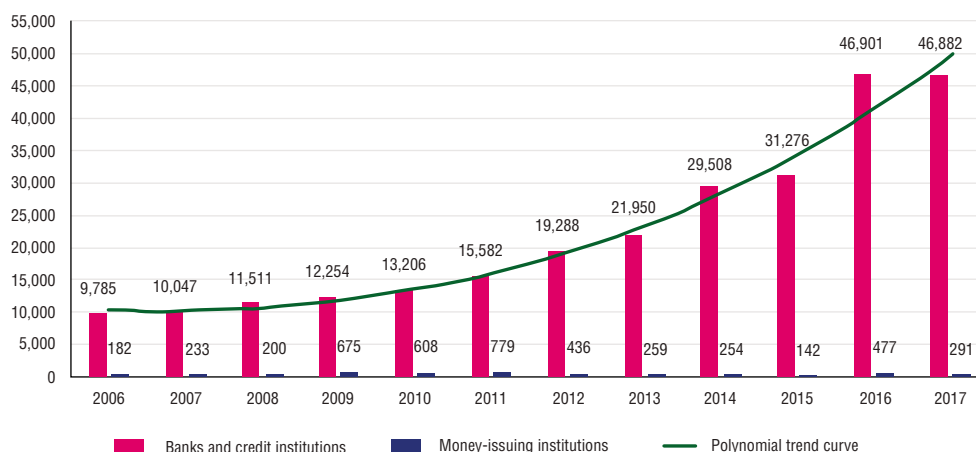
In 2017, submissions from credit institutions levelled off at 46,882 (compared with 46,901 in 2016). For the first time, there was zero growth in the number of STRs submitted by banks, seemingly a backlash to the 50% surge in submissions that the sector experienced in 2016. It should also be seen against backdrop of discussions

and meetings that took place between the banks and the Prudential Supervision and Resolution Authority. This led to a clarification of certain provisions and allowed these reporting entities to better understand what Tracfin and the regulator expected of them.

Within the year, reporting activity was balanced with 22,972 reports in the first half of 2017 and 23,910 in the second, representing a monthly average of 3,906 reports. Two spikes in reporting activity occurred in March and October; in the latter month, the Unit received an average of 208 STRs per day. A long and unusual period of low activity was observed between April and September (with the exception of June), with an average of 3,464 monthly STRs.

Tracfin expects institutions to submit reports on a regular basis. This helps the Unit better plan its processing tasks; it is also in line with the provisions of the Monetary and Financial Code, which stipulate that reports must be sent immediately, as soon as a suspicion takes shape. Readers

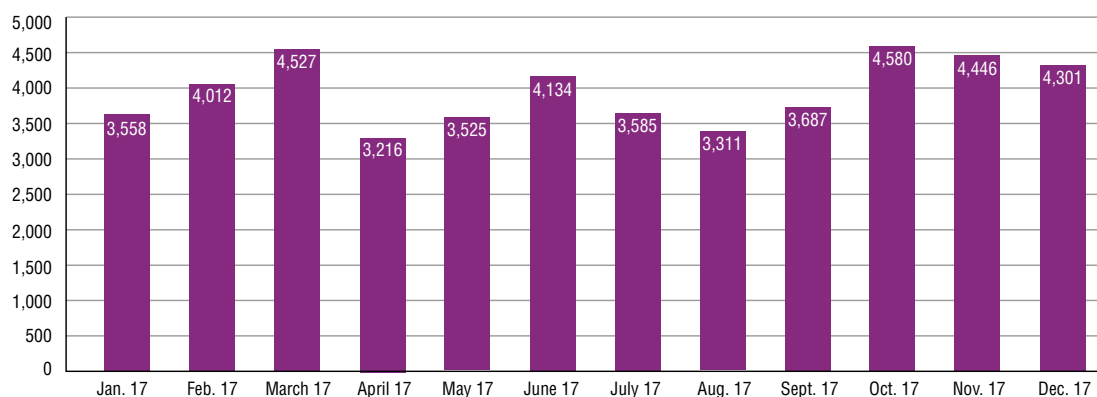
STRs submitted by banks, credit institutions and issuing institutions



Submissions by credit institutions in comparison to all other reporting entities



Monthly submissions from banks and credit institutions in 2017



may wish to refer to paragraphs 133 to 135 of the joint guidelines on reporting and information obligations drafted by the ACPR and Tracfin.

2. Analysis of submission practices

• Quantitative data

Submissions from the seven largest banks¹ fell by 2%, from 42,528 STRs in 2016 to 41,681 in 2017. In contrast to the previous year, when there was an across-the-board increase in the number of reports, two trends emerged in 2017. Four banks continued on an upward reporting trend (increases of 5.5%, 9%, 14.5% and 50%), whereas three registered decreases, which ranged from 8.5% to 31.5%. The two banks with the largest increases in 2016 also experienced the largest decreases in 2017 due, in part, to reducing backlogs and reorganising their AML services following audits by the ACPR.

Tracfin would like to alert entities to the build-up in backlogs, which can result from upgraded computer tools generating an increased volume of alerts. This generally results in longer processing times and reporting delays that are detrimental to the efficiency of the AML systems of the entities involved.

The increasing presence of «online banks» in the banking reporting landscape can be seen in the increase in STRs received in 2017 from the sector's six major players², from 421 to 608, i.e. an increase of 44.5% (against a rise

of 70% in 2016). However, these figures should not mask the discrepancies in reporting practices amongst these institutions. Two major stakeholders – instead of only one in the previous year – were very active: both submitted more than 200 declarations in 2017. Three other entities sent about twenty reports each, a decrease from 2016.

The very marked difference in the investigation rate of these STRs, ranging from 3.8% to 52.4%, also raised questions within the Unit, which also noted a precipitous, 20-point drop in this rate for one online bank.

The surging popularity of online banks, which are more exposed to certain risks (such as documentary fraud) due to the absence of physical contact with customers, must not result in an erosion of vigilance when it comes to applying AML/CFT provisions. The low number of reports on terrorist financing (4 in 2017 compared with 0 in 2016) testifies to the need for the sector to strengthen its involvement, adapt its risk analyses and boost its monitoring mechanisms.

1,031 Suspicious Transaction Reports were submitted by entities in the private banking sector, an 8% decrease over 2016. It testifies to uneven involvement in terms of the declarative practices in this sector.

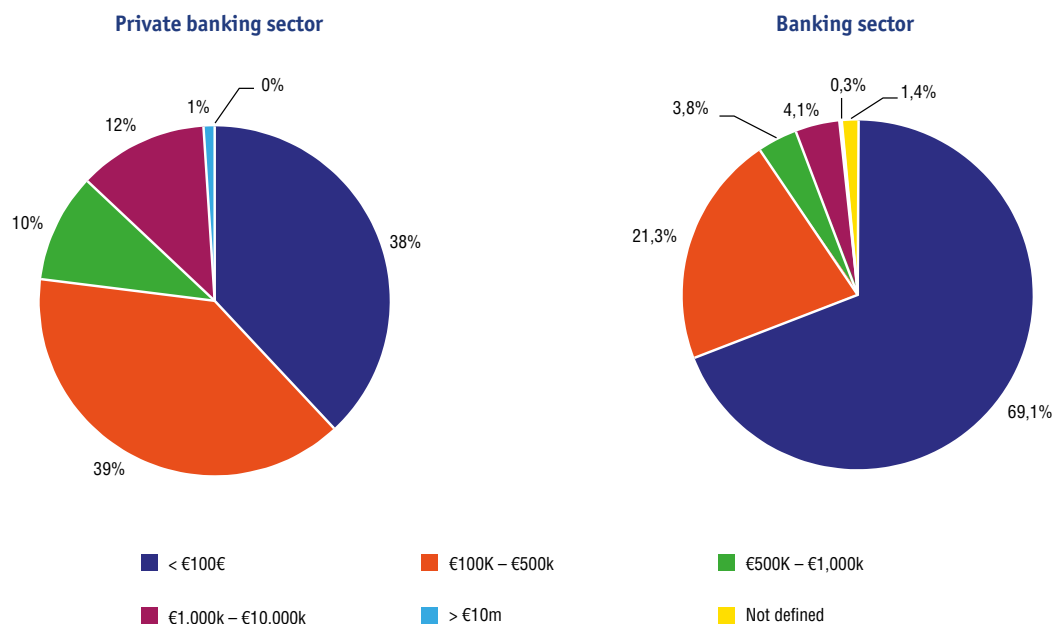
The breakdown of STRs by amounts declared differs from that of retail banking, in line with the customer segments concerned (selectivity of customers according to assets and income). Thus, 38% of reports concern amounts of less than €100,000, 39% between €100,000

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

² Boursorama, Hello Bank, Fortuneo, Monabanq, Bfor-Bank and ING Direct.

and €500,000, 10% between €500,000 and €1m, 12% between €1m and €10m, and 1% of reports concern stakes above €10m. These figures remained stable in 2017.

It is important that all stakeholders in the private banking sector continue their efforts, both in terms of the quantity of declarations and the quality of the analyses.



Tracfin's expectations of private banks are quite high. By the very nature of their activity, these institutions or departments within large banks have all the necessary elements (regularly-updated and documented information about customers, assets, etc.) to form suspicions, analyse them and submit complete and relevant reports.

The investigation rate³ of STRs submitted by private banks, nearly double that of retail banks, bears witness to the risks to which these institutions are exposed. This is due to the nature of the relationship with the customer (foreign and domestic PEPs, a large portion of non-residents, entrance into business relations via third parties, etc.), as well as to the nature of the transactions carried out (large amounts, international dimension, complex arrangements, trusts, third-party representation of customers, and so on).

Particular attention must be paid to the reasons for the complexity of the financial arrangements associated with the transactions carried out. Supporting documentation and the knowledge of the beneficial owners are an integral part of the effective due diligence measures with regard to this clientele.

Politically Exposed Persons (PEPs)

The enactment of the Fourth Directive in late 2016, which extended the definition of PEP to the domestic level, heralded an increase in the number of reports concerning these persons. However, the opposite phenomenon was observed in 2017. The number of PEPs reported was 467 (compared to 475 in 2016). The portion of PEPs reported by the seven largest entities decreased by 11% in 2017, from 397 to 352. Three institutions recorded a significant drop, ranging from 18% to 34%.

New ACPR guidelines for PEPs are due out in 2018. They should help clarify reporting expectations in this area.

³ 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.

Amounts declared in STRs

In 2017, there was an increase in STRs dealing with limited sums of money: 69% had to do with amounts under €100,000 (the lowest category), compared with 71.5% the previous year. This decrease is due to two entities that recorded a 10% fall-off in their reporting activity.

Correlatively, STRs concerning higher sums of money either increased slightly – 21.3% for amounts between €100,000 and €500,000 (21% in 2016), and 3.8% for amounts between €500,000 and €1 million (3% in 2016) – or remained stable.

STRs concerning small sums mainly had to do with tax issues for small-scale undeclared work, undeclared donations and unjustified cash withdrawals. They contained little or no analysis and were more in line with mass reporting than with the detection of more elaborate fraudulent transactions. It is these latter transactions that must be the focus of the efforts of services fighting financial crime.

Tracfin is pleased that the reduction in STRs concerning the lowest tranche of amounts has been accompanied, among the institutions concerned, by an improvement in the quality of analyses, identification of new typologies for the reporting entity and a wider variety of the fraudulent schemes reported. This trend needs to be continued and expanded for all reporting entities, including mutual networks.

• Following up on STRs

The stability in the number of STRs submitted by the banking sector had no effect on the investigation rate, which remained the same as in 2016 (just over 1 in 10 reports). Between 2013 and 2017, this rate fell by more than 11 percentage points, a time when the Unit was bolstering its technical and human resources to process the information received.

The tightening of investigation rates into a «corridor» of between 10% and 20%, i.e. a ratio of 1 to 2, compared to a ratio 1 to 4 in 2016, is a positive sign of homogenisation in the sector.

The share of reports under investigation fell for four banking groups, two of which were below the average rate, and increased for three others.

The largest increases were observed amongst institutions that recorded a drop in STRs that concerned low amounts and basic typologies, and with poor quality analyses.

Tracfin attentively monitors this rate, which correlates to the relevance of reports and how they change on an entity-by-entity basis. It thus notes that the two banks with the highest investigation rates both recorded a drop of 3 points over 2016, and 10 points over 2015.

• Disclosures to the courts and partner authorities

The number of reports submitted by the banking sector that resulted in disclosure increased in 2017, both in terms of disclosures to the courts (8.5%) and in administrative disclosures to partner authorities (a 43.5% increase).

This sharp uptick in administrative disclosures is the result of the Unit's new channel for rapidly sending information to the tax authorities, and also the creation in 2015 of a specialised division for combating terrorist financing.

Although the traditional tax typologies reported by banks involve undeclared foreign accounts, undeclared donations and undeclared work, the Unit also processed a significant number of STRs relating to individuals and legal entities that involved a wider range of issues, such as the bankruptcy fraud by companies.

Disclosures to social security bodies (a 35% increase in 2017) included a significant increase in residency fraud committed by recipients whose banking activity revealed that they were not permanent residents of France.

The increase in the number of disclosures based on their STRs concerned more or less all large institutions. The average increase was about 20%, with the lowest at 7% and the highest at 200%. Above all, there was a positive trend in the disclosure rate⁴, which rose from 0.5% to 4% in 2017 for five of the seven large institutions.

Tracfin notes with interest this development, as it indicates an improvement in the relevance of the alert systems in place and the quality of the information submitted. Tracfin would like to stress how important it is to analyse these alerts, and how important it is to apply a filter to remove any doubts that may arise. When alerts are all too systematically transformed into STRs, this is a sign of a defective internal process.

⁴ Ratio between the number of STRs submitted and the number of resulting disclosures.

Qualitative data

The relevance of STRs and the quality of their analyses ensure that Tracfin can proceed with an efficient processing of the information.

After 2016, which was characterised by a marked deterioration in both of these indicators, our observations concerning 2017 are mixed. Although some improvement was observed in some entities, following a thorough reorganisation of their AML departments and the implementation of quality detection scenarios, STRs from certain cooperative banks still suffer from cursory analyses.

Scenarios now play a key role in entities' reporting activities. Developed to detect atypical transactions, they are all the more relevant when their purpose is to reveal high value added typologies. On the other hand, Tracfin notes that certain scenarios focusing on small cash transactions tended to lower the quality of STRs submitted by certain banking groups: the analyses were too fragmentary to show that the atypical transaction detected was suspicious under the provisions of the Monetary and Financial Code. Finally, Tracfin notes with interest that, in 2017, several entities perfected their scenarios regarding the detection of acts that may constitute terrorist financing. These scenarios demonstrated the know-how of certain entities to pass on information that the Unit quickly processed and disclosed to the partners in charge of these cases.

Similarly, setting alert criteria is a tricky exercise that has a direct impact on entities' reporting activities. Configuring alerts is one of the highlights of the anti-money laundering system set up by reporting entities. The supervisory authorities are in the best position to assess the relevance, completeness and follow-up given to analysis and filtering efforts. Too many alerts should lead a reporting entity to examine its situation. In the past, this might have led to an increase in the number of files to be examined, a delay in processing them and, consequently, the creation of a backlog. The abnormally long reporting times observed in two entities in 2016 had disappeared by 2017, but Tracfin remains attentive to changes in this indicator.

Tracfin constantly receives a large number of STRs relating to withdrawals of cash that do not explore the funds' origin, as well as others dealing with unusual debit transactions by individuals without

any explanation of destination of the funds or any analysis of why the transaction should be treated as suspicious. These types of reports are all too common from certain cooperative banks, and they are not of interest to Tracfin unless they are connected with terrorist financing. This is even more the case with STRs relating to tax evasion: a bank suspects that the sums involved in the transaction are derived from tax evasion, which meets one of the 16 criteria⁵, and thus files a report with Tracfin. A client's refusal to give a reason is not in itself grounds for suspicion of fraud.

Lastly, over the past several years, Tracfin has been alerting banking sector professionals to transactions carried out by legal entities, companies and associations that serve as vectors of high-stakes fraud schemes. In 2016, every institution had experienced a drop in their reporting rates. The opposite phenomenon was observed in 2017, particularly for two institutions. The Unit encourages banks and all their component entities to continue these efforts.

3. Power to request information

In 2017, 9,221 requests for information were sent to the main banking institutions, which accounted for 31.5% of the Unit's requests for the year (compared with 27% in 2016).

The Unit notes that the banks showed good responsiveness overall, taking between 3 and 8 days to answer the requests. Some requests needed an urgent response, which is stipulated in the request. Tracfin expects institutions to be particularly vigilant to these types of requests, as delays were sometimes noted.

Furthermore, in 2017, all institutions sent bank statements in spreadsheet format, which made the work of Tracfin much easier.

4. Awareness-raising

Since Tracfin set up an in-house network of advisers, each year from February to April the Unit meets with key financial institutions for «activity review» meetings. In 2017, these feedback sessions covered 89% of reports received from the banking sector.

Tracfin now takes part in meetings attended by Financial Security staff at all institutions. This is an opportunity for the Unit to get specific messages across to certain groups (the need for more in-depth analysis), to clarify its expectations (concerning private banking customers,

⁵ Article L.561-32-1 of the French Monetary and Financial Code.

for example), and to support others in implementing detection scenarios, which are the sole responsibility of the reporting entity.

In January 2017, faced with a sharp increase in poor-quality STRs, Tracfin and the ACPR jointly organised a meeting with the seven largest financial institutions. This was a chance to clarify the expectations of both Tracfin and the ACPR, with a view to revising the joint Tracfin/ACPR guidelines.

A second major meeting, devoted to the fight against terrorist financing, was held on the same day with the primary banks and payment institutions.

Tracfin is repeating these initiatives in 2018.

The focus on the private banking sector resulted in 22 meetings in 2017 (15 in 2016). These meetings enabled Tracfin to gain a better understanding of these banks' activities, to review their reporting practices, and to clarify its expectations and areas of focus. They will continue in 2018.

Similarly, 26 meetings were held with payment institutions, e-money institutions, and professionals in the areas of crowdfunding and virtual currency, reflecting the Unit's attention to these sectors.

UPDATING THE JOINT TRACFIN/ACPR GUIDELINES IN 2018

In compliance with the regulatory enactment of the provisions of the Fourth European Directive, the Tracfin/ACPR guidelines were published in the first half of 2018. They replace the previous guidelines published in November 2015.

After the upsurge in reporting activity in 2016, accompanied by a deterioration in the quality of the information received, the guidelines needed to be updated, and Tracfin and the ACPR's expectations needed to be clarified. In particular, this concerned:

- Reporting suspicious transactions – not merely unusual ones – after a substantiated analysis
- Reporting suspected criminal or tax offences (which fulfil at least one of the 16 criteria)
- The need for immediate reporting, this being assessed in the light of the investigations to be carried out for the purpose of analysing the facts; the steps taken are documented.

The guidelines no longer propose typologies, since they are published in Tracfin's reports (annual report and the risk trends and analysis report).

Finally, the section devoted to the fight against terrorist financing was expanded and clarified.

THE BANKING SECTOR IN OVERSEAS FRANCE

Reporting practices in the banking sector in Overseas France differ somewhat from other areas, in that some reports are filed by local banks and others by banks in mainland France. After the large number of mergers and acquisitions of local banks that occurred in 2015 and 2016, accompanied by the repatriation of AML/CFT services to mainland France, only one institution was affected by such restructuring in 2017. Regardless of the location of financial flow monitoring systems, institutions must have a risk map adapted to the local criminological, economic and tax situation.

Faced with this reallocation of reporting departments, and to benefit from more precise monitoring of STRs, Tracfin asked the AML/CFT departments of mainland banks submitting STRs for overseas institutions to establish identification keys making the STRs easier to identify.

Not all reporting entities have done so, and Tracfin strongly underscores how important this is.

In terms of reporting activity, Tracfin received a total of 1,371 STRs from the banking sector, including 832 submitted by 20 local banks (including for their AML/CFT activity) and 539 from 40 institutions (major groups or subsidiaries) whose AML/CFT functions had been centralised in mainland France.

With 404 STRs submitted, New Caledonia was the largest contributor, followed by Réunion (257), Martinique (222), French Polynesia (198), Guadeloupe (190), French Guiana (73) and Mayotte (27).

.../...

The number of Suspicious Transaction Reports submitted by local reporting entities fell by 15.3% over the previous year, primarily due to a sharp falloff in reports from French Polynesia (-50.6%). On the other hand, there was a notable upswing in STRs from Réunion and New Caledonia (13% and 30%, respectively), whereas those from Guadeloupe and Martinique remained about the same.

The investigation rate of STRs submitted by centralised institutions concerning Overseas France stood at 12%, whereas the rate for those submitted by local institutions was 10.3%.

The common, recurring themes of STRs from these geographic entities were undeclared work and various forms of tax evasion (concealment of revenue, failure to declare, undeclared donations, possession of foreign bank accounts, use of personal accounts or third-party accounts for professional purposes, concealed real estate dealings, etc.). To a lesser extent, they dealt with domestic fraud (breach of trust, embezzlement of public funds, fraudulent cheque deposits) as well as international fraud (false transfer order networks and fake Internet advertisements involving transfers of money to Africa).

Attention is once again focused on tax measures diverted from their original objectives. Case study no. 3 in Tracfin's 2013 Analysis and Activity Report (p. 18) is very relevant in this regard.

Fact sheet 2 – The insurance sector

The reporting activity of the insurance sector, which has been on the rise since 2012, grew further in 2017 with 5,283 STRs (against 3,520 in 2016). This represents a 50% increase, which is even higher than that observed in 2016 (38%).

However, there were disparities within the sector. At +54.3%, submissions from insurance companies carried on the upward trend of 2016 (48.2%), while insurance intermediaries posted a sharp decline (a falloff of 3.7% vs. an increase of 64.6% in 2016). Reporting activity from mutual companies and benefits institutions increased significantly in 2017 (+13.1%, compared with -33.4% in 2016).

The share of insurance companies increased, accounting for 93.5% of the sector's STRs (compared with 91% in 2016) with 4,939 reports submitted in 2017. Within this category, bank insurers remained the primary contributors, with 47% of reports submitted.

The 241 STRs submitted by mutuals and provident institutions in 2017 (against 213 in 2016) are indicative of a positive trend for this group, which had fallen sharply in 2016 but did not reach the reporting level of 2015 (320 STRs).

Against this background of increasing reporting by the Insurance sector, there was a slight falloff in reports from insurance intermediaries (103 STRs in 2017 against 107 in 2016), after a year of significant growth.

The efforts made in 2016 by these professionals, which represent the third largest source for individual insurance, must be maintained to bolster their involvement in implementing the AML/CFT system.

The main money laundering vectors reported by the sector remain the purchase of life insurance policies and bearer bonds.

With respect to typologies, tax evasion (particularly undeclared donations and, to a lesser extent, the possession of foreign assets) remains the main suspicion reported, along with abuse of weakness.

Misuse of company assets and fraud observed in the healthcare and benefits sector (particularly those involving fictitious companies), which are less well reported, nevertheless remain current topics and involve significant amounts of money. Tracfin therefore once again urges insurance professionals to focus their attention on this area.

As regards legal entities, Tracfin regrets that the low rate of reporting has declined even further. Legal entities now represent only 6.7% of STRs in 2017 (compared to 7% in 2016), despite Tracfin's repeated appeals in recent years.

Finally, the insurance sector needs to remain mobilised and alert with regard to the fraud typologies associated with terrorist financing in the life and non-life insurance sectors, as shown by Tracfin's investigation files.

A RISK-BASED APPROACH

This approach applies to both life and non-life insurance.

Paragraph I of Article A-310-8 of the Insurance Code:

«Pursuant to Article R. 561-38 of the Monetary and Financial Code, companies shall set up a system for identifying, assessing, managing and controlling money laundering and terrorist financing risks.

I. Companies shall establish a system to classify and assess risks. This classification shall covers:

- Transactions with the persons referred to in Article R. 561-18 of the French Monetary and Financial Code
- Activities carried out by subsidiaries or establishments in the countries or territories mentioned in paragraph VI of Article L. 561-15 of the Monetary and Financial Code
- Activities carried out by subsidiaries or establishments in the country or countries subject to specific restrictive measures taken pursuant to regulations of the Council of the European Union or to the freezing of assets.»

A risk-based approach goes hand in hand with a risk mapping exercise with regard to the products on offer (life and non-life insurance), distribution channels (distance selling in particular) and customer profiles (factoring in segmentation or PEP status, including at national level).

Tracfin also notes with surprise a drop in the number of STRs concerning PEPs (44 PEPs declared in 2017, including 17 domestic PEPs, against 52 in 2016, including 12 domestic PEPs).

While the flow of reporting activity is constantly increasing, it has not yet been accompanied by an improvement in the quality of reports. Among other factors, a lack of knowledge of the AML/CFT system is frequently noted. This has a major impact on reporting practices (whether it has to do with the basis of a report, the description of the suspicion or simply the presentation of relevant facts). Consequently, the Unit calls on institutions to strengthen their training activities for reporting entities and Tracfin correspondents.

During its bilateral meetings with sector institutions in 2018, Tracfin will continue its awareness-raising activities concerning best practices, as in 2017.

As part of this, the Unit underscores the importance of implementing a **risk-based approach**. This concept is

described in the ACPR/Tracfin guidelines, as well as in the revised Sector-Specific Implementing Principles (2015). Entering into a relationship and keeping one's customer knowledge current are prerequisites for understanding a client's financial environment and the origin of the funds invested.

The fundamental aspect of the **description of the suspicion** by the reporting entity should be emphasised. A description makes it possible to identify the sound basis of a report and to present in a clear and relevant manner in the explanatory statement the factual elements that gave rise to this suspicion. According to the Monetary and Financial Code (CMF), the origin of the suspicion must be an underlying criminal or tax offence or a suspicion of terrorist financing. This streamlining of the reporting process is an essential element in the quality of STRs from insurance professionals, and will help boost the falling investigation rate of reports (7.2% in 2017, compared with 10.5% in 2016).

It should make it possible to avoid a phenomenon observed in 2017, particularly among bank insurers, namely the transmission of STRs in the **absence of any suspicion**. Tracfin is pleased that intra-group communication has increased, in terms of both due diligence and reporting obligations. However, reporting obligations remain linked to the type of reporting entity. Thus, in a case where a banking institution has submitted an STR about a customer, an insurer will only submit a report about the same customer if it has a suspicion about that customer's insurance transactions.

In 2017, Tracfin observed a marked improvement in compliance with the prior reporting principle set out in Article 561-16, paragraph 1 of the Monetary and Financial Code, and most STRs are now submitted before the suspicious transaction is carried out. This allows the Unit to object, if necessary, to a transaction being executed. However, Tracfin notes that some entities almost systematically mention the right of opposition when funds are disbursed. Tracfin points out that this right is a prerogative that the Unit exercises under specific conditions, including when there is a strong suspicion that the funds are of criminal origin.

Finally, unusually long and unjustified delays between the completion of the transaction and the drafting of the STR are an ongoing feature. Tracfin notes that late reports are elements that can be qualified as breaches of due diligence obligations, and are therefore likely to be reported to the ACPR, pursuant to Article L. 561-28 of the CMF.

Fact sheet 3 – Money changers

In 2017, there was a significant drop in the number of STRs submitted by the money-changing sector, whereas the number of bureaux de change remained relatively stable.

1,810 Suspicious Transaction Reports were submitted to the Unit by 84 bureaux de change, compared with 2,225 STRs submitted by 86 bureaux de change in 2016. This 19.7% decrease puts an end to the sharp upswings of 2016 (+49%) and 2015 (+31.9%). It can be partly attributed to disruption caused by weather events in Overseas France.

The number of bureaux submitting at least one STR compared with the total number of 180 ACPR-accredited bureaux de change (as at 1 January 2017) remained relatively stable: 46.6% in 2017, against 47.7% in 2016.

The reporting disparities observed in the previous year persist. The four largest operators were responsible for 59% of the 1,810 STRs submitted in 2017 (compared with 54% in 2016), and 59 bureaux (70%) submitted at least 10 reports during the year.

In terms of quality, the issues raised last year remain (systematic declarations as soon as an arbitrarily-determined transaction threshold is exceeded, presence of a PEP without suspicion as to the foreign exchange transaction, etc.). Too few money changers carry out a proper analysis of the facts, including research and putting the suspicion in perspective. Many are content to simply report a foreign exchange transaction, without detailing the characteristics of the transaction, sometimes indicating, as an analysis, that a customer “seemed to be acting strangely”.

Tracfin reminds money changers that a suspicion is the result of reflection on the part of the reporting entity. It is the result of a doubt that leads the entity to question the lawfulness of the transaction requested, taking into account information it has about the customer (identity, reputation, profession, etc.) and the financial and other elements that contributed to the transaction.

Despite this mixed record, the number of referrals increased, with 28 during the year (including 4 to the courts), compared to 21 in 2016 (including 5 to the courts), whereas the number of STRs fell by 19.7%, as mentioned above.

Tracfin attended the annual meeting of the *Syndicat National des Changeurs et Auxiliaires Financiers* (SNCAF) on 12 October 2017 to present the Unit and to exchange best practices in terms of STR submissions by money changers.

To be useful, an STR submitted by a money changer should:

- Accurately identify the person(s) involved (full name, date of birth, address, telephone number, e-mail address, etc.)
- Include a copy of the person’s ID or any other document in the professional’s possession. Attention should be paid to Internet-based currency purchases where the strict application of due diligence rules applies regarding customer identification
- Provide a detailed context of the foreign exchange transaction (e.g. type of currency, denominations, etc.) or the gold transaction, with regard to the customer’s profile – age, nationality, profession (if known), and even behaviour (particularly an evasive or hostile attitude, reluctance to show ID, whether or not he or she is accompanied by a third party, and so on).

Fact sheet 4 – Payment institutions

In 2017, there was an unprecedented surge in reporting activity by payment institutions. With 8,603 suspicious transaction reports (against 5,110 in 2016), the sector saw a 68.4% increase over the previous year, when the flow of reports was already on the rise (+12.7%).

The share of the fund transfer sector, which in the past has dominated the reporting activity of payment institutions, continued to decline (63.7% in 2017 compared with 81.1% in 2016). By contrast, the number of

new payment services providers (neo-banks offering a payment account or institutions specialising in collecting on behalf of third parties) increased sharply in 2017, particularly under the impetus of two institutions.

Diversification of the professions that make up the payment institution sector and the upswing in reporting activity by the newest arrivals have increased the variety of risks reported and the associated typologies. This trend has been sharpened by the emergence of stakeholders that are active in fast-changing areas that have a strong technological aspect, to which the

Unit is constantly adapting (see the inset on DSP2 below).

From a quality point of view, Tracfin remains concerned about recurring deficiencies that were noted in 2016. The processing of STRs is hampered by poor practices relating to identifying the subjects of the reports or those connected to them. To make sure that STRs are processed in an optimum manner, all persons involved in the transaction (remitters and recipients in the case of fund transfers) must be reported, together with their complete contact details⁶ in the relevant fields of the STR⁷. Where a large number of stakeholders are involved, it is up to the reporting entity to identify those persons who, on the basis of an analysis, are the main actors with respect to the reported transaction.

Similarly, many reports suffer from insufficient analysis of the facts that formed the basis of the suspicion (mere reporting of transactions without analysis, use of stock phrases, lack of research using public databases, etc.). Tracfin wishes to underscore the importance of analytical work by the reporting entity concerning the atypical transactions detected, in accordance with the requirements of the joint Tracfin/ACPR guidelines:⁸ «Financial organisations are not obliged to report all unusual, atypical or high-risk transactions; only those transactions deemed to be suspicious should be reported to Tracfin».⁹ Thus, an analysis of the facts giving rise to the suspicion that led to the STR must be included in the «Statement of Facts» and be supplemented by a table listing the suspicious transactions carried out and detailing their characteristics.

Once again in 2017, payment institutions were the focus of numerous requests for information by Tracfin, particularly as regards the fight against terrorist financing. The number of requests issued in 2017 was 4,051, against 3,007 in 2016, an increase of 35%. This notable upswing particularly concerned money transfer firms, who received 87% of the Unit's requests. Tracfin is aware of the efforts being made to respond to these requests, and emphasises the excellent overall responsiveness of the sector. Nevertheless, a few occasional shortcomings during the year illustrate the need for payment institutions to boost their adaptation and organisational efforts to maintain a sufficient quality level and response time.

⁶ Within the limit of the capacity of the ERMES reporting system.

⁷ In particular «Individual's civil status» and «Individual's contact details» and/or «Information concerning the identity of the legal entity».

DSP2: THE CHANGING LEGAL FRAMEWORK GOVERNING PAYMENT SERVICES

Directive (EU) 2015/2366 of 25 November 2015 (known as DSP2), enacted into French law in autumn 2017, includes significant amendments to the regulatory framework applicable to payment services, as from 13 January 2018. These new provisions cover technological innovations in the sector and bolster consumer protection:

- Creation of two new payment service categories:
 - Payment initiation service (PIS)
 - Account information service (AIS)

These services are based on the right of access to data concerning accounts held by payment service providers who manage accounts

- Redefinition of the respective roles of host and home country supervisors for cross-border operators
- Definition of the role of the European Banking Authority as regards payment services
- Details regarding the application of exemption mechanisms allowing payment services to be offered without authorisation
- Expansion of strong customer authentication and introduction of common, secure communication standards between institutions

⁸ Specifically, paragraphs 71 to 85 of the «ACPR/Tracfin Joint Guidelines on Reporting and Disclosure Obligations with Respect to Tracfin».

⁹ See paragraph 74 of the «ACPR/Tracfin Joint Guidelines on Reporting and Disclosure Obligations with Respect to Tracfin».

Fact sheet 5 – Electronic money institutions

Within the meaning of Article L.315-1 of the French Monetary and Financial Code, electronic money institutions (EMIs) issue, manage and make available electronic money in the normal course of business¹⁰. They may also provide payment services on the same basis as payment institutions¹¹, as well as services related to electronic money or payment services as defined by the applicable regulations.

As at 1 January 2017, only 7 of the 132 EMIs distributing products within France had been approved by the French regulator, the Prudential Supervision and Resolution Authority (ACPR). The other entities operating under the European passport scheme included 14 operating under the freedom of establishment¹² and 111 operating under the freedom to provide services.

Tracfin reminds EMIs operating under the freedom of establishment that, under the provisions of Article D.561-3-1 of the CMF, they must provide Tracfin with the contact details of their permanent representative **as soon as possible**.

In 2017, there was a surge in reporting activity by EMIs, with a 394% increase in STRs. This resulted in the submission of 178 STRs, against 36 the previous year. Although this growth shows that the sector is taking AML/CFT risks into greater account, it was not shared by all EMIs.

There was significant disparity in reporting, depending on the status of the institution and the involvement of the permanent representatives. Thus, the 7 EMIs approved by the ACPR (which represent 5% of the sector) submitted 53 STRs alone, accounting for roughly 30% of the 178 reports received. The 125 other reports, i.e. nearly 70% of the total volume, came from a mere 5 permanent representatives of entities operating under the right of establishment, including 107 from a single stakeholder.

There are also significant differences between stakeholders in the same sector. Thus, two leading companies in the prepaid card and money collection sectors did not submit a single STR, whereas Tracfin received reports from comparable institutions.

¹⁰ Electronic money is a «monetary value that is stored in electronic form, including magnetic form, representing a claim on the issuer, that is issued against the remittance of funds for the purposes of payment transactions as defined in Art. L.133-3 and which is accepted by a natural person or legal entity other than the electronic money issuer.»

¹¹ In accordance with Article L. 314-1 of the Monetary and Financial Code.

¹² Including one branch and 13 EMIs using ATMs.

Finally, from a qualitative point of view, Tracfin notes the relevance and quality of the reports received, particularly from French companies, which contain precise information and are accompanied by supporting documentation that made it easier for the Unit to process them.

VIRTUAL CURRENCY

French legislators have sought to involve trading platforms¹³ in the fight against money laundering and terrorist financing. As of 1 January 2017, EMIs doing business in France are subject to AML/CMF reporting requirements, under the terms of paragraph 7° bis of Article L. 561-2 of the Monetary and Financial Code.¹⁴

Therefore, they must implement identification and verification procedures, as well as adequate due diligence measures. Regulatory supervision of these players is incomplete insofar as they are not subject to any authorisation procedure and there is currently no dedicated supervisory authority.

In 2017, Tracfin received 357 STRs in connection with virtual currencies. French cryptocurrency exchanges submitted only six, about 2% of the total. Eighty-five percent were submitted by payment institutions and the banking sector, in equal measure. The number of STRs received from the major banking groups on this topic was fairly homogeneous, but one institution stood out due to its more sustained reporting activity.

The AML/CFT system with respect to digital currencies will be considerably bolstered by the amendment of the Fourth European Anti-Money Laundering Directive, which is expected in 2018. The draft amendment includes cryptocurrency exchanges in its scope, as well as wallet providers.

Notwithstanding, the real prerequisite for an effective system remains a more proactive regulatory stance at international level.

¹³ These platforms ensure exchange between real and virtual currency.

¹⁴ Article L.561-2, 7° bis of the CMF defines virtual currency operators as follows: "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."

Fact sheet 6 – Crowdfunding intermediaries and investment advisers

Crowdfunding involves bringing together, by means of a website, promoters of a given project and people willing to finance this project.

In the first half of 2017, a total of €153.5 million was raised by such sites in France (An increase of 48% compared with the first half of 2016).¹⁵

A total of 361 STRs relating to crowdfunding platforms were submitted in 2017 (against 149 in 2016), which represents a 142% increase. Of these, 69% were from payment and electronic money institutions (250), 22% from the banking sector (79), and only 7% from crowdfunding intermediaries and investment advisers (23).

This breakdown shows that the sharp increase in STRs in 2016 and 2017 was not due to the fact that crowdfunding intermediaries and investment advisers are now subject to the AML/CFT system¹⁶, but rather to a heightened awareness amongst other reporting professionals of the risks associated with these new financing methods. The payment institutions and electronic money institutions that partner with crowdfunding platforms appear to be particularly active and aware of the risks that can impact their reputation if their platforms are used for fraudulent purposes.

As newcomers to the world of reporting entities, crowdfunding intermediaries and investment advisers remain largely uninvolved. In 2017, nine platforms submitted 25 STRs (6 in 2016). More than two-thirds of these were submitted by crowdlending platforms, which provide loans to SMEs. The remaining third were submitted by two donation platforms.

Tracfin was surprised by the lack of STRs from some of the key players on the French crowdfunding scene.

STRs submitted by the sector were generally of high quality. Individuals were properly declared and the statements of facts were relatively clear and concise. However, more effort needs to be made with respect to supporting documentation (copies of ID and transaction records in particular): more than half of the STRs submitted had no attachments.

Finally, the Service is pleased that actions undertaken in spring 2017 to remind crowdfunding platforms of their registration obligations have borne fruit. Whereas only 14 of them had correctly registered on ERMES as at 1 January 2017, now 85 platforms (47 IFP and 38 CIP) are up to date with their obligations to designate a declarant and a correspondent.

¹⁵ According to the 2017 crowdfunding barometer published by Financement Participatif France.

¹⁶ These two groups have been subject to AML/CFT obligations since the entry into force on 1 October 2014 of Order 2014-559 of 30 May 2014 relating to crowdfunding.

Case study 1

Terrorist financing in connection with crowdfunding

Tracfin's attention was drawn to the financing of Non-Profit Organisation X, which Tracfin's partner departments had indicated was close to a radical – and possibly terrorist – movement.

The association, which had a single bank account, was financed by donations in cash and cheques (€30,000), as well as via an online payment service through its website (€10,000). One of the board members had also used a money collection website to launch an appeal in connection with a specific project, and raised nearly €8,000.

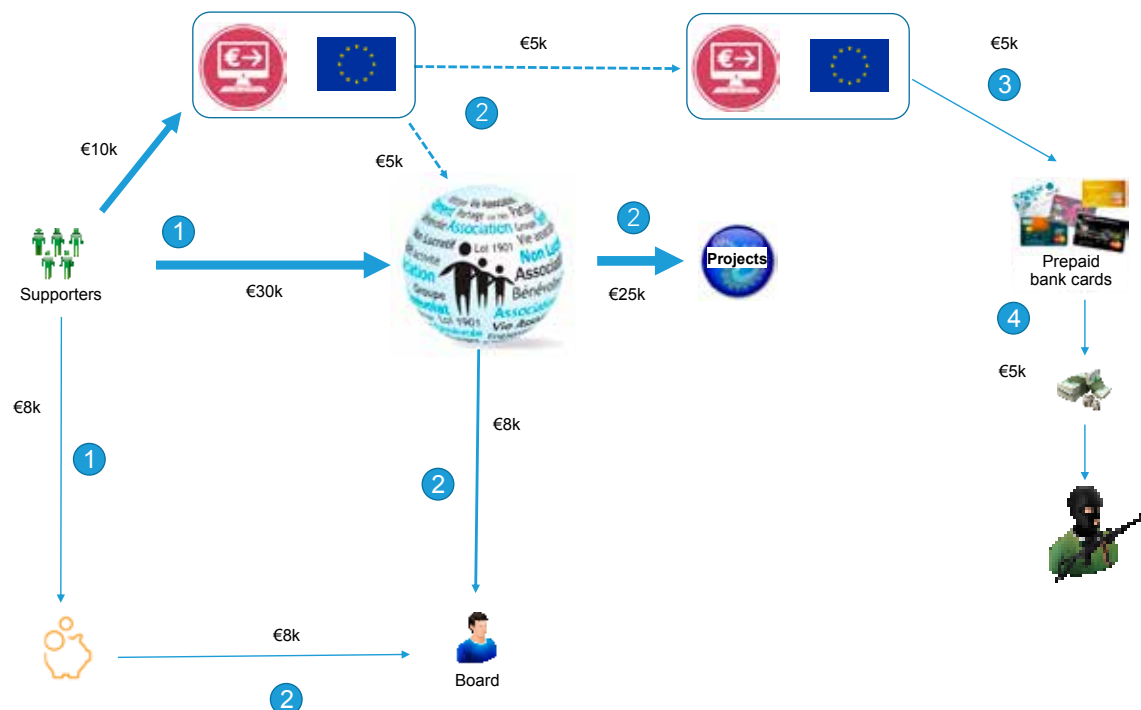
The donations that came from these channels were neither paid to the association nor used for their initial purpose. As it turns out, Mr A, a board member, benefited personally from the funds raised via the money collection website, using them for trips abroad in particular. Having power of attorney over the association's bank account, he also used the association funds for personal expenses.

He had opened a second online payment account in another European country. This second account received a part of the donations initially intended for the association, in the amount of €5,000. Mr A then used the funds from this «mirror» account to purchase foreign prepaid cards.

He withdrew cash using these prepaid cards to send funds via money orders to known jihadists in a war zone via a network of financial collectors devoted to the cause.

Warning signs:

- Links between the targeted person and a radical movement
- Flows from the association's accounts to a board member
- Opening of online payment accounts
- Use of a money collection website
- Use of prepaid cards
- Transfers of funds to a war zone



Fact sheet 7 – Financial market professionals

Financial investment advisers

Although the number of STRs submitted by financial investment advisers increased sharply in 2017 (+78%), the figure remains low in absolute terms (57 reports, compared to 32 in 2016), which is a source of concern. This observation, which applies to both corporate finance consulting activities (sale or handing on of businesses, external growth transactions, capital increases, etc.) and wealth management consulting, shows the slight regard this sector has with respect to its AML/CFT obligations. Many STRs submitted by these professionals continue to be made as part of their activities as insurance or reinsurance brokers.

By the nature of their activities and the in-depth knowledge of their clients, financial investment advisers have the elements needed to detect suspicious transactions, substantiate their suspicions and produce good-quality analyses. From this point of view, it is their responsibility to check the consistency between the transactions requested by their customers and those customers' assets. However, reports from financial investment advisers rarely contain these elements.

Despite these disappointing findings, Tracfin nevertheless did receive several good-quality reports in 2017 that contained detailed analyses, in particular related to tax evasion.

Investment management companies

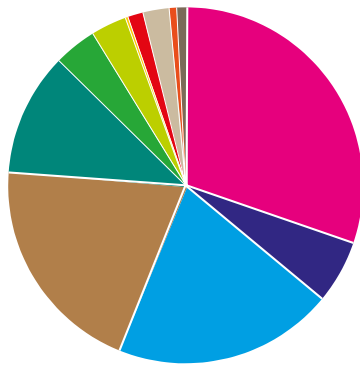
In 2017, there was another increase in STRs submitted by investment management companies (5% over the previous year). Despite this rise (continuous since 2011), the number of reports submitted remained low (63 in 2017). As in 2016, most reports were the work of just a few reporting entities: three investment management companies were responsible for 56% of all STRs.

Investment management companies operate in a number of areas, which explains the variety of types of cases reported to Tracfin. These include suspected tax evasion as part of discretionary management of assets, fraud involving employee savings plans, suspicions connected to real estate transactions, etc.

With regard to discretionary asset management, investment management companies must be vigilant concerning the origin of the funds that their customers entrust them with. If an institution suspects that these assets are derived from an offence punishable by at least one year's imprisonment or are linked to terrorist financing, a suspicious transaction report must be submitted to Tracfin under the conditions set out in the Monetary and Financial Code.

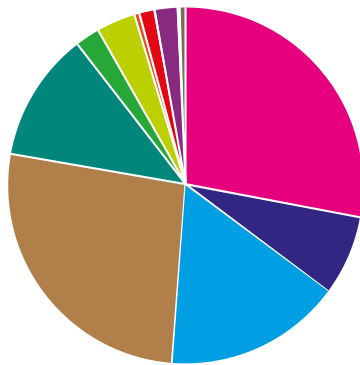
1.2 NON-FINANCIAL SECTOR REPORTING ENTITIES

Breakdown of reporting entities
within the non-financial sector in 2017



- Notaries, 30.3%
- Organisers of games of chance and sports and horse-racing betting, 5.6%
- Casinos, 20.1%
- Receivers and trustees, 20.2%
- Chartered accountants, 11.1%
- Real estate professionals, 3.9%
- Auditors, 3.3%
- Dealers in precious goods, 0.2%
- Auctioneers, auction houses, 1.5%
- Bailiffs, 2.4%
- Lawyers, 0.0%
- Commercial registered office providers, 0.7%
- Online gaming operators, 0.8%
- Sports agents, 0.0%

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



- Notaries, 27.9%
- Organisers of games of chance and sports and horse-racing betting, 7.3%
- Casinos, 16.1%
- Receivers and trustees, 26.6%
- Chartered accountants, 11.8%
- Real estate professionals, 2.2%
- Auditors, 3.5%
- Dealers in precious goods, 0.4%
- Auctioneers, auction houses, 1.4%
- Bailiffs, 0.1%
- Lawyers, 2.0%
- Commercial registered office providers, 0.2%
- Online gaming operators, 0.5%
- Sports agents, 0.0%

Fact sheet 8 – Notaries

After a number of years in which some 1,000 STRs were submitted, regardless of the condition of the real estate market, there was a significant upswing in STRs by notaries in 2017 – 1,401 reports were sent to Tracfin, an increase of 34% over the previous year. Submissions from notaries, who play a key role in real estate transactions, reached their highest point since 1998, underscoring the profession's leading position within the non-financial sector, ahead of gaming operators. This upsurge must be encouraged and maintained, as the number of sales and fixed assets recorded each year is constantly on the rise.¹⁷ It should also be reflected in the quality of the analysis of suspicions.

There were noteworthy geographical disparities in submissions. A large portion of STRs came from the Greater Paris region (30%) and Provence-Alpes-Côte d'Azur regions (15%). The Grand Est region consolidated advances that began in 2016, with 13% of the reports submitted by the profession. These three regions alone account for 58% of all STRs sent by notaries. Notaries in other regions reported very unevenly.

The ever-increasing number of reports transmitted via ERMES (81% in 2017) shows that notaries are resolutely embracing paperless procedures. This positive result should serve as an example for the still too numerous notaries whose reports were deemed inadmissible. Of the 256 inadmissible STRs for all professions combined, 143 concerned notaries. Sending an STR via ERMES allows for secure data entry and ensures that the acknowledgement of receipt remains confidential.

Notaries focused almost exclusively on real estate transactions, which represented 97% of the subject matter of the submitted reports. They concerned residential real estate transactions and, to a much lesser extent, transfers of leases and transfers of shares.

Although the volume of submissions from notaries is on the rise, an analysis reveals that there is still considerable room for improvement in terms of quality. Nearly half of all reports were devoid of attachments. All too often, the reports are incomplete, lacking analyses and tangible evidence of suspicion. Notaries need to be aware that the statement of facts should not consist merely of a copy of a notarial deed; rather, it is the expression

of a doubt as to the lawfulness of a transaction. The customer knowledge information sent to Tracfin could still be improved to a large extent, and the same is true for the financial and contextual elements relating to the transaction in question.

Nevertheless, during the year, notaries duly reported purchases of real estate by persons subject to national or international sanctions. They also described situations in which it was impossible to identify the real beneficiary of the transaction (a «straw» buyer, or the use of shell companies) and revealed cases of tax fraud, primarily in connection with tax evasion issues.

Efforts still need to be made to set up risk mapping at the level of each notary office. This approach will enable notaries to specifically identify situations likely to expose them to money laundering risks, and to take note of warning signs.

Awareness-raising efforts by Tracfin¹⁸ over the past few years have been stepped up with the help of the profession's representative bodies, so that the notarial profession can actively fulfil its obligations. In 2017, Tracfin took actions in the jurisdictions of the Courts of Appeal of Douai, Agen, Aix-en-Provence, Paris II, Nîmes and before the Chamber of Notaries for the Hauts-de-Seine département. The Service also met with representatives from the High Council of French Notariat (Conseil supérieur du notariat – CSN) on several occasions.

In 2018, notaries should have access to a commercial database that will be a relevant tool for detecting politically exposed persons and for obtaining information on the parties involved in a case.

In addition, the CSN plans to deploy an IT system during the year to guide professionals and improve their analyses. This approach should be encouraged and should yield results provided that it is accompanied by a sustainable AML/CFT training policy at all levels of the profession.

In terms of awareness-raising, it is important that guidelines with concrete case studies be promoted by the CSN by the end of the year.

The year 2018 should thus be an ambitious year for a profession that has been subject to the AML/CFT requirements for the past two decades.

¹⁷ 1,366,000 sales registered in France in 2016 (source: DGFIP), compared with 1,546,455 in 2017.

¹⁸ Six awareness actions carried out by Tracfin with respect to notaries in 2017.

Case study 2

Fraud, forgery and money laundering in the real estate sector

The facts

The Unit received information concerning several dozen real estate transactions that had been certified by the same notary. All of the transactions had been financed by loans from Bank Z, for a total of more than €8 million. Mr X, who was employed by a municipality in the Greater Paris region, was appointed as the buyer's representative for a large part of these transactions, all of which displayed the same unusual characteristics:

- Incorrect or obsolete address and professional information concerning the buyers
- Buyers lacking the necessary financial resources to repay the loan
- Properties located far from the notary's office
- Quick purchase and resale of properties, without the buyers ever living there
- Loans obtained from Bank Z using false documents

Tracfin's investigations

Tracfin's investigations revealed:

- A significant and recurring gap between the properties' purchase prices and the amounts borrowed from Bank Z
- The notary deposited all funds released by the bank
- A portion of the sale price was refunded to the sellers
- The rest of the money (nearly €2 million) was transferred to several companies active in various fields (automotive repair, consulting, metal trading, etc.) unrelated to real

estate transactions. These companies were also suspected of laundering the proceeds of criminal activities and were, for the most part, managed by Mr Y

- The repayment, by the above-mentioned companies, of many monthly loan payments granted by Bank Z

This case was referred to the courts for forgery and use of forgeries, fraud and money laundering in connection with organised crime.

Warning signs

Warning signs for a notary:

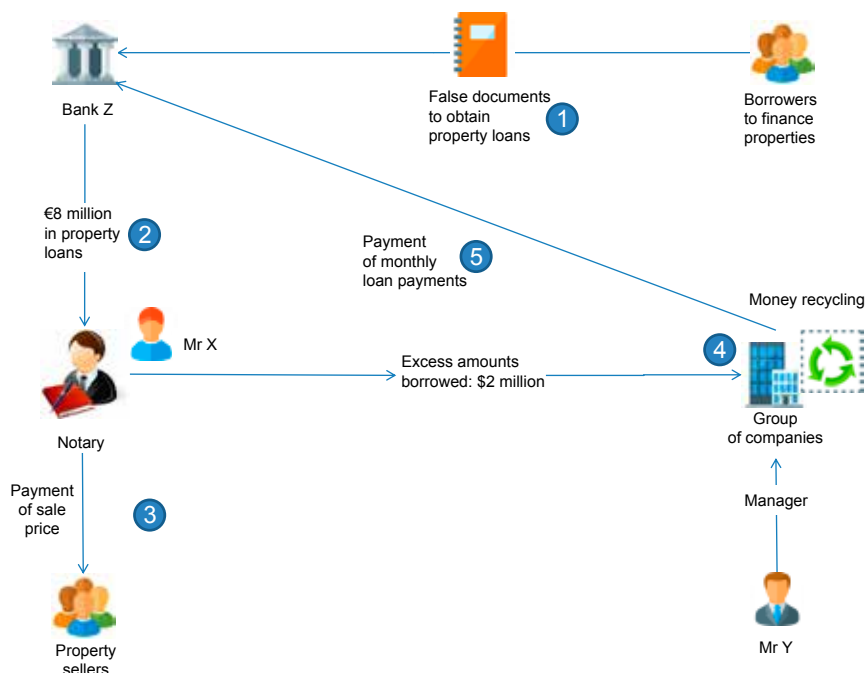
- Properties located far from the notary's office
- Quick purchase and resale of properties, without the buyers living there
- Incompatibility of the buyer's socio-economic profile and the property's purchase price

Warning signs relating to loans granted by Bank Z

- Use of the same notary to certify real estate transactions relating to many loans which, in theory, are unrelated
- Similar anomalies in the loan applications
- Borrowers making monthly loan payments via payments from third parties that have no known connection with their customers

Warning signs relating to companies' bank accounts:

- Irregularities noted in the accounts of companies operating in various fields, including substantial, non-justified payments from a notary
- Companies issuing monthly cheques for the same amounts, suggestive of salaries, to multiple individuals who are not employees. These individuals use these sums to repay loans from Bank Z



Fact sheet 9 – The Caisse des Dépôts et Consignations

(Although the Caisse des Dépôts et Consignations is a financial sector establishment, its submissions are discussed here in connection with the management of accounts of reporting entities.)

As in 2016, there was an increase in reports submitted by the Caisse des Dépôts et Consignations (CDC), with 1,023 STRs received, compared with 847 in 2016. This 20% increase confirms the upward trend observed in recent years.¹⁹

It is a reflection of the growth of the real estate market in 2017, as well as greater professionalism on the part of the AML/CFT teams.

STRs submitted by the CDC almost exclusively concerned flows related to its notary customer base.²⁰ Although a significant number of them had to do with real estate transactions, the underlying offence was quite often of a tax nature (some 30%). As such, the most common typology involved undeclared foreign assets.

Generally speaking, the CDC's STRs were of good quality, and contained information on customers and the transaction. Nearly all of them were submitted with supporting documentation. Overall, although the quality of reports could still be improved, significant analytical efforts were made in 2017. More specifically, the CDC usefully identifies PEPs and consequently takes appropriate due diligence measures.

The CDC's reporting potential is significant, particularly with regard to the significant amounts of money that the real estate sector represents.²¹

An analysis of STRs submitted in 2017 also showed that a large number of notaries refused to respond to the CDC's requests. Such requests are necessary to fulfil the CDC's obligations in terms of customer knowledge. This

trend thus leads to the submission of unsubstantiated STRs, and is all the more problematic as transactions reported by the CDC are rarely reported in parallel by the notary.

An increasing number of reports (37%) related to transactions over €1 million. One-quarter of STRs had to do with transactions of between €100,000 and €500,000.

The South-East, North-West and Greater Paris region regions accounted for the lion's share of suspicious transaction reports (70%). There was a low level of reports from Overseas France, which raises questions about the CDC's analyses of the money laundering and tax evasion risks to which these areas are exposed.

THE ORGANISATIONAL STRUCTURE OF THE CDC WITH RESPECT TO AML/CFT

When it comes to AML/CFT requirements, the CDC relies on the DGFIP's network of Banking Service Centres (CSBs), which was set up in September 2014. In mainland France, there are five CSBs serving France's regions in Angoulême, Metz, Mâcon, Rouen and Versailles. Recently, pooled departments were created in Martinique for the Antilles-Guiana zone and in Réunion for Réunion and Mayotte.

CSBs are responsible for processing banking transactions in connection with maintaining customer's bank accounts in every *département* within their geographical area.

CSBs file STRs on behalf of and in the name of the CDC. As such, a Charter was drawn up between the National Association of Notaries and the CDC in April 2012, which sets out how the two groups will cooperate in AML/CFT matters.

¹⁹ The number of STRs rose by 15% in 2016.

²⁰ Few reports concerned court-appointed receivers and trustees (AJMJ) or auctioneers, particularly because, unlike notaries, these categories of professionals are not required to have an account at the CDC.

²¹ In 2016, real estate transactions totalled €200 billion (source: DGFIP).

Fact sheet 10 – Real estate professionals

There was an increase in STRs submitted by real estate professionals in 2017: Tracfin received 178 reports, compared to 84 in 2016.

However, despite this upward two-year trend (140%), the volume of submissions remains insufficient given the number of professionals involved. Carrying on from 2016, the upswing in the real estate market might have fuelled hopes that there would be a higher rate of reporting amongst real estate professionals. Recent high-profile cases of money laundering aggravated by tax evasion show the central role that the real estate sector plays in the fight against money laundering.

Unlike the previous two years, most STRs were not submitted by the real estate subsidiaries of banks. In 2017, these were responsible for only 20 reports. The others were submitted by agencies of real estate networks, a few independent agencies and, to a far lesser extent, by building management agents.

Fifty-one reports related to transactions of less than €500,000. This figure shows that the risk of money laundering is not confined to high-value transactions. During the year, a total of 56 reports – nearly 30% of the total – had to do with transactions over €1 million. Reports came from across the real estate spectrum: from agencies specialising in prestigious properties to those with a more local customer base.

The Greater Paris region submitted 101 STRs, representing 56% of the total. Professionals in the Provence-Alpes-Côte d'Azur (PACA) region sent 21 suspicious transaction reports, the same number as in 2016. In view of the region's exposure and STRs submitted by other non-financial professions related to the real estate market, this seems low.

In 2017, the reasons for a report regularly concerned discrepancies between the profile of the buyers and the amount of the transactions. Tax evasion typologies were few and far between amongst the STRs

that Tracfin received, which is of concern given the identified risks of undervalued properties and concealed gifts.

As in the previous year, there was room for improvement as regards the quality of reports. The statement of facts was all too often incomplete with respect to the customer and the transaction. In addition, the suspicion was rarely or not clearly expressed. Compared with 2016, STRs contained more supporting documentation (identity papers, e-mail exchanges, sales agreement, extract of the memorandum and articles of association (*extrait k-bis*), web pages, etc.). This trend, which enhances the reports submitted, must be carried forward.

The real estate sector is exposed to money laundering risks, and there must be greater participation by reporting entities in the AML/CFT system. For 2018, it is expected that joint actions taken with the Directorate General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF) will contribute to the dissemination of information on the due diligence and reporting obligations of real estate professionals, and that the sector will continue its efforts.

GUIDELINES FOR REAL ESTATE PROFESSIONALS

The most recent guidelines that were drafted jointly by Tracfin and the Directorate General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF) are from 2010. Since then, the Fourth Anti-Money Laundering Directive and the Allur Act have significantly altered the landscape of the real estate sector. The guidelines need to be recast to provide professionals with a useful overview to help them fulfil their obligations. A joint draft is in progress, and sector professionals will be asked to participate – notably to expand the scope of reporting obligations to include building management agents and property leasing transactions. This document will be accompanied by case studies and diagrams to explain in concrete terms the obligations of professionals under the terms of the Monetary and Financial Code.

Fact sheet 11 – Bailiffs

Although the number of STRs submitted by bailiffs remains low (73 in 2016 and 109 in 2017, a 49% increase) in comparison with the number of reporting entities,²² there has been a steady increase in recent years.

This upward trend should be seen in light of the involvement of the *Chambre Nationale des Huissiers de Justice* (CNHJ), which has, over the past several years, provided bailiffs with anti-money laundering documentation on a regular basis.

An analysis of the geographic breakdown of submissions reveals that the momentum is unevenly distributed. Reports submitted in 2017 were primarily the work of a few professionals located in the Grand-Est and Auvergne-Rhône-Alpes regions (56 and 31, respectively). On the other hand, the number of reports submitted by bailiffs in the Greater Paris region and PACA regions (4 and 5 reports, respectively, in 2017) is well below Tracfin's expectations for regions with such strong economic and financial weight.

Bailiffs have slackened their efforts to make use of the ERMES e-reporting system: only 70% of reports were transmitted electronically in 2017, compared with 88% the previous year.

The STRs drawn up by bailiffs are generally brief and unsubstantiated. Suspicions are rarely explained and contextual elements are generally not spelled out.

Almost all STRs received from bailiffs concern modest sums, and have to do with settling the bailiff's fee in cash, giving rise to suspicions as to the origin of the funds.

Tracfin and the *Chambre Nationale des Huissiers de Justice* (CNHJ) are developing joint guidelines on bailiffs' AML/CFT obligations. The document is intended as a working tool to help them fulfil their obligations. It explains the legislation in force relative to the requirement to report suspicions; accompanied by illustrations, the guidelines are intended to help bailiffs draw up risk maps. The new document is expected to encourage professionals to continue efforts undertaken in 2017.

²² 3,294 bailiffs (source: Ministry of Justice).

BEFORE SUBMITTING A SUSPICIOUS TRANSACTION REPORT:

- Complete the «Statement of Facts» section, making sure that it is descriptive and that it contains the following contextual elements:
 - A presentation of the individuals and legal entities that are the subject of the suspicion
 - A presentation of the suspicious transactions
 - A description of the suspicion
- Remember to attach any useful supporting documentation, such as an excerpt from a ruling, a mandate, identity papers (national ID card, *extrait K-bis*, etc.), accounting documents, etc.
- Systematically state the sums in question under the «Summary» tab: amount of money recovered, amount paid as part of an auction, amount of cash found, etc.

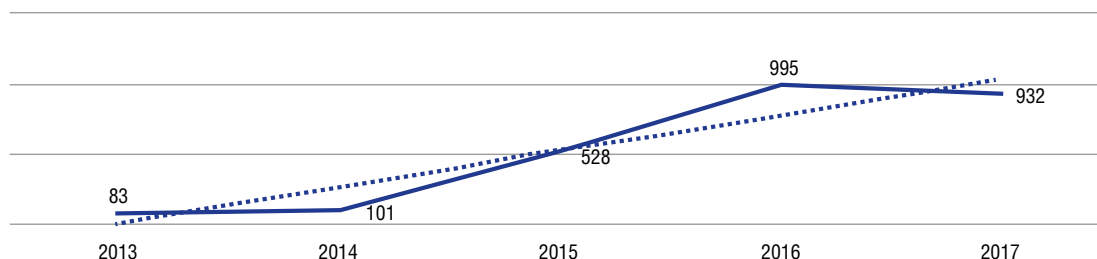
Fact sheet 12 – Court-appointed receivers and trustees

The number of STRs submitted by court-appointed receivers and trustees (AJMJs) has been steadily increasing in recent years, but plateaued between 2016 and 2017 (995 and 932 STRs, respectively).

These professionals continue to be one of the most highly-compliant groups in the non-financial sector, on par with notaries and, to a lesser degree, casinos, with a much smaller number of reporting entities.

Most STRs are submitted from areas with thriving economies. AJMJs in the Greater Paris region were particularly active during the year, accounting for 28% of all STRs received. This represents a 17% increase over 2016. Submissions from other regions, however, have been falling off in recent years. STRs from the Auvergne-Rhône-Alpes region fell by 30%, those from New Aquitaine were down by 29% and those from PACA by 18%. Moreover, some areas where AML/CFT risks are high submitted few reports, if any. This is the case with Corsica, from which Tracfin has not received a single STR to date. A great deal of progress remains to be made in terms of volume, as submissions from the various regions of were uneven.

Number of STRs submitted by court-appointed receivers and trustees between 2013 and 2017



The typologies reported by AJMJs included many cases of misuse of company assets and of bankruptcies, fraud schemes, and fraud involving the public purse (both tax- and benefits-related), as well as provision of funds whose origins appeared to be criminal. These transactions took place both as part of both insolvency proceedings and amicable procedures (ad hoc mandates, conciliation). This being said, an analysis of STRs submitted in 2017 and Tracfin's right of information leads us to believe that court-appointed receivers and trustees should pay particular attention to the provisions of funds by nationals from so-called «sensitive» countries. Indeed, the source of the funds may reveal cases of money laundering or even predatory practices carried out on French soil.

When it comes to the quality of reports, there has been definite progress. Whereas in previous years many reports lacked an analysis by reporting entity or, at the very least, contained unexplained suspicions, AJMJs are now working to state the facts and the due diligence that led them to submit a report. Most reports now come with the supporting documentation that Tracfin needs to process the file. However, in the closing weeks of 2017, a small number of reporting entities submitted reports without a statement of facts and simply a reference to the attachments in the appendices. Tracfin underscores the need for rigour in reporting, and the potential consequences of shortcomings in terms of a report's admissibility.

Moreover, 46% of reports submitted by AJMJs did not report the financial flows involved. This is a better score than in 2016 (54%), but it is still too high compared with other reporting entities in the non-financial sector (14%). As a reminder, the amounts involved should correspond to an estimate of the amounts suspected to be fraudulent (for example, an estimate of cash withdrawals that might be linked to the misuse of company assets, the amount of the potentially fraudulent

provision, etc.). If it is not possible to state these amount with any certainty, the amount of the liability reported at the date of suspension of payments may be used.

Moreover, AJMJs are still reluctant to use the ERMES online reporting platform: 41% of reports received from these reporting entities used ERMES, compared with 76% of the non-financial sector as a whole. The ERMES system features a high level of security and provides confidentiality for the data submitted.

However, it should be pointed out that, whereas the percentage of inadmissible STRs submitted by AJMJs in 2016 was roughly 20% of all reports declared inadmissible for all reporting entities combined, in 2017 it was 11%. The most frequent grounds for inadmissibility were lack of use of the electronic form available on the Tracfin website and the absence of certain mandatory information.

The joint CNAJMJ/Tracfin guidelines relating to the AML/CFT obligations of AJMJs (to be issued in 2018), as well as upcoming training sessions organised by the CNAJMJ, will enable professionals to better understand their obligations, particularly as they draw up risks maps.

Fact sheet 13 – Commercial registered office providers

Historically, reporting activity by commercial registered office providers has been conspicuously low. In 2017, the sector submitted 31 STRs to Tracfin, against 9 in 2016. In comparison with the estimated number of such companies (between 2,500 and 3,000), the reporting level remains low.

The increase between 2016 and 2017 can be attributed to the resources put in place by the Directorate General

for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF), which monitors the due diligence and reporting obligations of registered office providers, and the National Enforcement Commission (CNS), the authority that imposes sanctions for breaches of these obligations.

In 2016, the CNS reported that, since 2014, it had received 62 reports concerning real estate brokers and commercial registered office providers. Nine cases in 2016 concerned office providers and, for the first time, the CNS sanctioned a failure to report a suspicion to Tracfin.

The geographic origin of STRs was uneven: two-thirds came from a large business centre in the Grand Est region. The remaining third were submitted by office providers in the Greater Paris region.

From a quality standpoint, STRs submitted by these companies are, in many cases, poorly substantiated. They contain no analysis of the facts or of the suspicion, and often are submitted on the grounds of non-compliance with the lease agreement by the domiciled company. Several cases also reported fraudulent use of the company address.

Unlike in previous years, almost a third of the reports received were thoroughly investigated. A detailed examination of the reports submitted revealed several fraud schemes, and one report made it possible to build a case of money laundering via real estate acquisitions by a foreign businessman known for financial offences. This demonstrates the reporting potential of this sector, which is vulnerable on many fronts, as shown by its permeability to fraud networks.

Fact sheet 14 – Auditors and chartered accountants

In 2017, there was a 16% increase in the number of STRs submitted by accounting professionals. The upward trend of recent years continues, but to a lesser extent than the increase noted in 2016 (53%). The breakdown between chartered accountants and auditors reveals disparities. Although accountants submitted 514 suspicious transaction reports in 2017, auditors filed only 151.

To a large extent, this difference can be attributed to the difference in remits (only certain companies are subject to an audit), to the degree of controls carried out, but also – as previously noted in 2016 – to initiatives to

mobilise the supervisory authorities and representative bodies for both professions, which remain unequal.

Thus, training sessions for chartered accountants initiated in 2015 by the AML Committee of the Governing Council of Chartered Accountants (CSOEC) in 2015 were carried forward with specific content. They concerned at least half of all chartered accountants. Tracfin was unaware of similar actions by the High Council of Auditors (H3C); impetus for awareness-raising continued to come from isolated initiatives undertaken by various regional groups.

The volume of STRs submitted by auditors and accountants in 2017 remained low compared to the overall number of professionals (nearly 13,500 auditors and 20,000 accountants). Moreover, given the volume of financial flows in question (€2.6 billion), the large number of companies employing the services of accounting professionals, the number of French companies that are subject to a statutory audit (220,000) and the variety of structures that are audited (listed companies, SMEs, non-profit organisations), there is still considerable reporting potential.

The geographic breakdown of reporting entities that have submitted reports to Tracfin shows a strong concentration on zones that are thriving economically, including the Greater Paris region, Auvergne Rhône-Alpes, and Provence-Alpes-Côte d'Azur regions. On the other hand, Tracfin noted a lack of STRs from accounting professionals in departments identified as sensitive in terms of AML/CFT (Corsica, Martinique), and low proportions of reports in relation to the number of companies. Thus, a single STR was submitted from the Seine-Saint-Denis *département*, where more than 134,000 companies are located.²³

In terms of quality, too many reports are not accompanied by analyses and suspicions are not substantiated. The facts are briefly described without supporting documentation or even the identification of individuals or legal entities. However, there was a positive shift among accountants who have already submitted at least one STR. For these, the carefully-drafted statements of facts have helped steer the Unit towards tax-related and criminal issues. Also, it appears that the more reports that accounting professionals submit, the more the quality of the reports improves.

²³ Source: INSEE as at 31 December 2015.

As in 2016, tax typologies represent a significant share of the STRs submitted by accounting professionals. During the year, certain high-quality reports came from chartered accountants who uncovered cases of false invoices in connection with VAT fraud. Transactions involving the current accounts of shareholders are also regularly included in STRs, making it possible to detect cases of misuse of company assets. In 2017, there was also an increase in the number of types of fraud. Thus, following a report from a chartered accountant, Tracfin was thus able to uncover the offences of use of forgeries, fraud and money laundering in connection with organised crime.

This trend is expected to continue in 2018 with the support and leadership of the representative organisations for both groups of professionals, particularly in the areas of training and awareness.

ACCOUNTING PROFESSIONALS AND CFT

Accounting professionals' comprehensive vision, and the fact that they control and audit companies throughout France reveal of a wide variety of underlying offences. Several reports highlighted atypical flows within non-profit organisations that were of real interest in the fight against terrorist financing.

In 2017, during the audit of a company that had been paid for electrical work, the auditor was able to show that a real estate investment company had settled the amount in connection with the construction of a place of worship financed with funds from a country at risk in terms of terrorist financing.

The unique position of auditors, who certify the accounts of non-profit associations that receive public subsidies in excess of €153,000, is an important means for detecting the weak signals of terrorism and its financing.

Fact sheet 15 – Lawyers

Although 2016 was marked by the receipt of four STRs from lawyers, the profession confirmed its indifference to the AML/CFT system by not submitting a single report to Tracfin in 2017.

This structural phenomenon is counter-intuitive, as lawyers are likely to be involved in particularly complex transactions involving financial, real estate or trust activities, which are at the heart of Tracfin's concerns and the fight against money laundering in France.

It appears that only the regulatory authorities and legislative and regulatory developments are capable of increasing the involvement of lawyers in the AML/CFT system. Thus, during the year, Tracfin exercised its right to information four times with respect to the various Lawyers' Financial Settlement Funds (CARPAs), an option that was made possible by the order enacting the Fourth Anti-Money Laundering Directive of 1 December 2016 into French law. The cooperation of the CARPAs and the rapid responses provided allowed the information supplied to be used appropriately. This constructive cooperation with CARPA representatives, which began in 2016, must be carried forward in strict compliance with professional secrecy and the question for efficiency in the fight against money laundering and terrorist financing.

Information requests sent to the CARPAs in 2017 made it possible, for example, to substantiate a suspicion of abuse of weakness as part of an insurance payout. They also revealed the destination of funds within the context of a sale of deeds that may have given rise to large-scale tax evasion, and also to determine the origin of funds used to pay a deposit.

Fact sheet 16 – Gaming sector professionals

The robust economic health of the gambling sector was confirmed in 2017, as the sector registered growth in gross gaming revenue of over 2%.

Gaming operators with exclusive rights – which in 2017 accounted for nearly 70% of gross gaming revenue – enjoy a dominant position. At the same time, the casino sector is pursuing its recovery by continuing the growth trend observed in 2016, and the sports betting sector maintained its forward momentum, particularly with regard to online gaming.

The 1,226 STRs submitted by gaming sector reporting entities represented a 37% increase over the previous year. This trend is mainly due to strong growth in the number of reports received from the casino and gaming circle sector.

The casino and gaming circle sector

The number of STRs submitted in 2017 by the casino and gaming circle sector (957) grew by 46% compared to the previous year. In addition, reporting is becoming increasingly widespread, with 78% of reporting entities submitting at least one STR during the year.

This is partly attributable to the distribution, during the second half of 2016, of sector-specific guidelines drafted by the Central Racing and Gaming Unit (SCCJ) and Tracfin. These guidelines were passed on locally by certain casinos and companies, which provided their staff with tables for analysis and assistance in writing up reports.*

Although the involvement of casinos is reflected in the figures, work remains to be done on the analytical work contained in these reports, which offers significant room for improvement.

Most reporting entities did not make sufficient use of the tools available in the guidelines. STRs submitted by casinos were not accompanied by the documents which are simple but essential for conducting investigations (such as the establishment's books concerning winnings, for example). Moreover, the analyses were generally incomplete or non-existent.

These shortcomings are all the more regrettable as the few reports submitted by the most diligent casinos show that the sector's ability to gather and report simple information about their customers and their gaming practices is not merely theoretical. The documents and analyses submitted by these (few) entities made it possible to effectively address issues of the circulation of cash of criminal origin. In 2017, the processing of the best STRs revealed gaming practices financed by cash not held in bank accounts and the misuse of company assets.

* The joint guidelines of the Central Racing and Gaming Unit and Tracfin relating to the AML/CFT obligations incumbent upon legal representatives and directors responsible for gaming and betting, authorised on the basis of Articles L. 321-1 and L. 321-3 of the French Internal Security Code, were annulled on 4 May 2018 by the *Conseil d'État*. However, the typologies that were developed are still of value for facilitating FDJ's reporting activity.

Lastly, although frequent exchanges with the SCCJ should be noted, relations with the sector's representative organisations, which were pointed out in last year's report, continued to deteriorate in 2017.

La Française des Jeux

La Française des Jeux (FDJ) submitted 120 STRs in 2017, essentially the same number as in 2016.

After 2016 – a year that FDJ described as a transitional one – the company was unable, within the initial time-frame, to finalise the development of IT tools designed to increase and perfect its reporting practices.

As a result, the expected progress in identifying the most sensitive gaming operations could not be achieved. In 2017, as in previous years, reports of unexplained increases in the turnover of some points of sale accounted for a significant proportion of FDJ's reports. The company's STRs regularly describe cases of illegal gaming resources being justified through cash deposits. The typologies identified are not sufficiently diverse, and prevent a complete understanding of money laundering issues facing FDJ, particularly with regard to the problem of repurchase of winning tickets.

In 2018, it is hoped that FDJ will be better able to detect issues related to specific groups and organised crime networks, with an emphasis on scoping out the complex issues around the repurchase of winning tickets. It is also hoped that, prior to submitting reports, reporting entities carry out more thorough analyses. Lastly, taking a risk-based approach should allow the application of due diligence measures that are adapted to the most sensitive points of sale.

Exchanges concerning quality, which were initiated by FDJ's AML department and Tracfin, are expected to continue in 2018, with the planning of technical workshops for a joint study of the new tools made available to FDJ's AML department.

PMU

In 2017, Paris Mutuel Urbain (PMU) continued the progress it had made in the second half of 2016, in terms of both quantity and quality.

The 111 suspicious transaction reports received represented an increase of more than 8% over the previous year. Optimisation of the tools provided to the AML unit has finally allowed progress to be made in the areas of information collection and retrieval. There was also notable improvement in upstream analytical work. Lastly, the typologies reported were more diverse, opening the

door to significant investigations into issues such as misuse of company assets, handling stolen goods and undeclared work, some of which were linked to organised crime. Like FDJ, PMU submitted a number of STRs related to the justification of illicit resources.

In 2018, it is expected that this upswing in reporting will continue. As part of this, attention should be paid to detecting issues involving specific groups and organised crime networks, increased surveillance of the most sensitive points of sale and systematically improving an STR's analytical section prior to submission.

If it determinedly commits to identifying its customers, PMU could become a flagship partner in the fight against money laundering.

Online gaming

Act 2010-476 on the opening up to competition and regulation of the online gaming sector lays down an adequate legal framework concerning the monitoring of financial flows and gaming transactions.

Nevertheless, the discussions held as part of the enactment of the Fourth Directive have highlighted a certain number of sector-specific vulnerabilities. These include introducing cash of criminal origin into the banking system and transfers of money between accounts.

As such, a referral to the courts following a report submitted by a reporting entity highlighted the use of the online gaming vector by complex networks involving

a large number of player accounts for the purpose of laundering money of criminal origin.

The 38 STRs submitted by reporting entities that have been approved by the Online Gaming Regulatory Authority (ARJEL) represented a 90% increase over the previous year. Most of these were submitted by two operators.

Nevertheless, these results should be seen in context. It is true that information about customers, how they fund their accounts, their bids and their gambling transactions from which the sector benefits should lead to a greater number of reports. Moreover, the sector's robust economic health, driven by sports betting, opens the possibility of greater volumes of STRs. The very weak participation by certain leading stakeholders, who either did not submit a single report in 2017 or did so only rarely, is cause for concern as to whether these operators are truly complying with their self-imposed due diligence obligations.

As a result, there will be specific expectations of the sector in 2018, in terms of the overall volume of STRs submitted, the involvement of stakeholders and training activities.

As part of this, in order to grasp complex issues involving multiple player accounts, stakeholders must establish alert criteria and draw up risk mapping, and must define heightened due diligence measures vis-à-vis such accounts.

Case study 3

Misuse of company assets and money laundering in the football sector

Tracfin was alerted to financial flows between entities and their managers in the professional sports and real estate sectors, as well as to funds being invested in life insurance policies.

The participants

Mr X is the head of a group of companies operating in the construction and real estate sector. He is also the chairman of the board of directors and general manager of a professional sports club.

Mr Y is a professional athlete in a South American championship. In addition, he purchased a property via one of Mr X's companies for his family.

Mr Z is Mr Y's brother and the manager of **Company A**, which provides consulting, business support and business networking services. In the past, **Mr Z** has partnered with Mr X in connection with one of his construction companies.

The facts

Although it had only recently been set up and its manager was inexperienced, Company A signed a finder agreement with one of Mr X's companies, enabling it to benefit from the company's network of contacts in the construction and real estate sectors. Concurrently, there were many financial flows between the brothers Y and Z and Mr X's companies. Mr Y, Mr Z and Company A thus received nearly €1.2 million from Mr X and his companies.

These funds were then consolidated into Mr Z's accounts and invested in several life insurance policies taken out for the

benefit of Messrs Y and Z. Mr Y, for his part, transferred €400,000 to one of Mr X's companies.

Tracfin's investigations

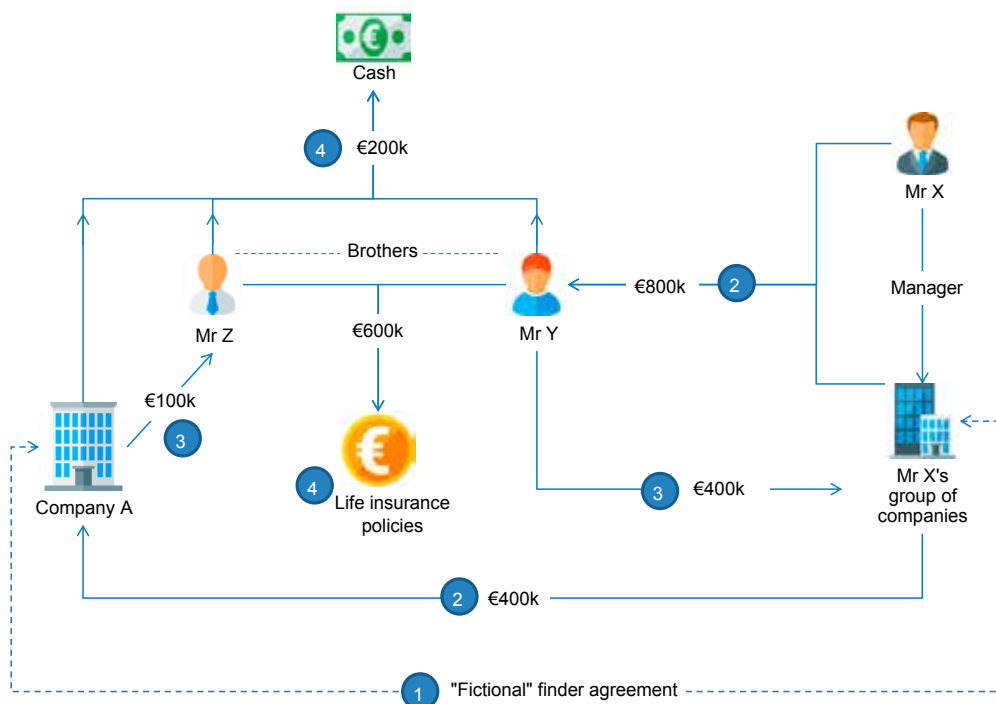
An analysis of the companies, agreements and parties involved cast doubt on the reality of the services provided by Company A on behalf of Mr X's entities. In this particular scheme, Mr Z played a central role, acting as a link between Mr Y and Mr X and giving them the chance to launder funds from highly profitable sectors (professional sports and real estate).

Under this arrangement, Mr X could use his companies' funds for personal purposes and Mr Z could act as Mr Y's «unofficial» sports agent. Since the family of brothers Y and Z provided financial support to Mr X's football club, these flows are similar to an exchange of services between Mr X and the brothers Y and Z.

The widespread use of cash by Mr Y, Mr Z and Company A (more than €200,000) and the systematic use by Mr Z of his company's funds for personal purposes (almost €100,000) are, in turn, indicators of money laundering and misuse of company assets.

Warning signs

- Significant financial flows between companies and their managers and the use of this money for personal purposes
- Connections between sectors that are theoretically unrelated, such as construction and professional sports
- Large-scale agreements signed and amounts received by a recently-created structure
- Frequent use of cash and the widespread use of life insurance policies.



Fact sheet 17 – Auctioneers and auction houses

2017 was a good year for the world art market, particularly due to the good health of the major auction houses combined with major collections going under the hammer (including the Prat, Givenchy and Camille Claudel collections).

These good results can be attributed a general abundance of liquidity fostered by especially low interest rates; art is both prestigious, especially in the wealthiest circles, as well as a tax-free investment. The strong forward momentum of the auction sector is also connected to a significant upswing in e-auctions, a new sales method that traditional auction houses have adopted.

The 2017 figures published by the Voluntary Auction Council (CVV) reveal the economic importance of the art market in France, which ranks fourth worldwide, behind China, the United States and the United Kingdom. The total amount of auctions, all sectors combined, amounted to €3 billion, including €1.47 billion for the «art and collectibles» sector alone. Web-based sales accounted for 37% of the total.²⁴

This excellent situation has had little impact on the reporting activity of auctioneers and auction houses, with too few STRs received by Tracfin (67²⁵ in 2017).

The positive side of auctioneers' reporting behaviour is its regularity throughout the year. STRs were submitted regularly throughout the year, unlike in 2016, when half of the 51 reports received were concentrated in November and December, following a helpful communication effort by the Union of Voluntary Auction Houses (SYMEV). However, this result should be seen in perspective.

For 2017, one-third of the 31 entities who submitted a report were located in the Greater Paris region – region. Ten stakeholders were responsible for 29 STRs – almost half of all reports submitted from the art sector. The second most dynamic region remained Auvergne-Rhône-Alpes, followed this year by Normandy.

Voluntary Auction Houses (VSOs), traditionally ranked among the top 20 in their profession all sectors combined,²⁶ were under-represented, if not completely absent, from the list of entities that filed reports in 2017. Statistics reveal an inverse relationship between the involvement of reporting entities in AML/CFT matters

and their turnover. This fact is all the more worrisome as these stakeholders are dealing with very large sums and are therefore the most exposed to money laundering risks.

Two-thirds of reports submitted to Tracfin had to do with the «art and collectibles» sector, and half of these concerned non-residents. Reports relating to vehicle sales make up the final third of the STRs received by Tracfin.

This breakdown between the «art and collectibles» and «second-hand vehicles and industrial equipment» sectors differs from that of 2016, in which both had an equal share of 47% of the total amount auctioned.²⁷

For Tracfin to substantiate suspicions of money laundering, report quality issues need to be addressed. With regard to the report itself, although some analyses were found to be substantiated and usable, all too often the description of facts is short and extremely vague. The absence of supporting documentation to help with the understanding of the facts also makes these reports difficult to use.

The most frequent typologies refer to discrepancies between the name of the successful bidder and the holder of the account issuing the payment. Cases of the use of bank cheques likely to cloud a transaction by concealing the beneficial owner of a transaction were reported. Attempts to make cash payments in excess of the authorised thresholds and some reports of suspicions about the sale of items likely to result from abuse of weakness were brought to Tracfin's attention. Finally, the Unit received reports about the involvement of structures located in tax havens and discrepancies between the official activity of the company in question and its fixed assets, which was observed as part of a company's court-ordered liquidation.

Other reporting entities submitted art-related STRs to Tracfin. There were 163 such reports in 2017, mainly from banks, insurance companies, court-appointed receivers, notaries and chartered accountants. These reports on anomalies in the art sector are proof that there is room for art sector professionals to improve if they are to usefully contribute to AML/CFT efforts.

In 2017, Tracfin continued its efforts and awareness-raising activities, meeting with such bodies as the National Auctioneers Council (CNCPJ), the Voluntary

²⁴ 2017 annual report by the Voluntary Auction Council.

²⁵ Combined total for both auction houses and auctioneers.

²⁶ According to a 2016 ranking by the Voluntary Auction Council (CVV), publicly available from the CVV's in-house website.

²⁷ 2016 annual report by the Voluntary Auction Council.

Sales Council (CVV), the Union of Voluntary Auction Houses (SYMEV), the National Union of Antique Dealers (SNA), the National Union for Trade in Antiquities and Second-Hand Goods, and Modern and Contemporary Art Galleries (SNCAO), the Professional Art Galleries Committee (CPGA) and the National Council of Art Experts (CNE).

These fruitful discussions have shown that auctioneers are open to implementing their AML/CFT obligations. They are receptive to awareness-raising actions. Despite their limited scope, the SYMEV's various initiatives are to be welcomed. In general, the actions taken by both Tracfin and reporting entities would benefit from being more comprehensively supported by the CVV in its role as a supervisory and enforcement authority. Since its creation in 2000, the CVV has not carried out a single check on whether the reporting entities under its authority have implemented AML/CFT measures. In fact, the few enforcement decisions published on its website

mainly involved breaches of the VSOs' ethical obligations. This shows that the Council is more interested in general regulation of the profession than in combating money laundering. Given the issues involved in AML/CFT, everyone must put in place the means to address both priorities, if need be by separating out the two missions.

Discussions with antique dealers and art galleries also revealed a striking lack of knowledge of the AML/CFT system by professionals who have been subject to the law since 2001.

For 2018, a real mobilisation of reporting entities is expected to take place. This will involve developing guidelines, by the CVV for voluntary sales professionals, and by the Directorate General of Customs and Excise (DGDDI) for antique dealers and art galleries. Lastly, an informational letter is being drafted concerning the fight against money laundering and terrorist financing in the art sector.

2. ADMINISTRATIVE REPORTING

Aside from suspicious transaction reports, Tracfin also receives information from various **public bodies or bodies with a public service mandate**. These include 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 2017, Tracfin received 1,011 administrative reports, a decrease of 8% over the previous year.

Whereas the number of reports received from central government departments, partners in the intelligence community and the Ministry for the Economy and Finance (DGFIP, DGDDI, DGT) increased from 500 to 566, particularly thanks to discussions with the DGFIP about transfer order fraud, there was a 40% falloff in terms of reports from courts, which fell from 149 to 89, which can be attributed to one court in particular.

A total of 280 reports were submitted by the ACPR and the AMF, a 27% drop, after stepped-up exchanges in 2016 related to oversight of two major stakeholders whose failure to file STRs had been noted by the ACPR on numerous occasions. The high level of cooperation with the CSPA continued in 2017, resulting in quality STRs being submitted to 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 right of access to files used for the purposes of tax assessments, audit and collection of taxes
- 2) A direct right of 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.

3. SYSTEMATIC INFORMATION DISCLOSURES (COSIS)

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 digital currency institutions, which must send Tracfin information relating to certain transactions, identified by order, as presenting a high risk of money laundering and terrorist financing due to the country or the source or destination of the funds. The first transactions were 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, issued as part of the Banking Act of July 2013, introduced a new obligation for banks and credit institutions: Cash deposits and withdrawals into or from deposit accounts, and cumulative withdrawals of more than €10,000 within one month must also be the subject of a COSI sent to Tracfin.

Systematic information disclosures regarding transfers of funds

In 2017, Tracfin received some 3.3 million COSIs relating to fund transfer transactions, an 18.6% increase over the previous year. This was mainly due to the arrival of new reporters.²⁸ More specifically, recorded

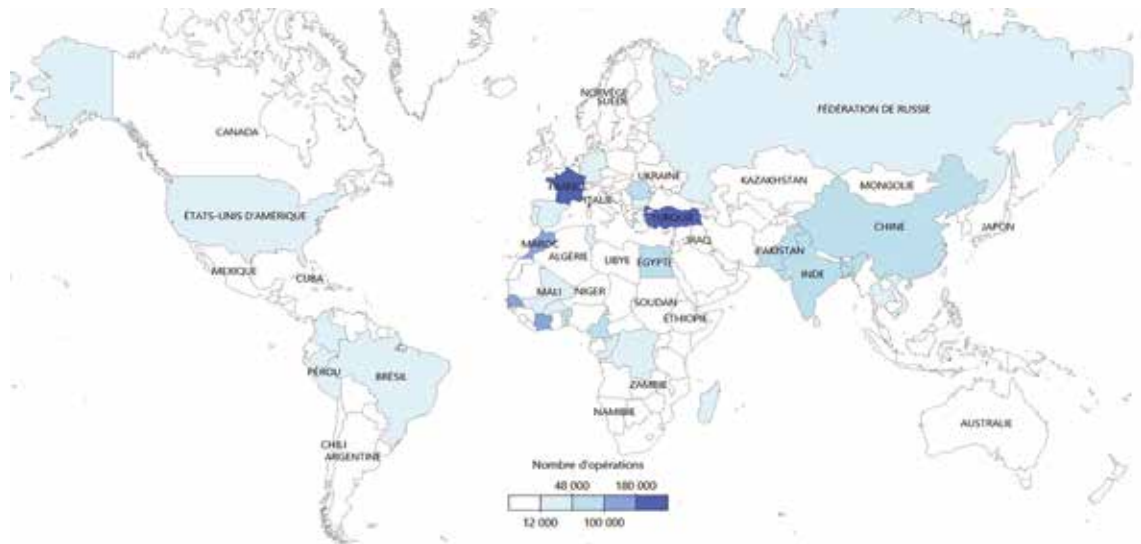
transfers of funds grew by 17.9%, and fund receptions by 21.5%.

In contrast to STRs, COSIs are transmitted on the basis of objective criteria and concern 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.

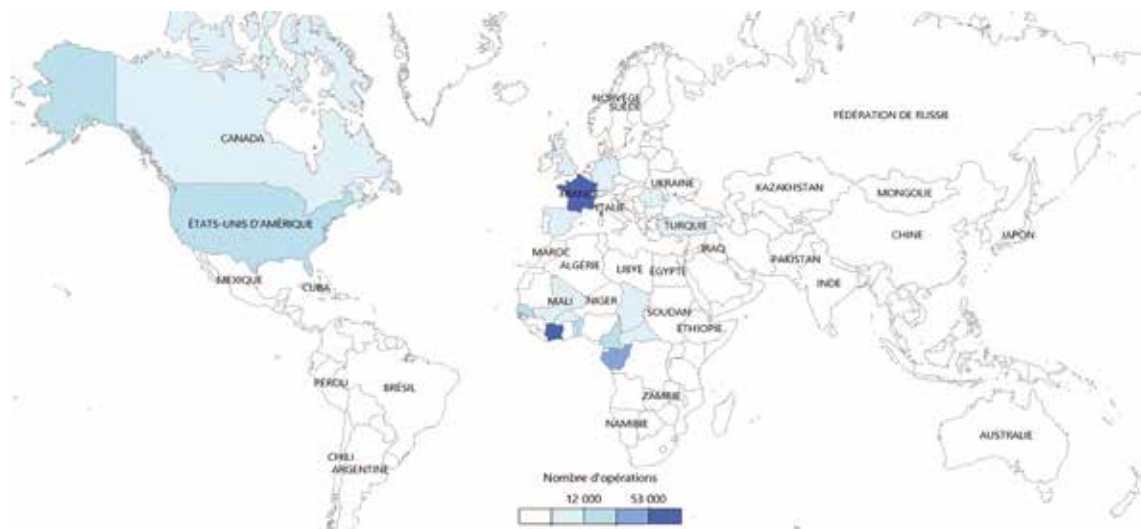
A geographic analysis of these financial flows (see below) can reveal or confirm the extent of certain types of fraud schemes; grouping together similar cases can help provide clarity to ongoing investigations. The types of fraud are quite varied, and include the purchase of undeclared goods and counterfeit 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. New network visualisation tools, which can link up individuals or entities that are apparently unconnected economically or by family, are also used to identify more complex typologies (such as organised crime networks).

²⁸ A «reporter» is the profile in the ERMES e-reporting system that allows financial reporting entities to submit COSIs.

COSI Fund Transfers – Recipients (number)



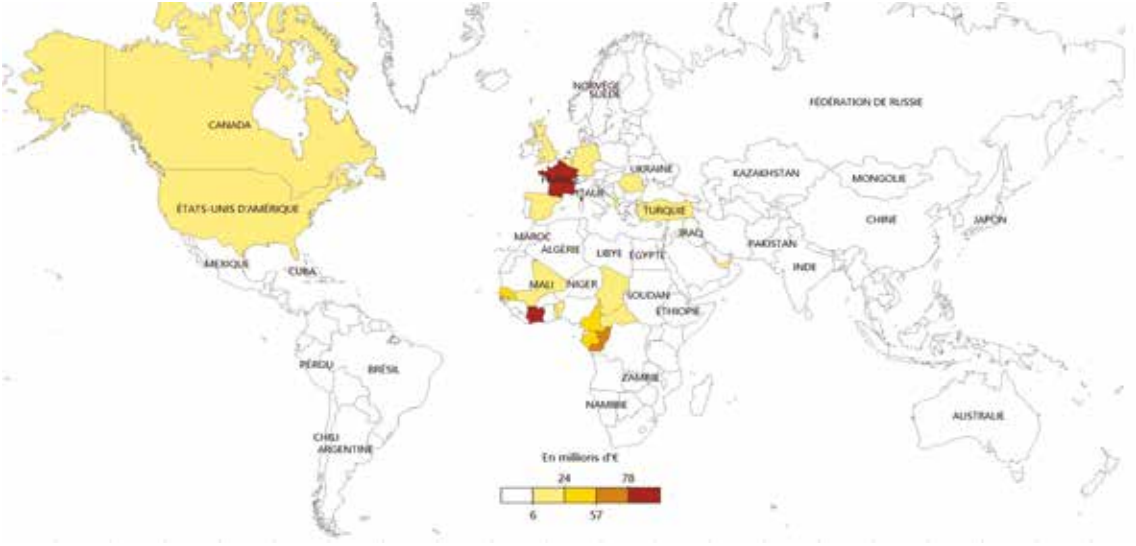
COSI Fund Transfers – Senders (number)



COSI Fund Transfers – Recipients (in value)



COSI Fund Transfers – Senders (In value)



To improve the relevance of analyses made using these data, regular customised feedback is provided by Tracfin to reporters on the quality of the data received. Data quality is measured according to five criteria:

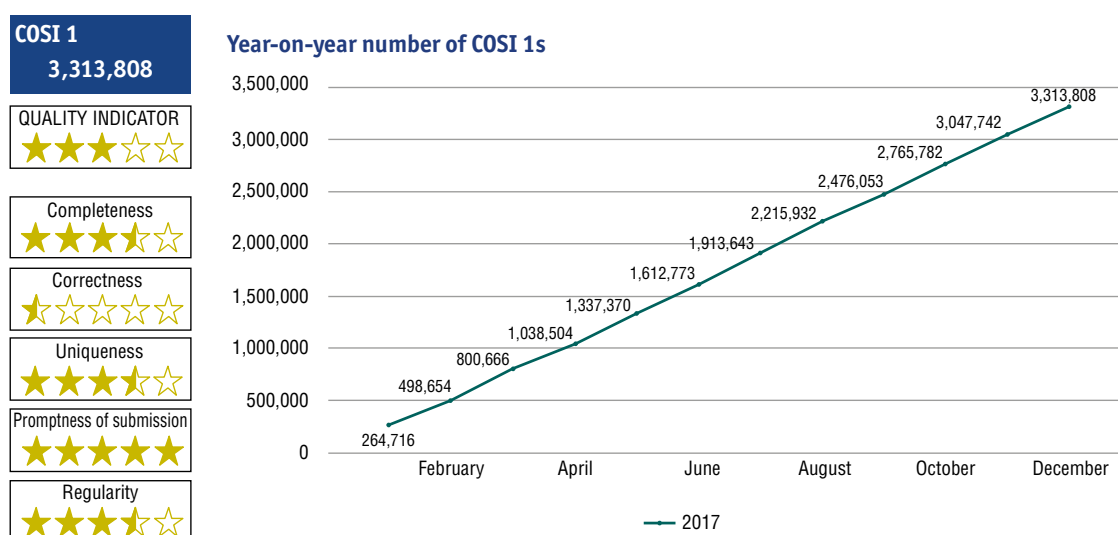
- **Completeness:** percentage of fields filled in (not empty)
- **Correctness:** percentage of consistent mandatory fields (example: value matches expected type)
- **Uniqueness:** measurement of the number of transactions sent in duplicate

- **Promptness:** percentage of transactions sent within 60 days

- **Regularity:** Distribution of COSIs submitted across the year

Out of the total COSI «funds transmission» (COSI 1) operations in 2017, the chart below shows a satisfactory data quality, with particular attention to the consistency of the fields taking their values from predefined lists. The duplication of certain categories of data has also made it possible to refine the 2016 figures. Eliminating duplicates for certain categories of data helped perfect the figures for 2016.

COSI payments and cash withdrawals – Quality indicators and year-on-year total numbers of COSI 1



Systematic information disclosures regarding cash deposits and withdrawals

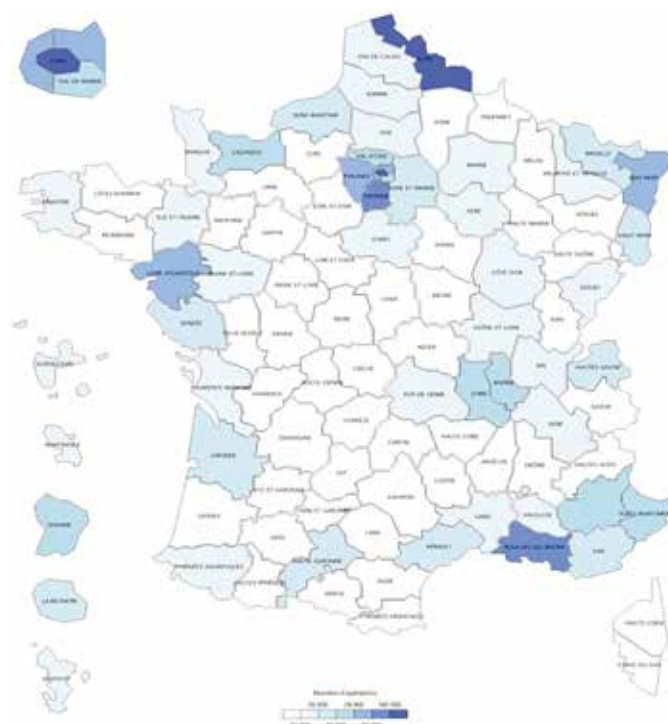
Disclosures requirements concerning cash deposits and withdrawals entered into force on 1 January 2016. The reporting entities involved are listed in 1°, 1 bis and 1 ter of Article 561-2 of the French Monetary and Financial Code: credit, payment and electronic money institutions. The transactions in 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 2017, Tracfin received more than 56.1 million transaction reports, against 52.9 million the previous year.

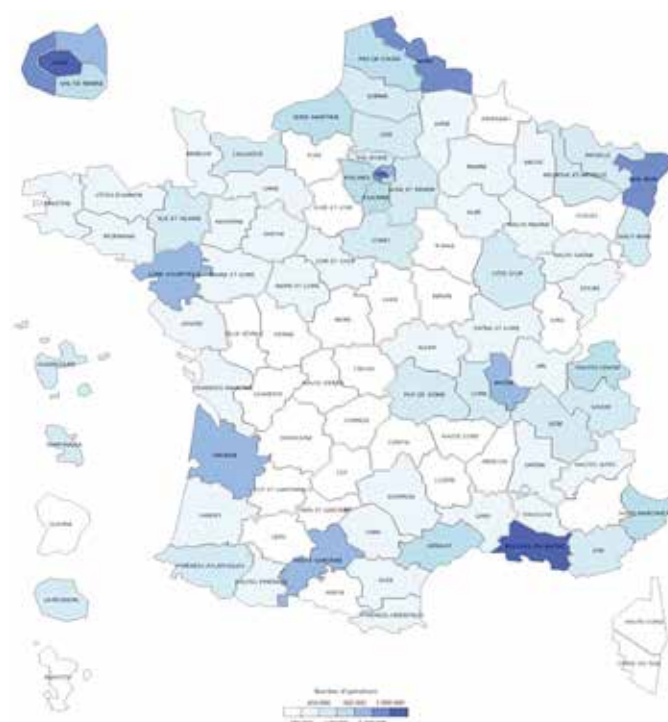
The transactions concerned more than 270,000 legal entities and nearly 138,000 individuals, whereas in 2016, these totals were 320,000 legal entities and 285,000 individuals.

This data is systematically checked in order to enhance information about individuals and legal entities mentioned in STRs. A geographic analysis of these financial flows (see below) can reveal or confirm the extent of certain types of fraud schemes specific to certain areas.

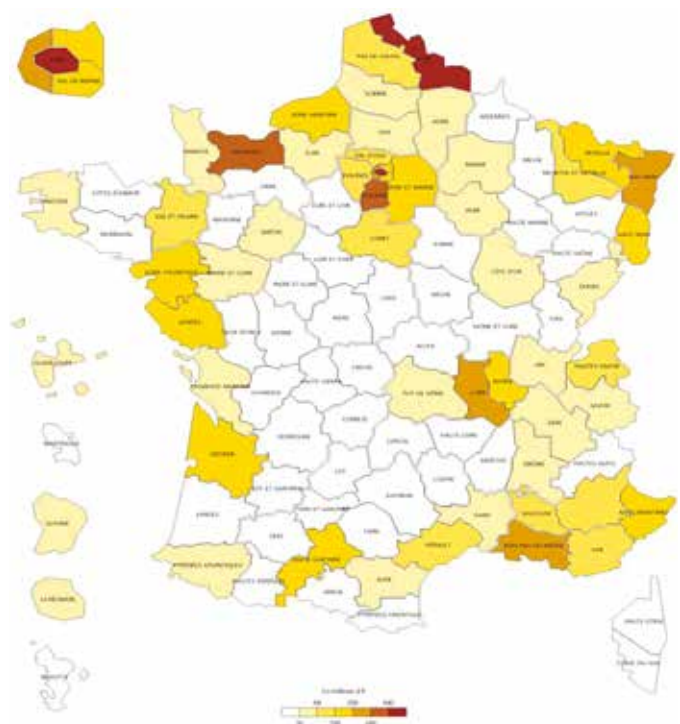
COSI payments and cash withdrawals – withdrawals (number)



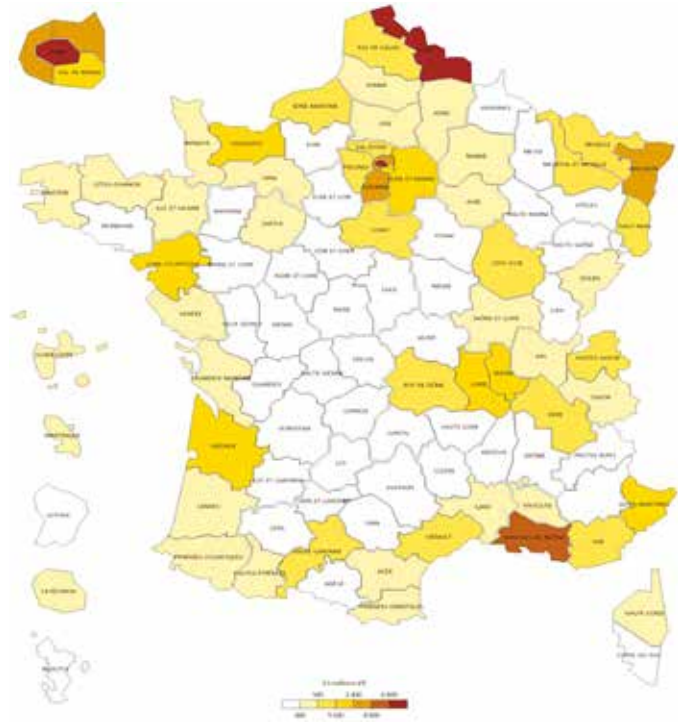
COSI payments and cash withdrawals – deposits (number)



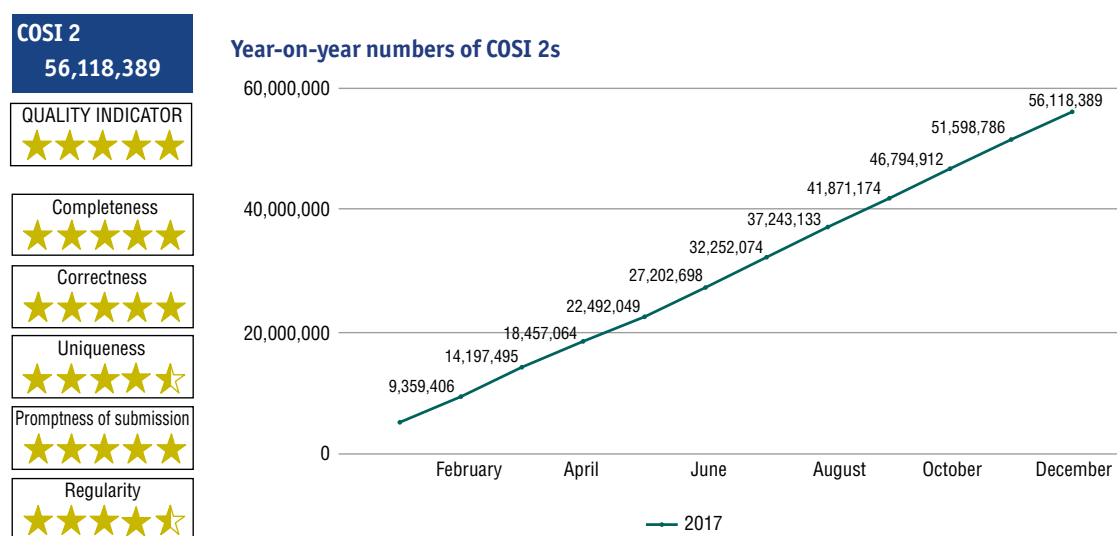
COSI payments and cash withdrawals – withdrawals (value)

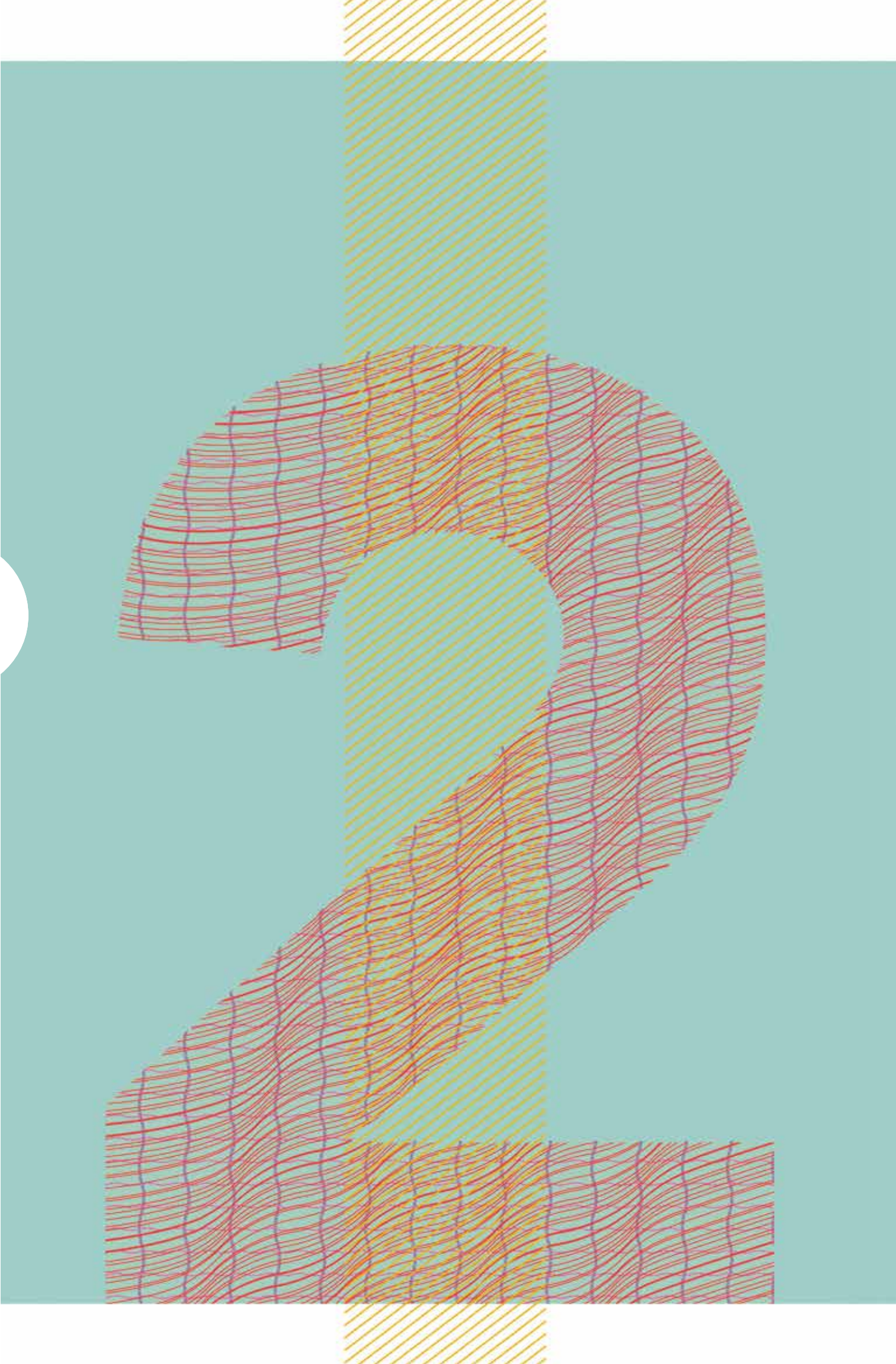


COSI payments and cash withdrawals – deposits (value)



Just as for the COSI 1s, the quality of this data is assessed using guidelines to measure their completeness, correctness, uniqueness, promptness and regularity. With respect to 2017 submissions, the chart below indicates the high quality of the data received from most reporters.



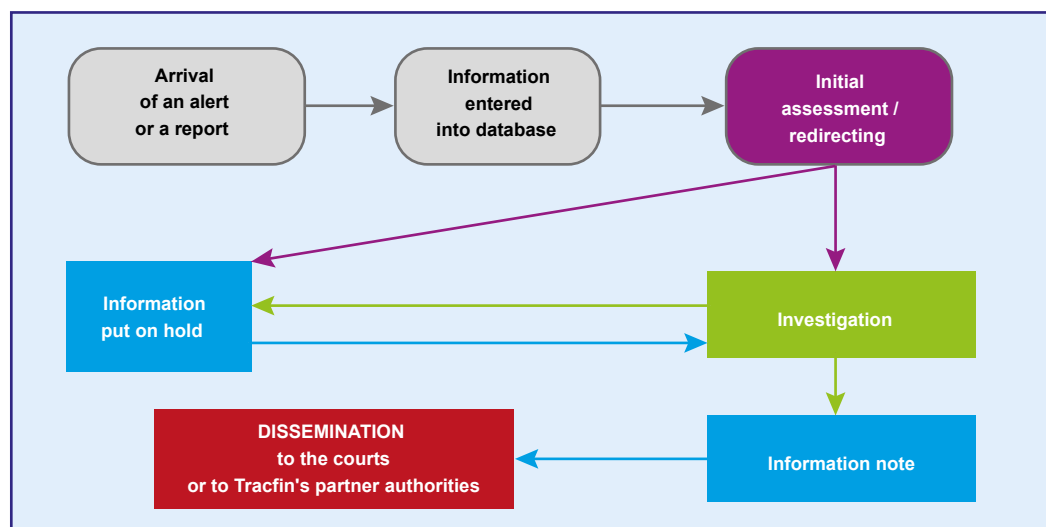


TRACFIN'S ACTIVITY IN 2017

1. HOW INFORMATION IS PROCESSED

From the STR to the completion of an investigation

How information is processed within Tracfin



1.1 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 names, date and place of birth) and legal entities (SIREN/SIRET no.). In 2017, this information was supplied for 76% of individuals reported, but for 20,787 individuals, the profile was incomplete. For legal entities, profiles were complete in 85% of cases.

In 2017, out of the 68,661 STRs, 1,136 were received in paper format, down 18% compared to 2016. In 2017, 255 STRs were subject to amendment requests, compared to 298 in 2016 (-14%). 113 reports were able to be amended following positive replies to these requests. For the remainder, 142 letters were sent to the relevant entities to advise them that their reports were definitively inadmissible.

ADMISSIBILITY CONDITIONS FOR SUSPICIOUS TRANSACTION REPORTS

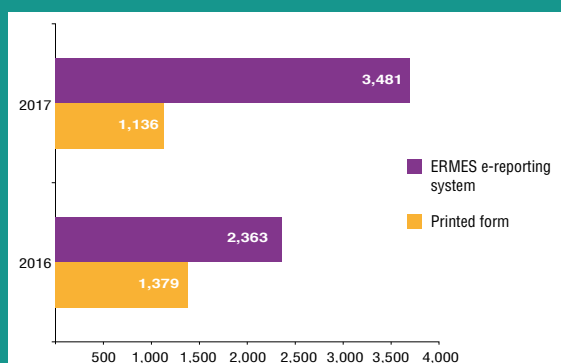
Decree No. 2013-480 of 6 June 2013 sets the conditions for the admissibility of STRs submitted in accordance with Article L.561-15 of the Monetary and Financial Code. Aside from rewording the requirements for the form of STRs, it introduces a procedure for their admissibility if these requirements are not met or the correct submission methods are not used. This procedure for non-admissibility 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 its 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 ERMES E-REPORTING SYSTEM

Non-financial reporting entities, for whom ERMES is not mandatory, used it for 75% of their submissions in 2017 (compared with 63% in 2016).

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



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

Reporting entities	2017
Court-appointed receiver and trustee	551
Notary	268
Chartered accountant	132
Casino	65
Auditor	56
Bailiff	32
Real estate professional	10
Auctioneer and auction house	8

1.2 ANALYSING AND REDIRECTING INFORMATION

Once information has been integrated, it is compared with any 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 any 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, the suspicion is unclear, or any doubts are resolved after enquiries). It may, however, be reactivated in light of new information later received by the Unit.

Tracfin analyses and redirects all the information it receives. In 2017, 12,518 reports led to an in-depth analysis – 8,478 based on information received in 2017 and 4,040 based on information that had been received earlier and reactivated.

1.3 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 (the national bank accounts register Ficoba, tax authority or customs files, company data, 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 bank accounts, etc.).

In 2017, the Unit carried out 61,128 investigative actions, including 29,194 uses of the power to request, 1,762 requests sent to foreign FIUs and 30,172 consultations of files, open databases and questioning of institutional departments.

The use of the right of opposition

Tracfin may also exercise its right of opposition in order to postpone a transaction that has been reported, and to suspend its completion for 10 business days, after which the judicial authorities can take over and, where necessary, order a seizure.

In 2017, the Unit exercised its right of opposition 24 times, an increase over 2016, when it was exercised 19 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.).

1.4 DISCLOSING INFORMATION

If, at the end of its investigations, Tracfin discovers evidence of the laundering of money derived from an offence punishable with a custodial sentence of more than one year, or of terrorist financing, the Unit submits an information note to the public prosecutor with territorial jurisdiction.²⁹

Independently of any criminal classification of the facts, the Unit may decide to disclose to other recipients stipulated in the French Monetary and Financial Code, any information that may be relevant for carrying out their assignments. These recipients may include, *inter alia*, foreign financial intelligence services,³⁰ judicial authorities and criminal investigation departments, various public services or bodies such as tax authorities, various administrative authorities such as the Prudential Supervision and Resolution Authority (ACPR) and the Financial Market Authority (AMF), and other specialised intelligence services, when the information relates to acts with one of the purposes listed in Article L.811-3 of the French Internal Security Code.³¹

²⁹ See Article L.561-30-1 of the Monetary and Financial Code.

³⁰ See Article L.561-29-1 of the Monetary and Financial Code.

³¹ See Article L.561-31 of the Monetary and Financial Code.

REQUESTS FOR INFORMATION

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 Monetary and Financial Code).

The Unit may 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).

Lastly, Tracfin may also request information from certain private entities that are not subject to these obligations but that possess information useful for Tracfin's investigations: CARPAs, Lawyers' Financial Settlement Funds (Article L.561-25-1 of the French Monetary and Financial Code), travel agencies and vehicle rental companies, the Bank Card Economic Interest Group, online money collection and donation platforms (Article L.561-25 of the French Monetary and Financial Code).

DISCLOSURES TO COURTS

In 2017, Tracfin submitted 891 notes to the courts, compared with 662 in 2016:

- 468 notes concerning suspicions of one or more criminal offences
- 325 disclosures to judges and the criminal investigation departments (of which 224 related to terrorism), including three responses to judicial requisitions
- 98 disclosures to police, gendarmerie and judicial customs departments, including 84 responses to judicial requisitions

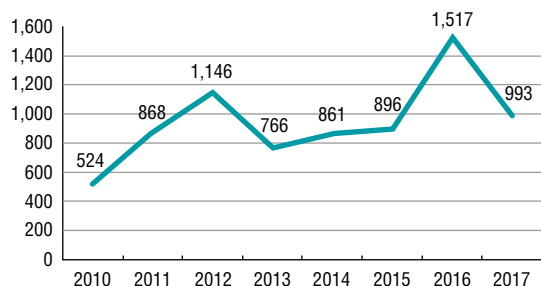
Disclosing notes concerning a suspicion of a criminal offence to the courts

In 2017, 468 cases concerning a suspicion of a criminal offence were referred by Tracfin to the courts, compared to 448 in 2016 (+4%).

The financial amounts at stake in these disclosures total €993m in 2017, compared with €1.517bn in 2016 and €896m in 2015.*

* The peak observed in 2016 is due to an unusually large case involving over €500m.

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



In 2017, out of the 468 notes referred to the courts, 12% concerned amounts of less than €100,000, 48% amounts between €100,000 and €1m, 37% amounts between €1m and €10m, and 3% amounts in excess of €10m. These proportions are roughly the same as in 2016.

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

Origin of reports and definition of the offences resulting in a referral 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 behind the suspicious financial flows. 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.

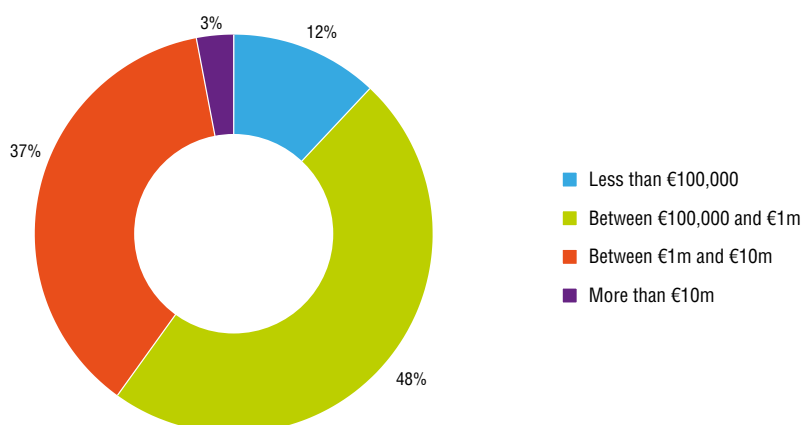
Referrals to the courts relating to suspicions of criminal offences also contain (except for urgent cases) the opinion of the Unit's legal adviser, who is a seconded judicial magistrate. The opinion states whether the evidence referred by Tracfin to the courts provides sufficient proof of the offences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

Court referrals by category of primary underlying offence

In 2017, as in prior years, the five categories of predicate offence that were the most frequently reported were undeclared work, scam (ordinary or aggravated), breach of trust, tax evasion and misuse of company assets.

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

Estimated sums involved in cases in 2017



Primary offence observed principales	Number of cases
Money laundering	144
Undeclared work	124
Breach of trust	100
Tax evasion	91
Scam	91
Misuse of company assets, misuse of credit, abuse of power	76
Abuse of weakness	52
Other crime or offence	39
Forgery / Falsifying certificates / Use of forgeries	36
Aggravated fraud	27
Handling stolen goods	25
Fraudulent organisation of insolvency	6
Illegal practice of an industrial and commercial business	5
Theft	5
Falsifying, using stolen or falsified means of payment	5
Corruption	4
Extortion	4
Embezzlement of public assets	4
Violation of legislation on poisonous substances, narcotics and doping agents	3
Bankruptcy	2
Procuring in prostitution	2
Terrorism	2
Conspiracy to commit a crime	2
Influence peddling	1
Unlawful taking of interest	1

WHITE CERTIFICATE (CEE) FRAUD

At the operational level, 2017 saw a significant rise in cases related to White Certificate (CEE) fraud.

The White Certificate system is designed to encourage legal entities operating in the energy industry to carry out energy savings work or to have such work carried out. However, a number of significant cases of documentary fraud have been reported. As a result, many White Certificates are unduly delivered.³²

Cases successfully investigated by Tracfin have almost always resulted in the Unit submitting an information note to the public prosecutor with territorial jurisdiction.

In 2017, Tracfin submitted 14 information notes involving cases totalling more than €80m. Organised crime was linked to 12 of these referrals. In six of the cases, the Unit was not able to find proof that any work had actually been done, which suggests that the White Certificate application was in fact based on false documents.

The Unit exercised its right of opposition five times in this area, involving over €4m. After investigating these cases, criminal investigation departments ultimately seized over €10m.

³² See Tracfin's 2016 report on trends and risk analysis regarding money laundering and terrorist financing, pp. 9-14

Courts of Appeal receiving Tracfin's information notes

	2012	2013	2014	2015	2016	2017
PARIS	214	182	197	207	195	246
VERSAILLES	31	54	39	45	36	44
AIX-EN-PROVENCE	58	46	36	31	41	34
DOUAI	19	22	28	9	18	22
LYON	23	21	19	13	19	18
TOULOUSE	10	9	9	7	2	13
RENNES	15	7	9	14	17	10
MONTPELLIER	16	12	5	8	11	7
REIMS	8	5	1	4	1	7
BASTIA	14	14	7	11	3	6
CHAMBERY	7	5	7	6	6	5
BORDEAUX	16	10	15	10	6	5
COLMAR	11	6	7	11	7	4
ROUEN	6	6	6	8	7	4
GRENOBLE	4	7	4	5	6	4
AMIENS	11	6	10	9	4	4
ORLEANS	3	5	3	2	7	3
RIOM	3	3	6	6	6	3
NIMES	9	2	6	4	5	3
POITIERS	2	3	4	3	3	3
CAEN	2	2	2	4	3	3
BESANCON	2	1	3	1	2	3
METZ	3	3	2	5	7	2
PAU	4	4	7	4	5	2
NANCY	5	5	7	2	4	2
BASSE-TERRE	2	2	2	1	3	2
BOURGES	2	1	2	1	3	2
ANGERS	4	5	9	3	2	2
LIMOGES	0	0	2	1	2	2
DIJON	2	3	1	2	6	1
PAPEETE	3	0	1	1	2	1
FORT-DE-FRANCE	6	1	2	3	1	1
NOUMEA	1	0	0	2	4	0
AGEN	3	3	2	2	3	0
CAYENNE	1	2	1	1	1	0
SAINT-DENIS-DE-LA-REUNION	2	1	3	2	0	0
Grand total	2,012	2,013	464	448	448	468

In 2017, as in 2016, three Courts of Appeal received most of the Unit's referrals: Paris, Aix-en-Provence and Versailles.

The Paris Court of Appeal received 246 referrals, over 50% of the Unit's referrals (versus 195 in 2016). Paris's *Tribunal de Grande Instance* (Court of First Instance, TGI) was the primary recipient with 114 referrals (117 in 2016). The Parquet National Financier (French Financial Prosecutor's Office)³³ received 23 referrals (15 in 2016). The TGIs of Bobigny, Créteil and Evry received 51, 28 and 14 referrals respectively, versus 39, 13 and 6 in 2016. Adding the 44 cases received by the Versailles Court of Appeal (versus 36 in 2016), public prosecutor's offices in the Greater Paris region received nearly 62% of Tracfin's disclosures in 2017 (compared to 51% in 2016).

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

Paris: 114 (117 in 2016)

Bobigny: 51 (39 in 2016)

Créteil: 28 (13 in 2016)

Nanterre: 26 (14 in 2016)

Evry: 14 (6 in 2016)

Melun: 9 (1 in 2016)

Pontoise: 9 (13 in 2016)

Versailles: 7 (6 in 2016)

Meaux : 6 (2 en 2016)

Fontainebleau: 1 (2 in 2016)

Breakdown of court referrals in France's overseas départements:

Basse-Terre and Pointe-à-Pitre: 1 (3 in 2016)

Cayenne: 0 (1 in 2016)

Fort de France: 2 (1 in 2016)

Nouméa: 0 (4 in 2016)

Papeete: 1 (2 in 2016)

Saint-Denis de la Réunion: 0 (0 in 2016)

Disclosures to the courts and criminal investigation departments

In addition to 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.

In 2017, 322 information notes were sent to the judicial authorities versus 125 in 2016. This upswing in referrals is partly due to an increase in information exchanges between the Unit and the counter-terrorist unit of the Paris public prosecutor's office, which received 224 information notes related to terrorism financing in 2017, up from 36 in 2016.

Among the 98 notes transmitted to judges in criminal court (excluding terrorism), 30 bolstered proceedings initiated by the French Financial Prosecutor's Office.

Fourteen information notes were sent directly to the police and gendarmerie criminal investigation departments. This was the case when the notes complemented Tracfin's prior responses to judicial requisitions from these services, or when they involved investigations opened by these services independently and not handled by a public prosecutor at the time.

³³ This figure does not include cases initially referred to the public prosecutors' offices with territorial jurisdiction, and then taken up by the French Financial Prosecutor's Office due to its concurrent jurisdiction.

Judicial requisitions

Both magistrates and criminal investigation departments may send two types of judicial requisitions to Tracfin's director as part of their investigations.

The purpose of these requisitions may be to obtain:

- Any information held by Tracfin that may shed light on an ongoing investigation
- Disclosure 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 this case, the requisition may only come from the judge in charge of the investigation.

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 judicial authorities or CID officers that they have disclosed information to Tracfin. Pursuant to Article L.561-19(2) of the Monetary and Financial Code, these authorities 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.

Tracfin received 87 judicial requisitions in 2017 (versus 61 in 2016): Three requisitions were received from the Financial Prosecutor's Office, 60 from the police and gendarmerie departments, and 24 from the National Customs Judicial Department (SNDJ).

One requisition was sent by an investigating judge to obtain the disclosure of a suspicious transaction report involving a notary implicated in the laundering of misappropriated public funds.

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.

Every year, the Unit's Legal and Judicial Division receives inquiries from judicial authorities and criminal investigation departments seeking information about several thousands of individuals and legal entities or bank account references. The range of subject matters covered is wide: complex tax evasion, laundering of the proceeds of fraud or of undeclared work, corruption and misappropriation of public funds (and their subsequent laundering), both in France and abroad.

Tracfin's exchanges with judges and judicial investigators are extremely beneficial when information sent to the Unit uncovers that funds derived from fraudulent activities may be at risk of disappearing. The money-laundering networks identified by the Unit specialise in collecting funds for quick transfer abroad. In 2017, the Unit was postponed 24 transactions involving an average of €360,000 and froze a total of €8.7m. The total sums at stake in these cases amounted to nearly €57m, of which €13.5m was seized by judicial authorities or returned to the victims.

However, despite the provisions of Article L.561-30-1³⁴ of the Monetary and Financial Code, Tracfin receives little feedback from the judicial authorities on the outcome of these disclosures: the Unit is rarely informed when they initiate legal proceedings following a preliminary inquiry or judicial investigation, as several years may have elapsed since the initial disclosure was made.

³⁴ Article L.560-30-1 of the Monetary and Financial Code: «in cases for which information notes were sent under the terms of this article, the Public Prosecutor or the General Prosecutor informs the Unit when proceedings are initiated, when the case is closed without further investigation, or when decisions are taken by an enforcement jurisdiction».

LIAISON OFFICERS SECONDED FROM POLICE, GENDARMERIE AND JUDICIAL CUSTOMS DEPARTMENTS

Within the Legal and Judicial Division, two liaison officers seconded from the Central Office for the Fight against Corruption and Financial and Fiscal Crime (OCLCFF) and the Central Office for the Prevention of Serious Financial Crime (OCRGDF) coordinate operations between Tracfin and police departments. A lieutenant colonel, seconded from the gendarmerie, and a liaison officer from the customs department coordinate relations with these departments.

They respond to inquiries from investigation departments seeking Tracfin's help with cases they are investigating.

They typically provide information on:

- Suspicious flows and operations carried out by the persons being investigated and reported to the Unit
- Foreign assets and bank accounts held by the persons under investigation, and more generally, any information regarding their financial and wealth circumstances
- Potential financial connections between the persons being investigated and other persons yet to be identified, who may be linked to the offences being investigated

Every year, liaison officers respond to inquiries involving several thousand individuals and legal entities.

They analyse the judicial requisitions received from the various departments, make sure that they are admissible and that the replies of the Unit to these requisitions are relevant. In 2017, liaison officers processed 84 judicial requisitions.

In parallel, liaison officers are contacted by Tracfin's officers when information received by the Unit might help ongoing investigations. They then contact the departments in charge and, similarly to what is done when responding to judicial requisitions, they make sure that all information shared by the Unit with investigators (or if necessary, with the judge handling the case) is relevant. In 2017, liaison officers contributed to the targeting of 322 information notes sent to judicial authorities and 14 notes sent directly to investigation departments.

In highly complex cases that necessitate deeper interaction and coordination with investigation departments, the liaison officers set up operational meetings between investigators and Tracfin's officers.

They take an active part in forging institutional relations between Tracfin and local and national police, gendarmerie and judicial customs departments.

Liaison officers also intervene as speakers during training sessions or through presentations at meetings held by investigation departments. They help build awareness of the operational support Tracfin can provide to all investigators, whether they are specialised in financial matters or related areas of organised crime, or general investigators.

DISCLOSURES TO PARTNER AUTHORITIES

To intelligence services

The upswing in exchanges of financial information with the intelligence community continued in 2017. The number of information notes sent by Tracfin reached 614, up from 488 in 2016 (+26%).

As in 2016, nearly 75% of these notes (460 out of 614) involved persons suspected of terrorist activities. Tracfin's inclusion in the fight against terrorism is reflected not only in the growing number of information notes sent to the intelligence community but also in the diversity of their contents. These notes may contain information on individuals suspected of planning a

violent act on the French territory or linked to a network of facilitators, on legal entities used to transfer suspicious funds or on the freezing of assets.

Tracfin also continues to contribute to other areas in the intelligence field. In 2017, the Unit sent information on money-laundering schemes implicating politically exposed persons (PEPs) who were foreign nationals of sensitive countries. Other notes dealt with challenges to France's fundamental interests, threats to France's scientific or industrial potential, and more generally, with threats to the economic security of the nation. Tracfin also made a strong contribution to the fight against arms trafficking. Lastly, the Unit helped identify goods and funds originating from proliferation activities.

THE DIVISION SPECIALIZED 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 and development 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 specialized services to identify examples of predation, as part of preventive action. The Unit can analyse investments in the capital of companies based in France which are reported as part of AML/CFT arrangements.

Since 1 January 2017, pursuant to Article L.561-31(8) of the Monetary and Financial Code, Tracfin can exchange information with the Strategic Information and Economic Security Service (SISSE). The Unit takes part in the inter-ministerial meetings organised by SISSE that pertain to economic security.

since 2010. The total revenue includes more than €675m in reassessed taxes and more than €282m in penalties.³⁵

For the past five 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	2017
Number of completed audits	138	157	231	232	234
Amount of tax reassessed (€m)	28.1	26.4	45.6	39.9	55.2
Total amount of penalties (€m)	25.1	15.9	26.6	23.6	32.3

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.

Possessing a tax audit background, the liaison officer was tasked with further bolstering relations between Tracfin and the DGFIP by implementing an additional system for speeding up disclosures between the two structures. Thanks to this expedited processing, tax intelligence can be disclosed almost immediately when the confirmation of a suspicion does not require any other investigation besides searching tax databases. In 2017, 248 additional cases were sent to the DGFIP through these «flash» disclosures.

The liaison officer also contributes to the disclosure of information notes originating from DGFIP's internal VAT Task Force, of which he is a member.

To the tax authorities

In 2017, Tracfin sent 625 information notes to the tax authorities (a 79% increase). This upsurge was driven by an 8% rise in enhanced information disclosures, from 350 in 2016 to 377 in 2017, and by the May 2017 implementation of a new procedure for accelerated («flash») disclosures which resulted in 248 incremental disclosures. Concurrently, the average stakes per case amounted to €966.3m in 2017.

DGFIP's use of notes submitted by Tracfin

1,850 tax audit proposals have been initiated on the basis of transmissions of information sent by Tracfin

Main types of tax evasion detected

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».

³⁵ It is worth noting that 2010 and 2011 were exceptional years due to a limited number of carbon tax-related cases (€455m in taxes and €137m in carbon tax).

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

The most frequently reported typologies 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
- Possession of financial assets or transfers of funds through non-trading companies (such as non-trading real estate investment companies) that are inconsistent with the purpose of these structures
- Suspicions of concealed activity or the partial concealment of an activity or of 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 (the 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 widely varying 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 lent 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 framework. As a result, social security contributions are not paid on all or part of these wages (sometimes only part of the salary is declared). The same may be true for self-employed workers, adhering to the RSI 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 activities or conditions for practising their profession may have alerted the reporting entities.

Financial implications vary from one case to the next. Cases featuring the most complex characteristics, large financial amounts, or that reveal organised crime networks are handled as a priority with disclosures of information sent to the judicial authorities. In 2017, 223 information notes were sent, a 35% increase over the previous year. In 2016, the increase had been 51%. Since 2015, the number of notes sent by Tracfin has doubled.

In the social security field, the ACOSS (Central Agency for Social Security Bodies) remains the primary recipient with 79% of notes sent by Tracfin (versus 82% in 2016).

In correlation with this surge in volume, the amounts at stake soared by 45% in 2017, reaching €202m (versus €139m in 2016). The average amount per case was €0.9m (up 7%).

The main types of social security fraud

In 2017, the main types of social security fraud giving grounds for disclosures of information were as follows:

- **Social security contribution fraud:**
 - Suspicion of undeclared work and failure to declare workers
 - Understatement of the basis 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 meanstested benefits
 - False declaration of residence
 - Suspicion of the diversion of pension benefits through «collection accounts» (See text box on the right)
 - For health professionals, defrauding supplementary mutual insurance companies

Sector-based breakdown

As for previous years, the construction sector is by far the largest employer of undeclared labour. After an increase in 2016, the security sector remained stable in 2017. The transport sector experienced the largest increase in cases due to the strong growth in the private car hire (VTC) business.

FRAUD AGAINST THE NATIONAL FAMILY ALLOWANCE FUND (CNAF)

In 2017, the number of information notes sent to CNAF tripled. This surge was driven by:

- **Special processing targeting fraud networks responsible for massive foreign transfers of allowances received in France on behalf of multiple beneficiaries:** Social security benefit recipients (primarily RSA or housing benefits) have their allowances deposited onto the bank accounts of individuals who all reside at the same address and act as «consolidators». After the funds are remitted, they are withdrawn in cash in France or abroad, or are wired to third-party bank accounts in foreign countries (primarily Romania).
- **A growing number of cases involving false declaration of residence by recipients of various social security allowances:** Pursuant to Articles R.262-4-2 and R.265 of the Code for Social Action and Families, stable, actual residence in France is required to receive CNAF allowances. For example, when it comes to the RSA, residence outside of France must not exceed three months per calendar year. Nevertheless, analysis of transactions from bank accounts used by recipients to remit CNAF benefits brought to light a pattern of repeated purchases or withdrawals abroad over a long period of time. This indicates that people unduly received these allowances.

Geographical distribution

The Greater Paris region remains the most affected region, but its share in the number of cases dropped to 67% versus 77% in 2016. Within the region, Seine-Saint-Denis jumped well ahead of Central Paris with 38% of cases. The French capital, usually in the lead, now accounts for only 26% of cases, down from 41% in 2016. Among the other Greater Paris *départements*, Val-de-Marne rose to No. 3 after a 100% increase in cases (it now accounts for 12% of disclosures).

Outside of Greater Paris, the Occitanie, Hauts-de-France and Auvergne-Rhône-Alpes regions, respectively, round up the most cases.

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 (National Anti-Fraud Office).

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

Years	Cases closed	Total amounts notified (€m)
2012	27	6.3
2013	40	3.1
2014	35	13.1
2015	82	42.4
2016	69	37.0
2017	33	26.4
Total	286	128.3

The total reassessed amounts after audits now reach over €128m. While this report was being drafted, many 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	5	21,075
2013	5	85,912
2014	12	120,606
2015	5	58,540
2016	6	79,449
2017	26	167,784
Total	59	533,366

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	4	74,689 €
2017	6	Pending
Total	24	303,372

THE URSSAF LIAISON OFFICER

Since 1 January 2016, an URSSAF 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 specific expertise. This involves managing investigative measures by providing responses to Tracfin's using its 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 approves 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 optimize its 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 contributions collection practices.

To the Directorate General of Customs and Excise (DGDDI)

Strong cooperation between Tracfin and the DGDDI continued in 2017.

Tracfin sent nearly 850 administrative search requests to the DGDDI. Most of these requests involved analysing physical flows of goods through import or export transactions with third countries (outside the European Union) or as part of intra-Community exchanges, using the National Directorate for Foreign Trade Statistics (DNSCE) database. The objective is to remove any doubt as to whether commercial transactions actually took place, based on the countries involved and the nature and value of the declared goods.

The quality of the cases sent by Tracfin to the DGDDI has remained high. Thanks to the analyses sent by the Unit, investigators from the customs department were able to conduct targeted investigations, enhance ongoing investigations and even uncover offences. Regarding the latter, Tracfin's contribution was instrumental in cases involving the export of sensitive materials considered as dual-use goods (civil and/or military) as well as in bolstering high-stake tax investigations related to intra-Community excise fraud (on beer and alcohol).

Regarding regulations affecting capital flows, and especially the obligation to declare any transaction over €10,000 (Article L.152-1 of the Monetary and Financial Code), several analyses proved conclusive, particularly as part of the investigations led by the Antilles-French Guiana branch of the Customs Investigations Directorate (DED). This subject matter represents a key area of cooperation between Tracfin and the DGDDI, as undeclared cross-border capital flows are strong indicators of money laundering.

In addition to the synergy achieved in administrative investigations, the DGDDI and Tracfin also share interests in the judicial area. The number of cases investigated by the National Customs Judicial Department (SNDJ), established by Order of 5 December 2002, has soared from 67 in its first year to over 1,000 in 2017. In 2017, the SNDJ, renowned for its keen expertise in financial investigations, was asked to investigate 20 judicial referrals sent by Tracfin. These were transmitted to the SNDJ by public prosecutor's offices after they had received the Unit's notes.

Strengthening and bolstering cooperation between Tracfin and the DGDDI is a key objective for 2018, as both organisations share a deep concern about financial

offences and the fight against terrorism. To that end, a DGDDI liaison officer was seconded to Tracfin in 2013. This secondment greatly facilitates the collaboration between the two structures.

To the supervisory authorities

In 2017, Tracfin sent eight information notes to the supervisory authorities and professional associations. This information is provided pursuant to Article L.561-28 of the 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 obliged to respond to requests for information.
- 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.

In 2017, 75% of the notes were sent to French financial regulatory authorities AMF and ACPR (versus 64% in 2016). For the first time, Tracfin sent a case for disciplinary purposes to the High Council of Auditors (H3C) as part of H3C's new disciplinary powers.

THE EUROPEAN AUDIT REFORM REINFORCES H3C'S SUPERVISORY POWERS

H3C was granted investigative and disciplinary powers when the European Audit Reform came into force on 17 June 2016 (through Order 2016-315 of 17 March 2016 enacting Directive 2014/56/EU of 16 April 2014). H3C now has its own investigation department headed by a general *rapporteur* tasked with running the investigations and presenting them to a select committee from H3C's Board, which can, if necessary, initiate disciplinary proceedings.

These cases are heard at first instance either by the select committee of the Board or by regional disciplinary boards (the choice is up to H3C's Board). Any fact likely to justify the opening of disciplinary proceedings by duly empowered persons is referred to the general *rapporteur*. He may also take on any case directly referred to him.

2. FINANCIAL INTELLIGENCE AND ITS ROLE IN COMBATING THE FINANCING OF TERRORISM

As a member of the French intelligence community since 2008, Tracfin continues its efforts to foster exchanges and forge ties with all the community's stakeholders. The Unit has also focused its efforts on judicialising financial intelligence, and has been working with the anti-terrorist section of the Paris public prosecutor's office.

In 2017, Tracfin sent 685 "combating terrorist financing" notes, 459 of which were sent to specialist departments, up 73% versus 2016 (396 disclosures), and up 115% versus 2015.

These 459 notes break down as follows:

- 29 to the DGSI (Directorate General for Domestic Security)
- 387 to the inter-agency unit at the DGSI (including «flash» disclosures)
- 37 to the DGSE (Directorate General for External Security)
- 2 to the DRM (Military Intelligence Directorate)
- 1 to the DRSD (Defence Intelligence and Security Directorate)
- 3 to the CNRLT (National Intelligence and Counter-Terrorism Coordinator)

Tracfin has by now cemented its position within the intelligence community and even more so in joint inter-departmental structures. Moreover, the growing number of information received from the French FIU (Financial Intelligence Unit) illustrates the importance of financial intelligence in the fight against terrorism. These results reflect the commitment of the Unit's Terrorism Financing Division, which operates jointly and collaboratively with other partners in a wide range of activities, from complex analysis to operational response (such as «flash» disclosures).

An officer from this division has been seconded on a full-time basis to an inter-departmental unit. This officer can coordinate the information sent by Tracfin in real time and draw on his experience to advise partner departments.

The Terrorism Financing Division enriches and maintains close relationships with the other specialised divisions of European and international FIUs that are joined in the fight against terrorism. A concrete example of the growing international cooperation was the creation of the first joint training sessions. The expertise shared by all staff tasked with fighting the financing of terrorism in the most affected European countries has helped bolster exchanges and disseminate best practices.

Aside from intelligence work, and when its investigations unequivocally reveal a presumption of terrorist financing, Tracfin also refers cases to the courts, resulting in the opening of investigations into terrorist financing. In 2017, 226 notes were sent to courts or to the criminal investigation departments tasked with fighting terrorism, vs. 44 in 2016. Thanks to these efforts, the public prosecutor's office was able to open new investigations based on information sent by Tracfin and dismantle networks that had so far operated unsuspected. With the help of the reporting entities, Tracfin is examining the structure of networks that support and provide financial aid to jihadists in the Iraqi-Syrian 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. These compliance departments are now invited to special meetings in which Tracfin provides the feedback necessary to help them fine-tune their detection tools. These flagging tools have become increasingly effective over the years, particularly in detecting radicalisation scenarios and people wishing to leave for the jihad. In 2017, 1,379 STRs were analysed by Tracfin's Combating of Terrorist Financing Division.

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

ANTI-TERRORIST FINANCING EFFORTS – KEY FIGURES FOR 2017

RECEPTION AND ANALYSIS OF INFORMATION

> 1,379 reports received and analysed in 2017 (a 17% increase over 2016)

INVESTIGATIONS

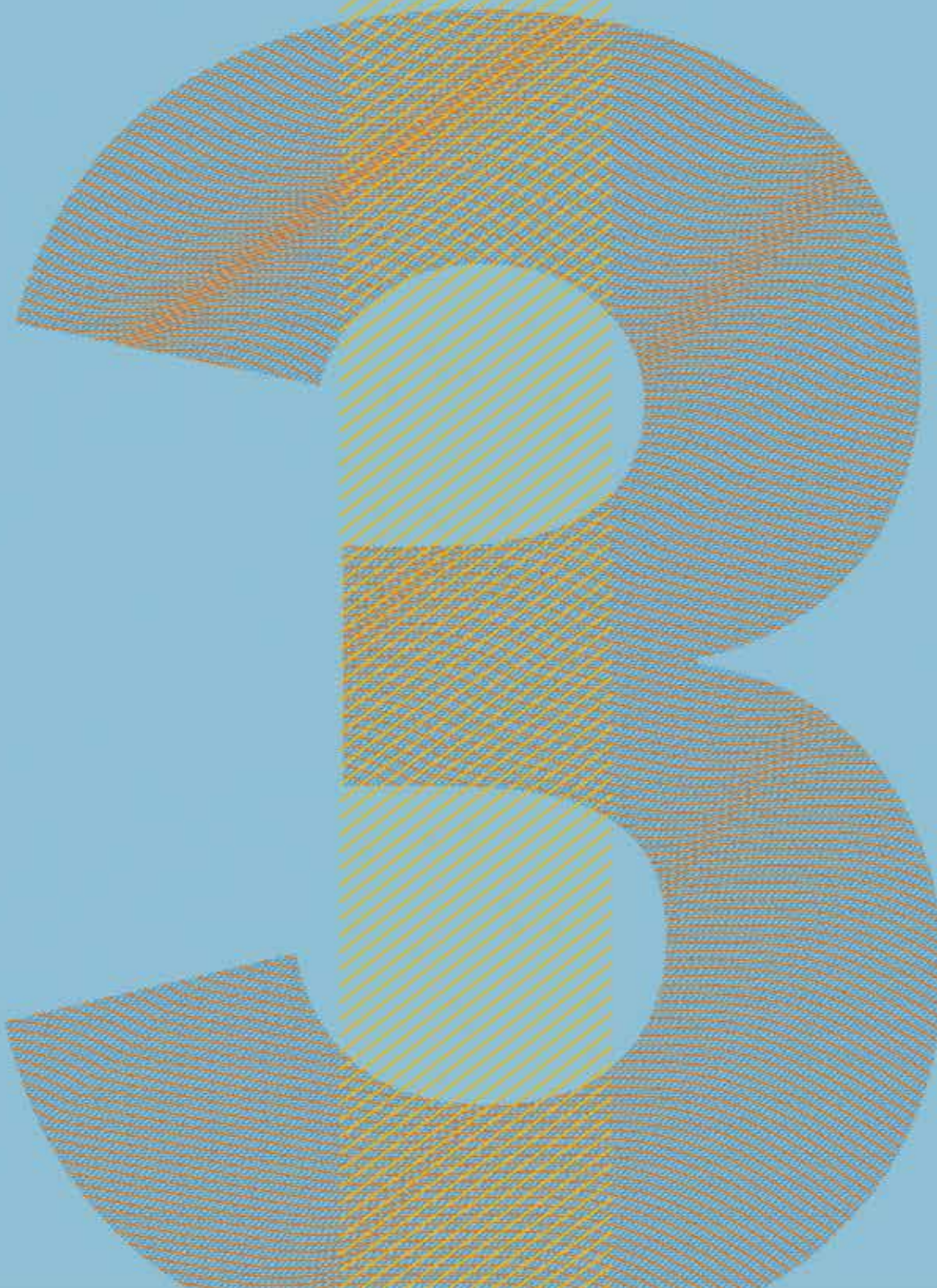
On 31 December 2017, 105 cases were being processed

DISCLOSURES

In 2017, Tracfin disclosed 685 “combating terrorist financing” notes (+73%):

> 459 notes were sent to intelligence services

> 226 notes were sent to the courts or to the criminal investigation departments tasked with fighting terrorism



NOTEWORTHY CASES

Case study 4: Tax evasion – using a foreign entity for inheritance purposes

Tracfin received information on suspicious activities on the bank accounts of commercial firms held by a French resident and inconsistent with their business purpose, suggesting potential tax evasion.

The facts

Mr X, a former head of an SME specialised in the sale of hoses, first formed Company S, a holding company located in mainland France. In 1996, he formed a second company, T Pacific, a holding company based abroad and held by the first company. T Pacific's declared purpose was import-export and Mr X was its chairman.

Tracfin's investigations

Tracfin used its power to request and discovered that foreign-based T Pacific had 5 bank accounts in France. The funds that transited through these accounts were not linked to any industrial or commercial business activity. T Pacific had actually informed its bank that it was headquartered at a third company, Company S Antilles. Although they held no official positions with the company, Mr X's children and his wife made large cash withdrawals from T Pacific's bank accounts totalling over €500,000 in two years.

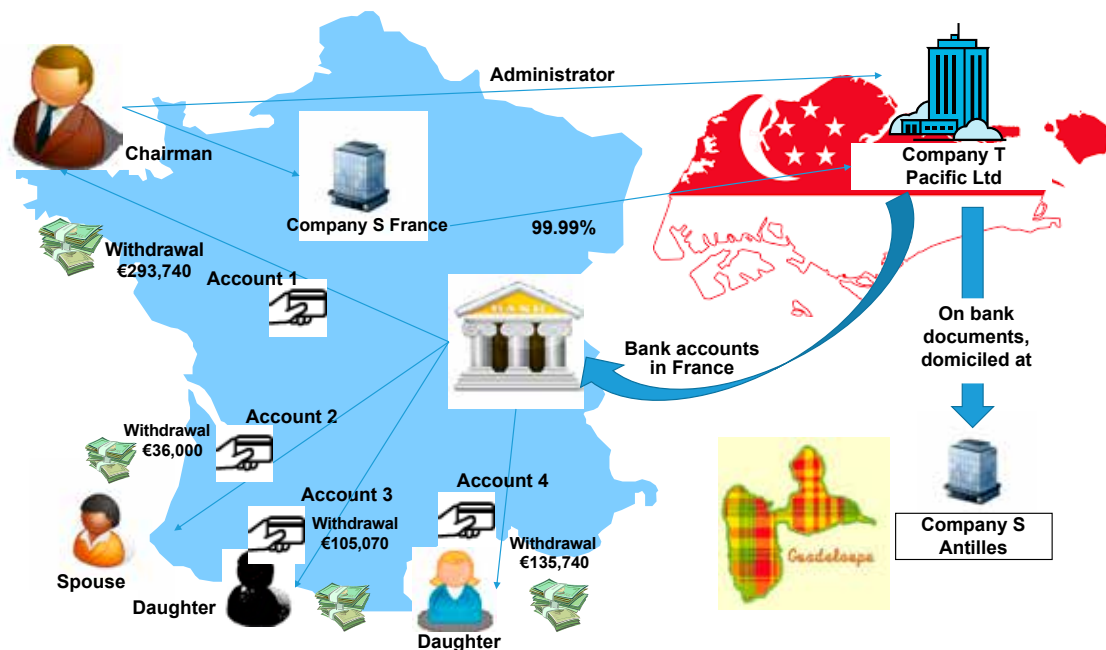
It appeared that T Pacific had no real business activity but had its decision-making centre in France based on the following evidence:

- The company had bank accounts in France
- The company had an address in France in the premises of Company S
- Family members had bank cards in the name of T Pacific

The considerable sums obtained by Mr X and his family could be reclassified as hidden payments as per Article 111 C of the General Tax Code. Thus they could be taxed as investment income.

Warning signs

- Bank account held by a foreign company whose economic beneficiaries are French residents
- Numerous cash withdrawals or use of bank cards linked to the French accounts of a foreign company
- Use of a shell company (criterion 1 of Article D.561-32 of the Monetary and Financial Code)
- Regular use, by individuals residing and carrying out a business activity in France, of accounts held by a foreign company (criterion 14 of Article D.561-32-1 of the Monetary and Financial Code)



Case study 6: Organisation of insolvency to prevent the tax authorities from issuing a garnishee notice

Tracfin received information on financial flows carried out by the employee of a company whose accounts had just been audited.

The facts

An administrative manager, Ms X has been depositing cheques from Mr Z, her employer and sole owner of the architecture firm, into her personal bank account. The total sum remitted amounted to €300,000.

Ms X's annual salary amounted to €30,000.

Subsequently, she wired €140,000 onto her employer's personal account, and withdrew €30,000 in cash.

Tracfin's investigations

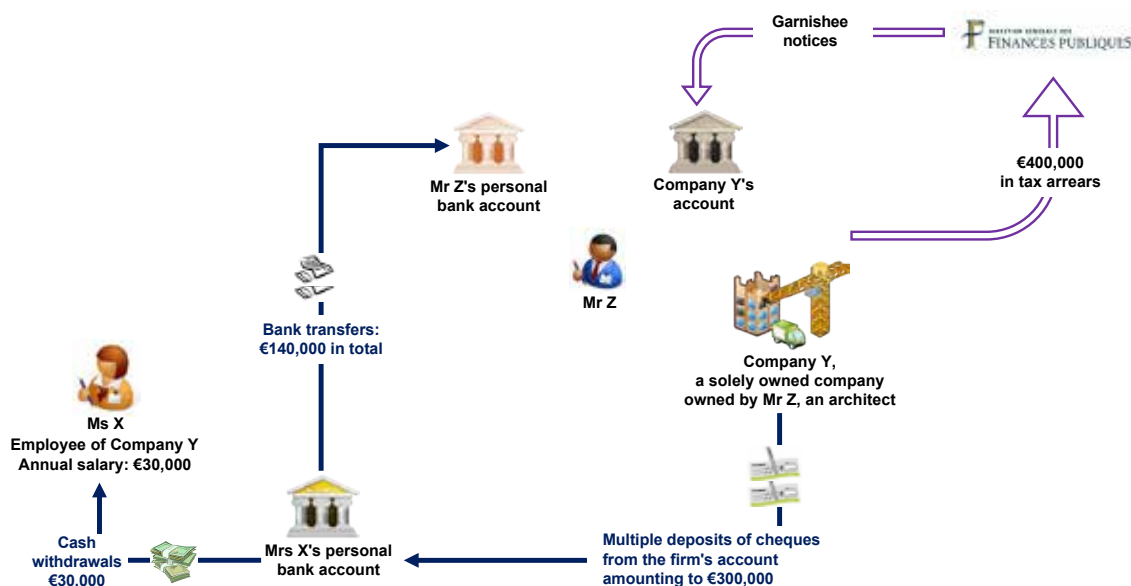
After cross-checking tax databases, it was found that the architectural firm owed nearly €400,000 in tax arrears and that the tax collection officer of the local branch of the Public Finances Directorate General (DGFIP) had granted a repayment plan. In fact, the firm's bank had been receiving garnishee notices (ATDs) from the DGFIP.

This scheme aimed at circumventing the forceful measures used by the tax authorities to recover their claim.

The DGFIP was informed of these activities through a «flash» disclosure.

Warning signs

- Large money transfers from a firm's bank account to an employee's account, then from the latter's account to the personal account of the firm's operator or manager
- Business in financial difficulty, bank receiving garnishee notices



Case study 7: Money laundering using online gaming websites

The facts

Tracfin was alerted to the activity of bank accounts and players' online gaming accounts which hinted at money laundering through online gaming websites.

The group of players under investigation were composed of students with no reported income. Deposits on their bank accounts mostly consisted of funds coming from online gaming sites approved by ARJEL (the Online Gaming Regulatory Authority) in the amount of €500,000 in total. However, the bank account debits were disconnected from the deposits onto the players' online gaming accounts.

Analysis of transactions on the players' online gaming accounts revealed how this group of individuals arranged to conceal the origin of the funds credited to these accounts: Very large amounts were remitted to the players' accounts through prepaid codes, and transfers of funds were carried out disconnected from any gaming transaction. Prepaid codes were purchased in multiple physical points of sale throughout France, but the bulk of them came from a single point of sale located in a European city. These prepaid codes were mostly bought using cash.

The Unit leveraged intelligence techniques to investigate this case, given the use of prepaid codes, the considerable amounts in cash used to purchase these codes, the difficulty in tracking

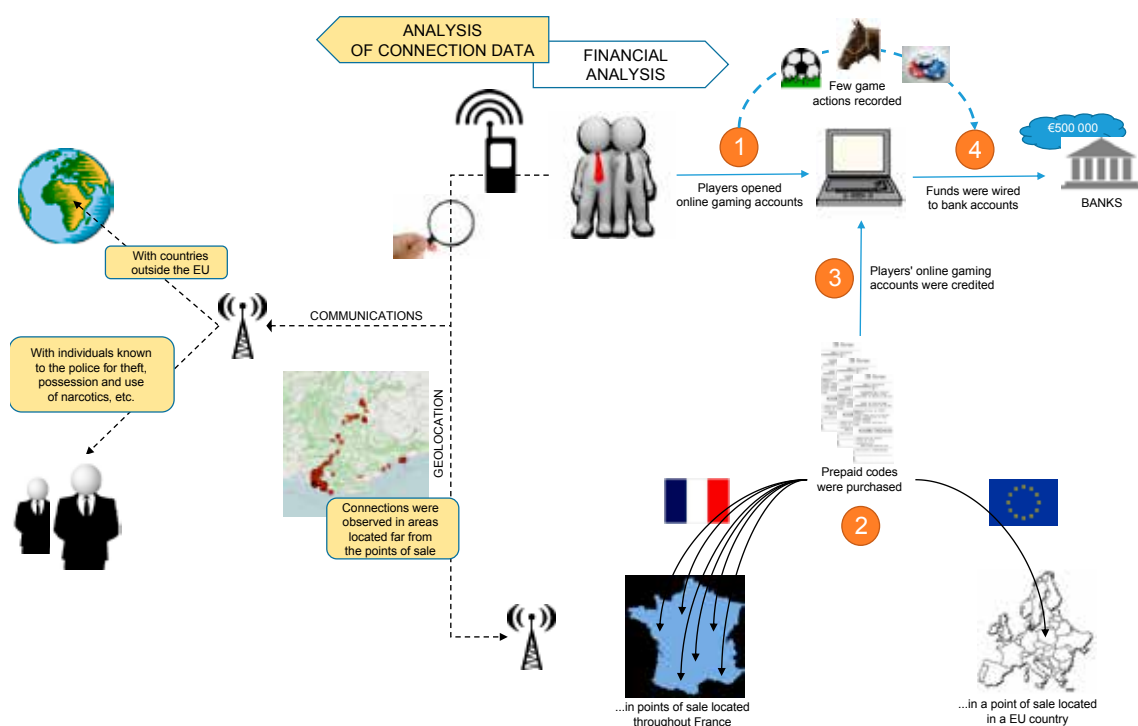
the origin of the cash, and the international scope of the network involved. The objective was to provide insight into how the prepaid codes were acquired, particularly to confirm whether the owners of the players' online gaming accounts had visited the various points of sale in person to purchase the prepaid codes.

Analysis of communications revealed that calls had been made and received from two countries located outside of the EU. It also uncovered travel information (plane and road trips, among others), which confirmed that the players had not purchased the prepaid codes in person.

This case was referred to the courts for money laundering specifically through online gaming websites, without prejudice to money laundering in connection with tax evasion, given that the suspicious flows were undeclared.

Warning signs

- For banks:
 - Unusual large financial flows originating from online gaming operators in relation with the socio-economic profile of the players
 - Debit flows inconsistent with high gains
- For gaming operators:
 - Few game actions
 - Massive use of electronic money
- For electronic money institutions:
 - Massive purchases of electronic money in a few points of sale, particularly outside France



Case study 8: Diamond fraud and use of power to postpone a transaction (postponement power)

The facts

Purporting to be a diamond trader and broker, Company C offered «investments in diamonds» on the Internet, which it presented as safe assets promising exponential returns due to the depletion of diamond resources in producing countries. Company C was recently set up but its website claimed it had 15 years of experience in the sector. The company apparently offered diamonds for sale to its clients. However, the gemstones would neither be shipped, nor imported, nor delivered to their homes. Rather, the business proposed to store them in safes in customs warehouses abroad, under its responsibility.

Mr K, Company C's manager and sole shareholder, did not appear to have any prior professional experience in the diamond sector.

Within a six months period, Company C's bank accounts received over **€1.5m** in deposits from French individuals. Some of the bank transfers specified the purpose of the payments as diamond investments.

Tracfin's investigations

During its investigation, the Unit noticed that Company C's French bank accounts were only used as transit accounts to convey the collected funds to various companies located abroad (in Europe and Asia). Payment operations appeared **highly fragmented** and the legal entities that received the funds transferred seemed to be very diverse as well. There did not seem to be any logic as to the geographical locations of the recipients. For instance, Company C did not appear to work with a select group

of trusted gemstone wholesalers to purchase its diamonds. Apart from the fund transfers to foreign companies, the lease on the company's headquarters, the payment of Mr K's salary and his business travel expenses, operating expenses seemed too low to be consistent with a company truly based in France.

Furthermore, investigations by the Unit uncovered irregularities in Company C's tax and social security returns, the use of forged certificates issued by a dubious gemmological lab, and a recent change in the company's corporate purpose from rare earth trading to diamond trading.

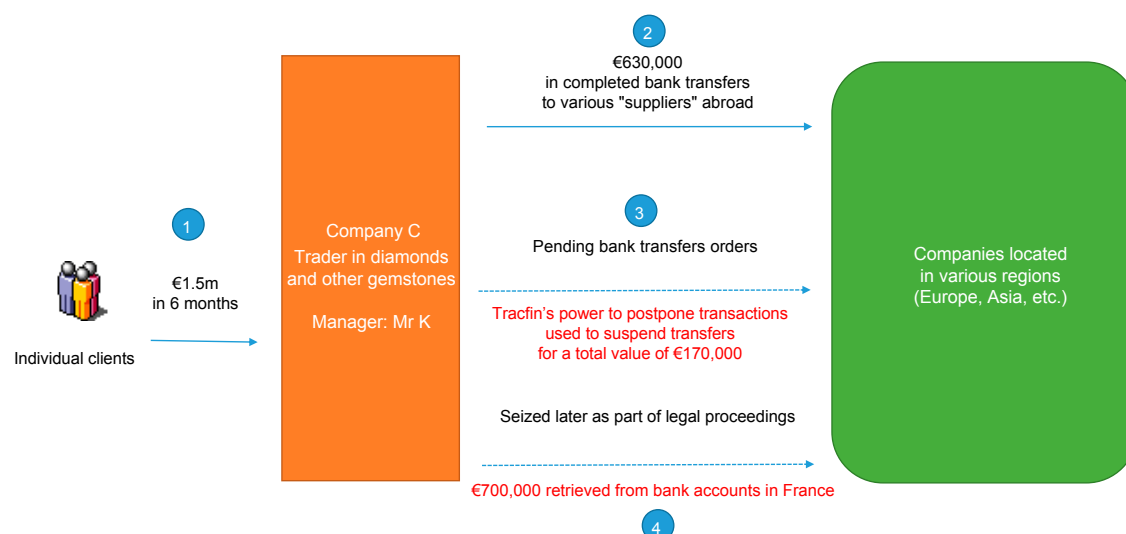
The Paris public prosecutor's office, the AMF, the ACPR and the DGCCRF (Consumer Affairs and Fraud Control) had warned the public against intermediaries offering atypical investment opportunities on the Internet, such as investment diamond traders. Reporting entities were advised to be careful when dealing with such providers.

Tracfin was alerted by reporting entities that **€170,000 in bank transfers were about to be processed**, so the Unit exercised its right of opposition to stop these transactions.

This case was referred to the public prosecutor's office as conspiracy to defraud. Thanks to Tracfin's intervention, part of the investors' money (**about €700,000**) was recovered.

Warning signs

- High-risk investment activity in atypical assets offered through the Internet
- Public service alert from government departments
- Substantial amounts of money collected from individuals
- Transit bank accounts in France
- Highly fragmented payment operations to recipients abroad
- Call for heightened due diligence before executing payment orders



Case study 9: Tax evasion, social security fraud and money laundering in vehicle trading

The facts

Tracfin received information on financial flows in the amount of €15m deposited over ten months on a French bank account opened by EU Company A, managed by Mr P1 and reportedly operating in used-vehicle trading.

Company B, a cross-border company recently set up and managed by Mr P2, was also engaged in the used-vehicle business. It received large inflows (€1m over a month) after all banking transactions on Company A's accounts had ceased.

Tracfin's investigations

A search of tax, legal, customs and social security databases and a consultation with our foreign counterparts revealed that Company A and Company B did not have any declared operating resources in France but did have bank accounts in two European countries. These foreign accounts received some of the funds from the French accounts, either directly or after transiting through the companies' accounts in France.

An analysis of bank transactions on French accounts showed that:

- The recipients of the funds sent by Company A and Company B were mostly companies that really operated in the vehicle trading business, for a holding company controlled by the same family-owned group as Company A and Company B.
- The funds received by Company A and Company B originated from:

- Companies recently created and/or that failed to comply with their tax obligations, declaring activities inconsistent with the massive purchase of vehicles (pallet trading, construction and security services), and that had not registered any vehicles during the period in which the flows occurred.
- Many individuals, some of whom were identified as retired, with ties in the same remote region of North Africa (some actually residing there) and for whom there was actually no proof that they were still alive.

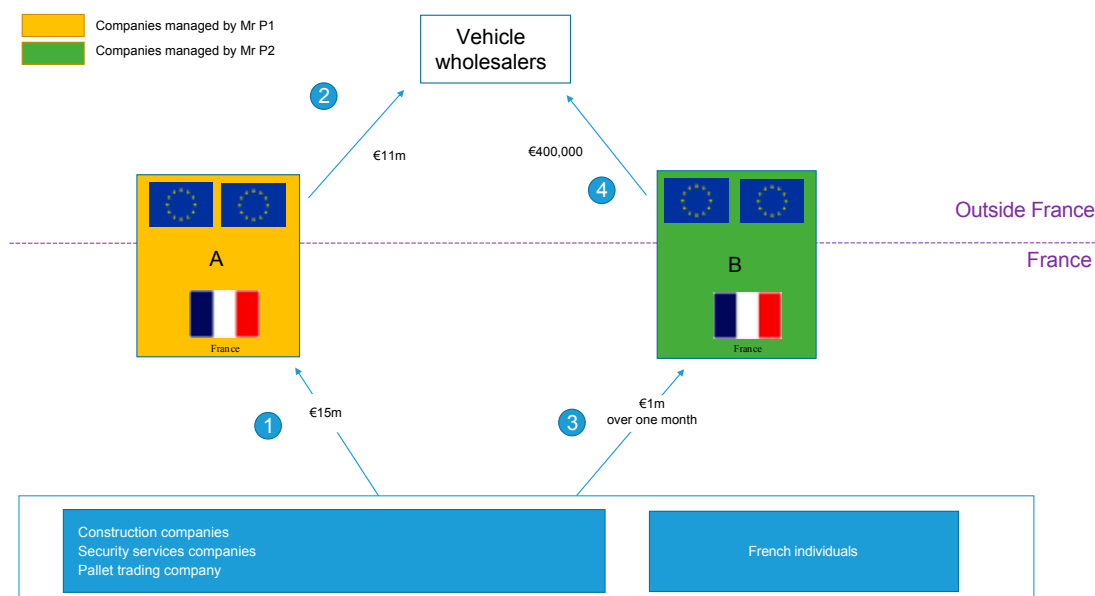
This case was linked to suspected social security fraud involving several individuals whose bank accounts showed on the credit side only pension benefits, and on the debit side, cheques made to individuals or companies without any apparent economic connection.

This information was sent to the public prosecutor's office with territorial jurisdiction under suspicion of tax evasion and social security fraud, and pension fraud.

The vehicles acquired may have been resold on another market, possibly abroad.

Warning signs – bank

- Large bank transactions on the accounts of foreign companies without any apparent operating resources
- Inflows from companies involved in activities inconsistent with massive vehicle purchases (construction, security services, pallet trading), and from retired individuals whose residence in France was not ascertained
- Inflows from retired individuals whose residence in France was not ascertained and who might even turn out to be deceased
- Individual accounts credited by pension funds then quickly debited on behalf of individual or business accounts
- Lack of banker's drafts, which are common practice in vehicle trading



Case study 10: Economic and financial predation

The facts

Tracfin was alerted to bank transfers sent by a French entity specialised in civil and military refuelling benefiting a company with European Company Statute. These bank transfers, labelled as «prepayments» for new orders, amounted to over €1m over a rolling one-year period without any justification or proof that services had been actually rendered. They may have represented advances on commissions related to the signing of a supply contract by a foreign country.

Tracfin's investigations

An examination of the contextual, financial and accounting circumstances of the entity revealed that these advanced payments had been remitted to the supplier account with no prior information related to an invoice of any invoice or justification that services had been rendered.

Furthermore, the investigation revealed that the French company had been in financial difficulties at that time. Its bank account was frequently overdrawn and the company had been granted new loans to cover its cash flow needs.

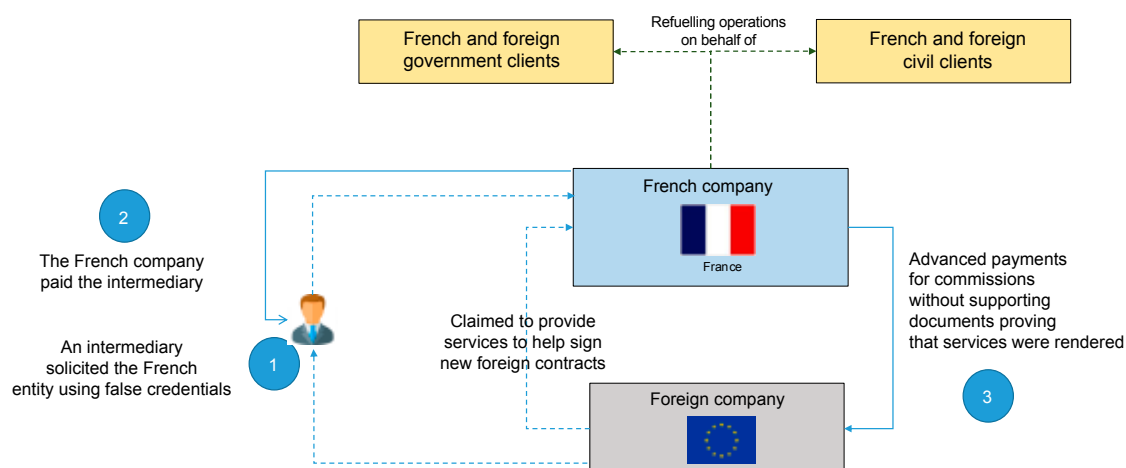
At the end of the fiscal year, the French company's debt-to-equity ratio reached over 100%.

In addition, it was discovered that the French company had paid these funds after it was contacted by an intermediary. The Unit's investigations brought to light that this individual had received funds from the French entity and had used false credentials. A search of public-access databases also uncovered that the individual had been suspected of fraud.

These actions were typical of an economic predation scheme: as its cash flow was being diverted, the target company's financial difficulties worsened, and it was greatly weakened. Faced with much uncertainty as to its financial strength and independence, the French company was de facto placed in a vulnerable situation.

Warning signs

- Company operating in a sensitive strategic sector
- Financial flows involving foreign suppliers and a lack of identifiable counterpart entries
- Presence of an intermediary whose credentials could not be verified in public-access databases
- Company in financial difficulties



Case study 11: Terrorist financing via a fund collector

Tracfin conducted investigations on the financial circumstances of Mr X. This individual was known in public-access databases for religious fundamentalism. He was suspected of sending funds to French radicalised Islamists who had gone to the Levant region for the jihad.

In April 2017, Mr X received a transfer of €500 from Canada. Subsequently, he sent funds to three individuals in the Levant for a total amount of €1,800. These transfers happened within a few days of each other and were all received at the same office of a money service business. Tracfin investigated these three beneficiaries:

- Mr A had received about \$5,000 since late 2016, from ten senders based in Western Europe, the Caucasus and the Persian Gulf. A French radical Islamist militant was among the remitters.
- Mr B had received about \$9,000 since late 2014, from 13 individuals located in Western Europe, Eastern Europe, the Caucasus and the Persian Gulf. Among the remitters of these transfers was an individual from the Levant living in France.

- Mr C had received about \$5,500 since mid-2016 from nine remitters located in Western Europe and the Balkans.

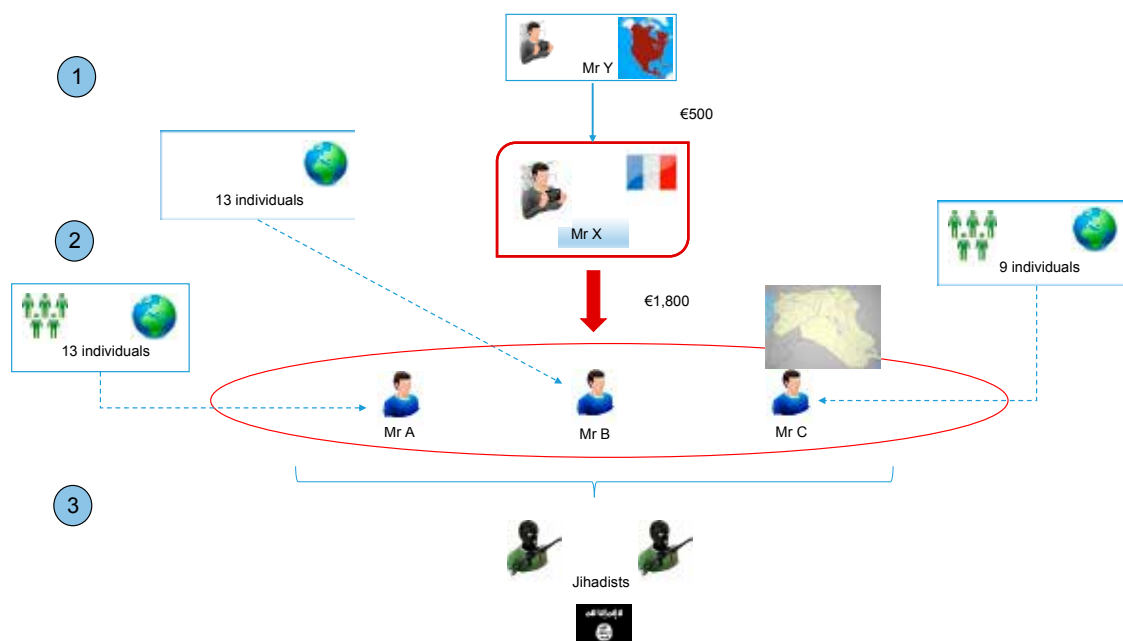
While the Unit's investigations did not uncover any direct transactions between Mr X and French Islamist militants in the Levant region, the pattern of these financial transfers suggested that he may have used relays in one of the countries bordering the conflict zone to that end.

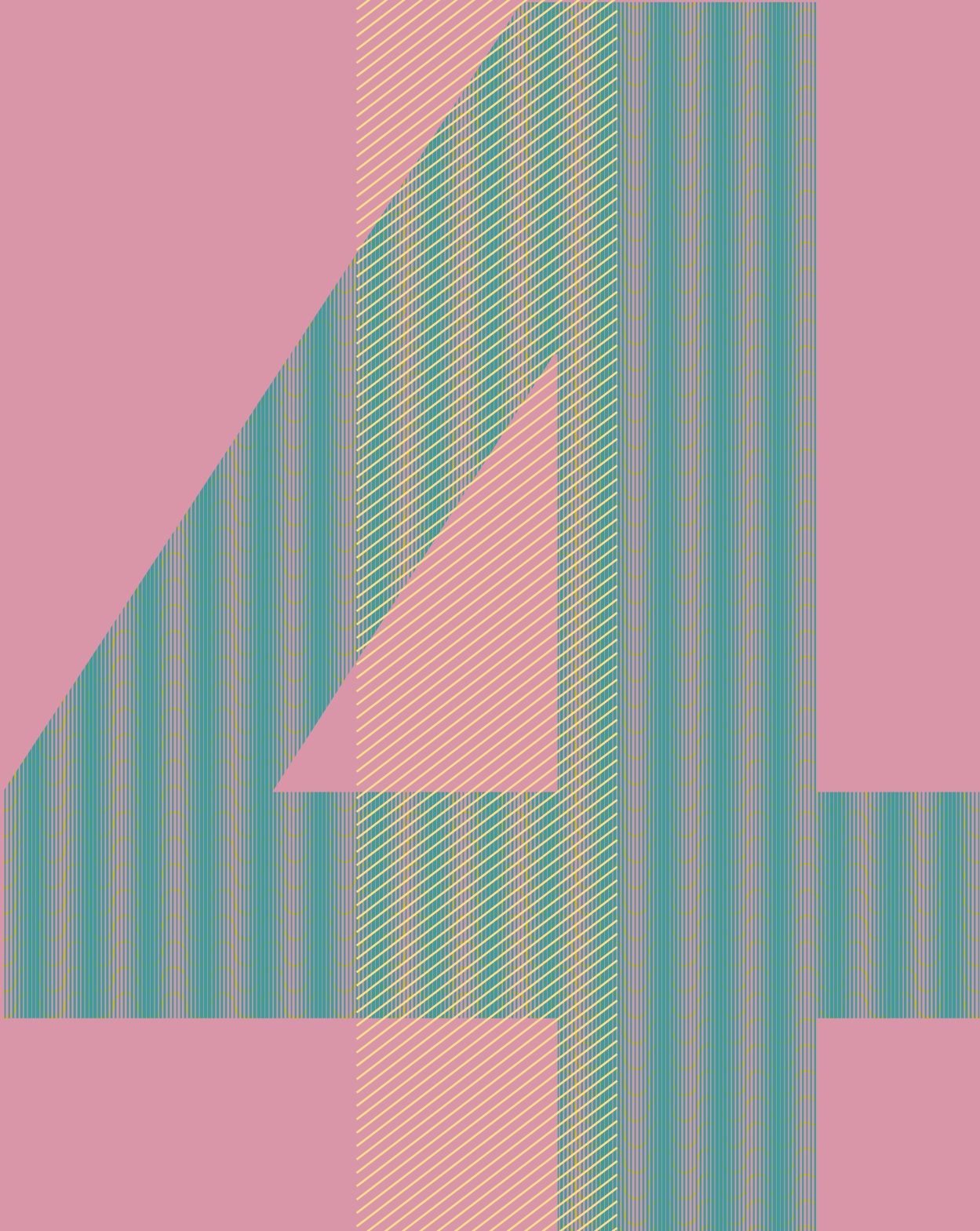
Investigations led to the identification of new fund collectors. They also confirmed that Mr X was implicated in a terrorist financing scheme.

The case was shared with partner departments and the Paris public prosecutor's office to bolster ongoing proceedings.

Warning signs

- Links between the targeted individual and the radical Islamist movement
- Staggered financial transfers
- Bank transfers to the Levant
- Multiple countries and remitters involved in similar operations





TRACFIN ABROAD

1. TRACFIN WITHIN THE INTERNATIONAL COMMUNITY

1.1 TRACFIN'S CONTRIBUTION TO THE FATF AND MONEYVAL

The Financial Action Task Force (FATF) was founded in 1989 out of the necessity to develop and promote international standards to fight money laundering, terrorist financing and other threats to the integrity of the international financial system.

This intergovernmental body now has 37 member jurisdictions and organisations. In 1990, it published a report containing 40 recommendations, which featured a detailed action plan to be implemented by each member. These recommendations contained measures to combat money laundering and nine special recommendations related to the financing of terrorism. They were revised in 2012 to deal more effectively with issues related to corruption and transparency.

The FATF regularly assesses the progress made by its members, to ensure the AML/CFT systems implemented in each country meet its standards. In 2020, this peer assessment process will evaluate France's laws and regulations.

Together with the public entities involved in AML/CFT, Tracfin participates in the French delegation to the FATF, and to Moneyval, its regional group for Europe. More specifically, it focuses on identifying trends and new types of schemes. Annual reports can be accessed on the FATF's website. Some of the organisation's reports are also sent out to reporting entities.

1.2 OPERATIONAL COOPERATION BOOSTED BY THE EGMONT GROUP

The Egmont Group was created in 1995, and gathers 155 financial intelligence units worldwide. Its goal is to achieve more effective cooperation between FIUs. To combat money laundering and terrorist financing, the Egmont Group has built a secure network for communication and information exchanges known as «Egmont Secure Web». The system complements «FIU.net», the network used by the EU's financial intelligence units.

The Egmont Group pursues a quadruple four-fold objective, as per its Charter:

- To develop operational exchanges between financial intelligence units to combat money laundering and the financing of terrorism
- To foster the development of programs for cooperation, technical assistance and training, designed to boost the effectiveness of financial intelligence units
- To bolster the powers of FIUs by championing their operational autonomy, within the framework of international standards such as those set by the FATF
- To support the creation of financial intelligence units to centralise the reception and analysis of STRs and of any information relevant in the fight against money laundering, predicate offences and terrorist financing. Also, to promote the dissemination of the results of their analyses to competent authorities, in compliance with international standards

Tracfin sits on the Egmont Committee as regional contact for the organisation, representing the European Union and countries of the European Economic Area. The Unit takes an active part in discussions and is tasked with ensuring contact between the Egmont Group and Europe's FIUs.

Tracfin is also involved in coordinating the meetings of the Circle of French-speaking FIUs, which comprises all French-speaking members of the Egmont Group. The goal of these gatherings is to promote best practices and allow members to share their experiences. Tracfin was especially involved when the Unit presented the French experience in the fight against terrorism and its financing, during a training session held alongside the July 2017 plenary meeting in Macau. Moreover, under the aegis of the Swiss FIU, the Unit has also organised a day of discussions with other FIUs on the fight against money laundering.

1.3 TRACFIN'S CONTRIBUTION TO EFFORTS WITHIN THE EU

The terrorist attacks that have afflicted Europe since 2015 have underlined the necessity to pursue efforts to thwart terrorist financing and money laundering. In December 2015, the Council of the EU and the European Council called for a revision of the EU legislative framework on that matter. Consequently, in February 2016, the European Commission presented an action plan to bolster the fight against terrorist financing and boost the effectiveness of the efforts deployed within the European Union. Its objectives included consolidating the powers of financial intelligence units, more specifically, by allowing them to gain access to a wider range of information.

In 2017, negotiations were held in Brussels, on the implementation of a Fifth AML/CFT Directive. Tracfin took an active part in the consultation process that led to the fifth round of anti-money laundering measures and ensured its speedy implementation across France.

Here are a few of the noteworthy measures championed by the Unit:

- Implementing special due diligence measures for financial flows originating from high-risk third party countries
- Bolstering the skill sets of the EU's financial intelligence units and fostering more effective cooperation among them
- Implementing centralised national registers for bank accounts and payment accounts
- Instituting measures to address the role of virtual currencies in the financing of terrorism

1.4 BILATERAL COOPERATION AND TECHNICAL ASSISTANCE

Since the scope of money laundering is by nature international, it requires wide-reaching regional cooperation among financial intelligence units. Tracfin has a division solely dedicated to receiving and processing requests from its counterparts. While biannual meetings of the Egmont Group offer the opportunity for bilateral meetings and discussions, Tracfin's work requires more frequent interactions. The Unit frequently hosts foreign delegations to foster mutual knowledge and understanding of other FIUs' respective responsibilities. Ultimately, the objective is to boost operational

exchanges. Similarly, Tracfin's officers also regularly visit foreign financial intelligence units. They also take part in training and technical assistance missions. The Unit's officers, in cooperation with Canada's FIU, contributed to the organisation of a regional training session on fighting terrorist financing, which was held from 21 to 26 May 2017 in Dakar. Also in 2017, they contributed to a series of training sessions organised by the United Nations Office on Drugs and Crime (UNODC), which brought together financial intelligence units and investigation departments of countries of the Western Balkans.

Furthermore, Tracfin is sometimes called on to raise awareness among foreign authorities involved in the fight against money laundering, terrorist financing and corruption about the role of financial intelligence units.

BILATERAL MEETINGS WITH FOREIGN DELEGATIONS

Bilateral exchanges between Tracfin and its European counterparts are frequent with numerous opportunities for in-person meetings through gatherings of the Egmont Group, the FATF or the bodies placed under the aegis of the European Commission. Moreover, an officer exchange programme was set up and experimented the Belgian financial intelligence unit CTIF-CFI, as part of an effort to bolster operational capabilities and a better understanding of the units' respective investigation methods. Owing to the success of this initiative, similar programmes may be implemented with other foreign counterparts.

In 2017, Tracfin also hosted representatives of financial intelligence units from Germany, Benin, Egypt, Jersey and Laos. The discussions and presentations, which sometimes stretched over several days, helped provide the necessary impetus to boost operational exchanges. The year was also marked by sustained exchanges with American and Canadian counterparts, which focused on information technology matters.

2. PROCEDURES FOR INTERNATIONAL INFORMATION SHARING

2.1 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 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.

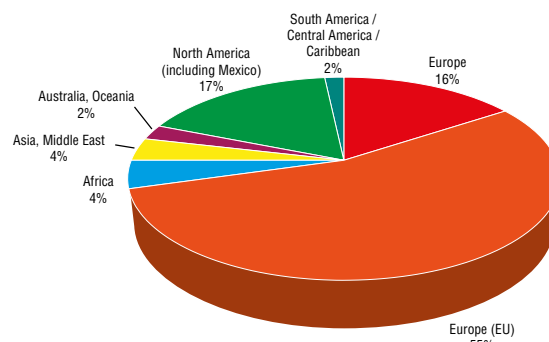
In 2017, the number of reports received from foreign FIUs was fairly stable compared to 2016. Tracfin received 1,303 reports (down 4.5%) relating to over 7,000 individuals and legal entities.

This information was comprised of:

- 719 requests (-11%)
- 550 spontaneous reports (+6%)

There were 712 exchanges with EU partners (+4%), of which 228 were spontaneous reports (+42%) and 484 were requests for information (-8%). The rise in the number of spontaneous reports is a direct consequence of the gradual implementation of Article 53 of the Fourth AML/CFT Directive across the EU. The Directive mandates that any European Union FIU that receives an STR involving another Member State must forward it to that State without delay.

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 large financial flows which may involve money laundering, tax evasion or terrorist financing
- The US: A large number of spontaneous reports potentially related to terrorist financing were received
- The UK: As a tax-friendly jurisdiction, the country is a specialist in complex arrangements. There also has been a sharp rise in operational cooperation on criminal issues
- Jersey/Guernsey: A large number of spontaneous disclosures was received, involving either French citizens whose assets may not have been reported to the French tax authorities, or British citizens who are resident of French residents for tax purposes for tax purposes
- Singapore and Hong Kong: These free trade zones may be used for the laundering of the proceeds of tax evasion
- Russia: Exchanges primarily involved the financing of terrorism and searches relating to the property and financial assets of certain individuals
- Poland, Hungary, Czech Republic, Slovakia and Romania: The efficient collaboration with these countries' FIUs was mainly focused on false transfer orders and fraudulent payments

Countries that sent Tracfin at least 10 reports in 2017

Country	Number of reports received in 2017	Of which spontaneous reports
United States	217	180
Luxembourg	214	135
Belgium	213	29
United Kingdom	63	20
Jersey	45	43
Switzerland	43	10
Netherlands	32	2
Germany	31	11
Italy	28	0
Australia	27	25
Isle of Man	27	27
Spain (incl. Balearic Islands)	26	12
Guernsey	22	20
Russian Federation	22	5
Poland	17	0
Hungary	13	4
Mauritius	13	5
Israel	10	3
Malta and Gozo	10	3
Monaco	10	6

* Greyed out countries made the list in 2016.

Overall, Tracfin received reports from 92 different FIUs in 2017.

2.2 DISCLOSURES TO FOREIGN FIUS

In 2017, Tracfin sent 910 replies (-1.5%) to 763 different foreign requests (logged in 2016 and 2017). To substantiate its replies, the Unit used its power to request 860 times vis-à-vis reporting entities, mostly financial and payment institutions, but also notaries and entities in the gaming and insurance sectors.

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

- Spontaneous disclosures that result from analyses made based on domestic STRs received by the Unit. In 2017, Tracfin sent 202 information notes (+66%) 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 €409m.³⁶ The vast majority of these notes were sent to European FIUs (115 notes to 23 FIUs)
- Requests for information, particularly financial, on individuals and legal entities, through which Tracfin draws the attention of FIUs to the targets of its investigations. In 2017, the Unit sent 1,762 requests (+21%) concerning 855 cases being investigated to 93 different FIUs, with European FIUs receiving the most requests

Top countries to which Tracfin sent at least 5 spontaneous information notes

Country	Number of spontaneous disclosures sent to FIUs in 2017
Belgium	13
United Kingdom	13
Hungary	12
Switzerland	12
Italy	11
Romania	9
Germany	8
Brazil	8
Netherlands	8
United States	7
Poland	6
Slovakia	6
Spain (incl. Balearic Islands)	5
Luxembourg	5
Monaco	5

³⁶ €1.3bn in 2016, due to one exceptional €500m case.

2.3 TOOLS FOR INTERNATIONAL OPERATIONAL COOPERATION

FIU.net

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

FIU.net 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. The network enables the recovery or automated sending of structured data and provides an effective interface between the FIUs' databases. The processing of all requests

and responses between Tracfin and other European FIUs is paperless. 549 requests were sent to the Unit via this network in 2017.

EGMONT SECURE WEB (ESW)

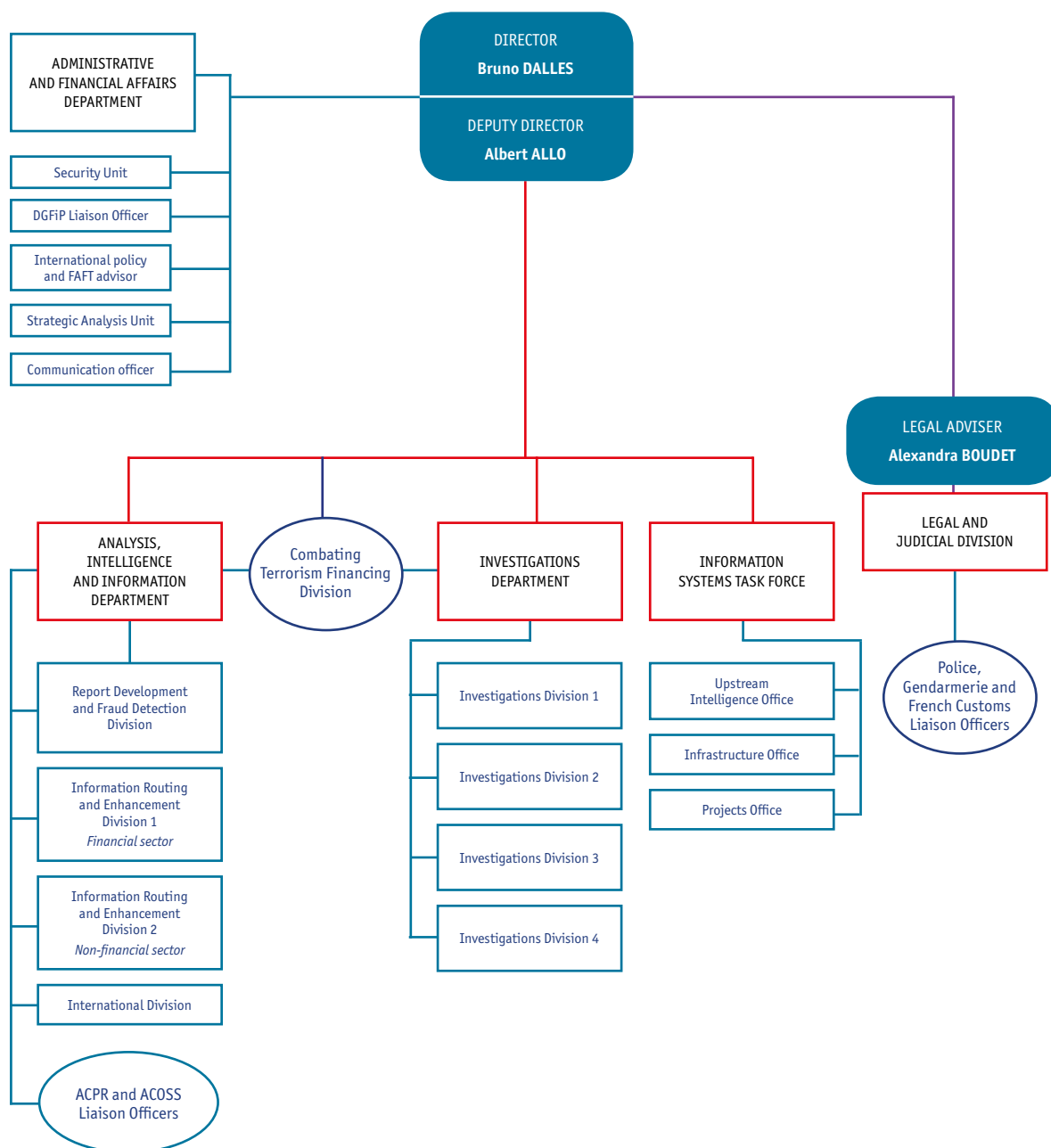
This system, which was introduced in 1995, is also secure. It can be used by all 155 FIUs members of the Egmont Group. ESW provides access to a broad network of FIUs that share common operating standards. It is a vehicle for operational exchanges and is also used for institutional communication within the Group.

Unlike FIU.net, the structure of ESW's data does not provide Tracfin with an automated import process. In 2017, the Unit received 746 requests using this system.



ABOUT TRACFIN

1. ORGANISATION



Pursuant to an Order dated 7 January 2011,³⁷ an Analysis, Intelligence and Information Department, an Investigations Department, an Administrative and Financial Affairs Department, and a Combating the Financing of Terrorism Unit have been set up within Tracfin.

Since then, Tracfin has also 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 50 officers work for the **Analysis, Intelligence and Information Department (DARI)**. It is tasked with collecting suspicious transaction reports and information, with redirecting them, with examining financial intelligence and relations with reporting entities, and with international relations. Two liaison officers (seconded from the Prudential Supervision and Resolution Authority and the Central Agency for Social Security Bodies) also work in the Department.

The DE (Investigation Department) is comprised of four divisions. When a case so requires, the Department conducts in-depth investigations on 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 Terrorism 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 who provides legal advice to Tracfin within the framework of the French Monetary and Financial Code. It is also comprised of a second magistrate, assistant to the head of the division, three paralegals, acting as expert advisers, two police liaison officers, a gendarmerie liaison officer and a customs liaison officer seconded to the division.

The division provides advice for all legal aspects, 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, and except for urgent cases, the division's legal advisor must provide an opinion on all reports to judicial authorities involving 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 this unit.

An expert adviser, reporting to the director, is in constant contact with the Unit's foreign counterparts, in particular as part of the FATF.

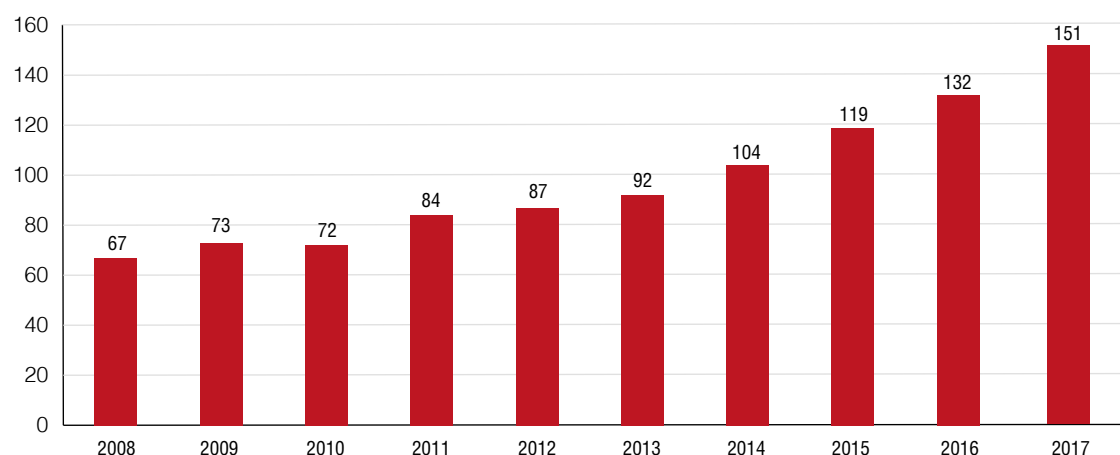
Since 1 September 2016, a **liaison officer from the Public Finances Directorate General (DGFIP)** has been working for Tracfin. He is responsible for bolstering relations between the two structures and improving mutual understanding of their positioning and skill sets.

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; and an Upstream Intelligence Office in charge of the standard of data standards and data integration into the system. The Task Force also includes an Information System Security (ISS) Manager and two data scientists.

³⁷ See Order of 7 January 2011 on the organisational structure of Tracfin, a unit with national scope.

2. TRACFIN: EXPANDING TO MEET NEW CHALLENGES

Tracfin's staffing increases between 2008 and 2017



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The number of Tracfin employees has been rising steadily since 2008. In 2017, staffing levels grew by 14.4% year-on-year. Compared to late 2015 levels, this was a 26.8% increase in staff, and compared to late 2012, a 73.5% increase. This sharp rise in headcount is in part due to the recognition of the contribution of financial intelligence to the fight against terrorist financing.

Tracfin's changing staff structure

Two trends emerge from the Unit's staffing changes in 2017:

- The number of positions held by contract staff rose to 15% of total employees, up from 12% in 2016
- The Information Systems Task Force accounted for 15% of staff, up from 13% in 2016

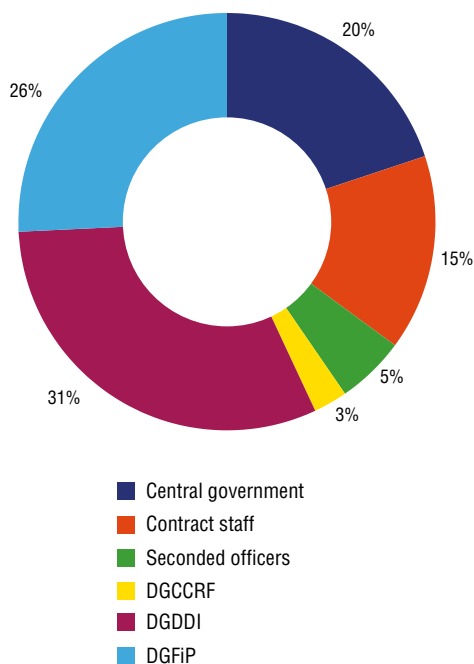
These two trends are interrelated. Most of Tracfin's contract staff are employed in the Information Systems Task Force, which had a lot of new hires in 2017. The highly specialised and unique nature of these functions, and the lack of adequate skill sets within the

civil service explain why the Unit increasingly turns to contract staff for its staffing needs. Quite often, the contract staff hired by Tracfin already work directly or indirectly for the central government and not for the private sector.

After struggling to recruit in 2016, the Information Systems Task Force increased its staff by 35% in 2017 and now employs 23 officers, up from 17 year-on-year. The hiring was spurred by the imminent roll-out of a new ambitious information system across the Unit, as many functions previously outsourced to service providers were internalised.

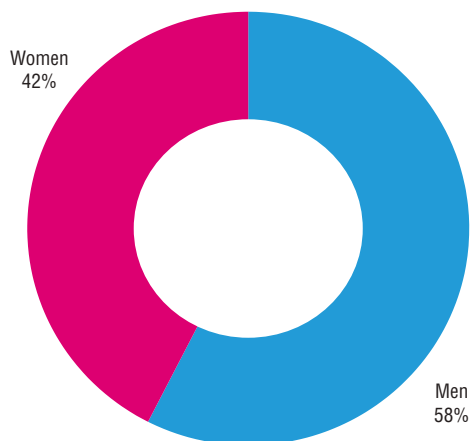
Concurrently, officers seconded from the DGDDI made up a smaller share of Tracfin's staff in 2017 (31%), down from 34% in 2016. Officers from the DGFIP accounted for 26% of staff versus 27% in 2016. Central government staff grew slightly, from 19% to 20% of total employees. It is worth noting that the Unit continued to diversify its staff's background in 2017 and hired its first seconded Territorial Attaché.

Breakdown of headcount by original department



Grade A or A+ staff accounted for over 80% of the Unit's employees; this percentage has remained fairly stable year-on-year.

Tracfin continued to attract a large number of unsolicited applications but much fewer were received in 2017 than in 2016, in the aftermath of the 2015 terror attacks. Unsolicited applications generally align closely with the Unit's specific missions, and focused on professions related to financial, rather than general, intelligence.



Tailored training programmes

In 2017, Tracfin continued its strategy of broadening and diversifying training programmes. To that end, the Unit turned to the Institute of Public Management and Economic Development (IGPDE), the organisation tasked with training the staff of the French Economy and Finance Ministries. It also sought help from its institutional partners, and used in-house resources to offer training sessions on specific themes. In 2017, 89.4% of the Unit's officers attended at least one training session, down from 92.4% in 2016.

Overall, a little over 837 days of training were provided (up from 665 in 2016) for an average of 5.55 days of training per officer (up from 5.04 in 2016). Over 30% of the training sessions were held within Tracfin. The training sessions provided by the IGPDE made up 25% of all sessions and were organised specifically for the Unit's officers. Lastly, nearly 23% of the training sessions were conducted by the Intelligence Academy, an organisation reporting to the Prime Ministerial departments, which provides training to intelligence service staff. Over 75% of the training programmes provided to Tracfin's officers focused on themes closely related to their duties and professional environment (as opposed to general training such as languages or information technology).

Tracfin has now developed a comprehensive training programme which helps coach new hires on a few critical topics. All new officers go through a one-day onboarding session, which introduces them to the various activities of the Unit and allows for a meet-and-greet with their new colleagues. New hires also have the opportunity to quickly sign up for training programmes on topics such as white collar crime, the banking system and an overview of the judicial system.

Experienced officers are offered valuable extended 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 2018, Tracfin aims to bolster its relations with the National Magistrates Academy.

While Tracfin turns to its partners to provide first-rate training for its staff, the Unit also contributes to its partners' training efforts through in-house presentations at, inter alia, the Intelligence Academy, the National Magistrates Academy, and the National Institute for Advanced Security and Justice Studies (INHESJ).

APPENDICES

AML/CFT-RELATED LEGISLATIVE AND REGULATORY DEVELOPMENTS IN 2017

Several regulations have expanded the scope of AML/CFT obligations to new entities and new sectors.

Order 2017-484 of 6 April 2017, which supplemented Article L.561-2 of the Monetary and Financial Code, added the following entities to the list of reporting or liable entities that must now comply with AML/CFT obligations:

- The supplementary occupational retirement funds mentioned in Article L.381-1 of the Insurance Code
- The supplementary occupational retirement mutual societies or unions mentioned in Article L.214-1 of the Mutuality Code
- The supplementary occupational retirement institutions mentioned in Article L.942-1 of the Social Security Code

Directive 2015/2366/EU of 25 November 2015 on payment services was enacted into French law through Order 2017-1252 of 9 August 2017 and Decrees 2017-1313 and 2017-1314 of 31 August 2017, which entered into force on 13 January 2018. Pursuant to Article L.314-1(7) of the Monetary and Financial Code, a new sector must now comply with AML/CFT: payment initiation services. The legislation allows these service providers to fulfil their AML/CFT obligations through simplified due diligence measures (see Articles L.561-9 and R.561-16 of the Monetary and Financial Code).

Furthermore, in case of an emergency (such as a serious threat to the collective interests of users), the legislation allows the Prudential Supervision and Resolution Authority (ACPR) to take conservancy measures towards payment or digital currency institutions operating in France but authorised in other European countries. This was previously possible only for

institutions authorised by French regulators. The legislation also bolsters the cooperation between national regulators in matters of approval and control. These measures help secure the framework under which payment providers operate, and indirectly contribute to strengthening the overall AML/CFT system.

In 2017, new regulations were issued to implement legislative provisions passed in 2016.

Act 2016-731 of 3 June 2016, extending Tracfin's access to the file for processing criminal records (TAJ) for all the Unit's assignments, was made applicable by the Decree of 3 August 2017, which set out the conditions for its implementation. As a result, Tracfin's officers can now consult data concerning ongoing or concluded court proceedings, excluding that relating to persons registered as victims.

In addition, the measures relating to the register of beneficial owners entered into force on 1 August 2017 through Decree 2017-1094 of 12 June 2017. This register was introduced by Order 2016-1635 of 1 December 2016, which enacted the Fourth AML/CFT Directive (Articles L.561-46 to L.561-50 of the French Monetary and Financial Code). These measures detail the procedures for completing and filing the document related to beneficial owners established by the Order, and transmitting it to the competent authorities and to the reporting entities subject to AML/CFT obligations.

The Fourth AML/CFT Directive is currently being enacted, and all regulatory measures related to the application of the Order of 1 December 2016 should be published in 2018.

THE REVISION OF THE FOURTH DIRECTIVE ON THE PREVENTION OF THE USE OF THE FINANCIAL SYSTEM FOR THE PURPOSES OF MONEY LAUNDERING AND TERRORIST FINANCING

The adoption of Directive 2015/849/EU of 20 May 2015 (known as the «Fourth AML/CFT Directive») was a major step in improving the effectiveness of the measures engaged in the fight against the laundering of money derived from criminal activity and against terrorist financing.

However, the terror attacks in Europe, and especially the November 2015 attacks in Paris, revealed that much was still to be done to bolster the resources of the AML/CFT system. Faced with this reality and a rapidly changing financial system, the European Union, mainly under France's leadership, began work to revise the Fourth Directive, with the objective of providing a more ambitious response. A political agreement was reached at the end of 2017, after 18 months of negotiations in which Tracfin took an active part.

Deeply engaged in the fight against money laundering and terrorist financing, France has kept ahead of these developments and has already been actively bolstering its domestic legislation. In fact, many of the provisions featured in the new Directive already exist in French law.

Some of the advances introduced by the revised Directive:

1. Expansion of the scope of the Directive to new sectors:

- Virtual currency exchanges and virtual currency wallet providers
- Persons trading or acting as intermediaries in the trade of works of art for any transaction of €10,000 or more
- Estate agents acting as intermediaries in the letting of immovable property when the monthly rent reaches €10,000 or more

These professionals, except for virtual currency providers, already must comply with AML/CFT obligations as per French law.

2. Continued efforts to boost transparency by implementing a register of payments and bank accounts in each Member State (this register, known in France as FICOBA – national bank accounts register – was

created in 1971), and by providing a wider access to the registers of beneficial owners of companies and trusts. Beneficial ownership information should be made available through the system of interconnection of registers within 32 months after the Directive has entered into force, so as to facilitate information sharing between Member States.

3. Reinforces the investigative powers of financial intelligence units: Data recorded in national bank accounts registers will need to be directly accessible by any national FIU and can be communicated upon request to other FIUs. Furthermore, new provisions also allowed for enhanced cooperation between financial intelligence units. Every national FIU must be entitled to request, obtain and use information from any obliged entity, even when no suspicious transaction has been reported by said entity. This ensures national FIUs are able to respond to any request originating from other FIUs.

These provisions already exist under French law. Their objective is to bolster the powers of all financial intelligence units across the European Union and facilitate cooperation.

4. Regulation of digital currency: Lowers existing threshold for identifying prepaid card holders will be lowered from €250 to €150 and KYC obligations will be reinforced.

5. Improves controls concerning high-risk third countries, by implementing supplementary due diligence measures for financial flows originating from third countries that fall short in the prevention of money laundering, and that are on the list drawn up by the European Commission. This list derives from the global list established by the Financial Action Task Force (FATF).

Member States must enact this Directive within 18 months of its entry into force. While some of the new European provisions already exist in French law, others will need to be integrated in the Monetary and Financial Code.

ACRONYMS

AFA	French Anti-Corruption Agency
ACOSS	Central Agency for Social Security Bodies
ACPR	Prudential Supervision and Resolution Authority
AMF	Autorité des Marchés Financiers
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ARJEL	Online Gaming Regulatory Authority
CARPA	Lawyers' Financial Settlement Fund
CIF	Financial Investment Advisers
CIP	Crowdfunding Investment Advisers
CMF	Monetary and Financial Code
CNAJMJ	National Association of Court-Appointed Receivers and Trustees
CNRLT	National Intelligence and Counter-Terrorism Coordinator
COSI	Systematic Information Disclosure
CSN	National Association of Notaries
DGCCRF	Directorate General for Competition Policy, Consumer Affairs and Fraud Control
DGDDI	Directorate General of Customs and Excise
DGFIP	Public Finances Directorate General
DGGN	Directorate General of the National Gendarmerie
DGSI	Directorate General for Domestic Security
DGSE	Directorate General for External Security
DGSN	Directorate General of National Security
DGT	Directorate General of the Treasury
DNSCE	National Directorate for Foreign Trade Statistics
DNLF	National Anti-Fraud Office
DNRED	National Directorate for Customs Investigations and Intelligence
DSP2	Revised European Directive on Payment Services
DSS	Social Security Directorate
EME	Digital Currency Entity
FATF	Financial Action Task Force
FDJ	Public lottery and betting company
FIU	Financial Intelligence Unit
HATVP	High Authority for Transparency in Public Life
IFP	Crowdfunding Intermediaries
OCRGDF	Central Office for the Prevention of Serious Financial Crime
PEP	Politically Exposed Person
SCCJ	Central Racing and Gaming Unit
SGP	Investment Management Company
SGDSN	Secretariat General for Defence and National Security
SNDJ	National Customs Judicial Department
STR	Suspicious Transaction Report
TGI	Court of First Instance
UCLAT	Antiterrorist Action Coordination Unit
URSSAF	Unions 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 that may involve money laundering or terrorist financing:

→ *Online*

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

→ *Letter*

You must use the reporting form available online

*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?

Pursuant to Article L.561-2 of the Monetary and Financial Code, professionals subject to AML/CFT 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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