

TRACFIN ANNUAL REPORT 2018

TRACFIN FRANCE'S
FINANCIAL
INTELLIGENCE
UNIT (FIU)



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FOREWORD

Once again, 2018 saw a substantial increase in Tracfin's activity. Information flows received by the Unit grew by 12% in one year and by 75% in three years. An upsurge in incoming requests from foreign FIUs (a 34% increase in 2018) went hand-in-hand with a rising number of requests sent by Tracfin to its foreign counterparts (a 28% increase) – a sign that international cooperative efforts have significantly improved.

Increased reporting is the result of ongoing due diligence by reporting entities, particularly in the financial sector: payment institutions led the way with a 40% surge in STR submissions, but newer arrivals have become increasingly involved, such as crowdfunding intermediaries (+213%) and digital currency intermediaries (+54%), although reporting volumes remain modest. Amongst non-financial professionals, the greatest number of STRs are still furnished by notaries (whose contributions were stable in 2018), but also by casinos, whose submissions again increased. Thanks to awareness-raising actions and the distribution of new guidelines, real estate professionals, particularly real estate agents, are gradually becoming more involved (a 54% increase in submissions). Although Tracfin has forged strong partnerships with chartered accountants and auditors, the noticeable fall-off in submissions from these two groups was disappointing (-9% and -18%, respectively). Poor participation by the art sector and by sports agents, and their lacklustre involvement and willingness to commit to AML/CFT efforts, remains a concern.

2018 was also a year of consolidation of the French AML/CFT system. A large number of guidelines were issued or updated (for bailiffs, court-appointed receivers and trustees, financial institutions in the banking and insurance sectors, and real estate professionals), meetings with financial institutions were held concerning operational AML/CFT exchanges and the first general meeting was held concerning insurance issues. The pace of "public/private" contacts with reporting entities has picked up.

Above all, 2018 witnessed an ongoing upsurge in referrals (a 26% increase in 2018, after 38% in 2017). This attests to Tracfin's improved efficiency; the Unit is maximising its datamining efforts with the goal of having "outgoing" data be two to three times higher than "incoming" data. This quantitative development is combined with qualitative concerns to preserve Tracfin's three main objectives: judicialising financial intelligence as part of AML/CFT efforts, combating tax evasion, social security fraud and customs fraud, and helping to protect France's vital interests, in cooperation with the French intelligence services. Nearly 3,300 reports were disclosed in 2018, against 1,635 in 2015 (a 101% increase).

The strategic challenge for Tracfin is to maintain this balance and improve its working methods to respond to requests and anticipate the needs of its partners.

During the year, as the smallest but most specialised intelligence service – and the one that by its nature makes the greatest contribution to the mandates of the "leaders" (the Directorate General for Domestic Security (DGSI) in particular) – Tracfin continued to develop resources and channels for enhancing the value of financial intelligence. These included traditional and "flash" transmissions, factsheets for non-profit organisations, studies of financial collectors, disclosures concerning asset freezes, thematic analyses and a new system called "K Flash", which has been improved to reduce lead-times and provide the DGSI with access to financial data.

Tracfin has restructured its organisation in a bid to boost its proven responsiveness in crisis situations and to meet the expectations of the new counter-terrorism organisation. It has helped to promote the creation of operational duty periods for financial intelligence units within the EGMONT group.

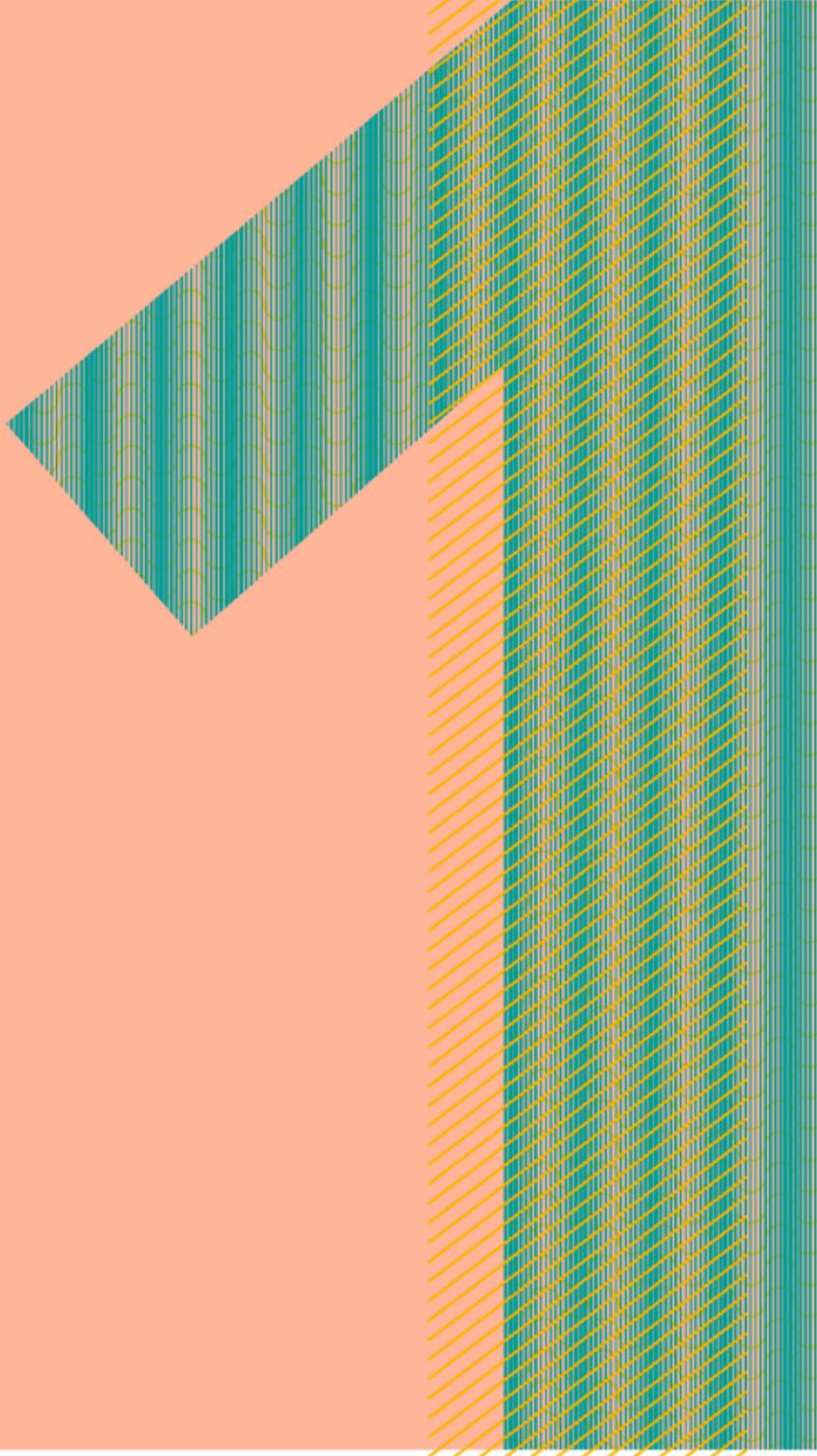
Tracfin's involvement in preparing, designing, implementing and drafting the conclusions of the "No Money For Terror" conference in Paris in April 2018 was critical, as was the Unit's contribution to the adoption of the United Nations Security Council Resolution of 28 March 2019, which enshrines the importance of the financial intelligence approach and the role of FIUs.

Tracfin is continuing its efforts to adapt its information system to improve the processing, enhancement and visualisation of information in a "Big Data" approach. The Unit's use of data science and artificial intelligence has been further improved. Tracfin has also developed resources for large-scale data processing and for researching the Dark Web. Lastly, the June 2018 creation of a specialised investigation division dedicated to financial cybercrime is part of the Unit's ongoing adaptation of its organisation and resources to cope with new risks and threats.

The FATF's Mutual Evaluation of France, which is scheduled from the end of 2019 and through 2020, will define the roadmap for Tracfin's action. All our officers are fully primed and have continued to boost their productivity, driven by the conviction that Tracfin is an administrative start-up, with a fast-track trajectory that combines quantity and quality, seriousness and responsiveness, specialisation and cross-disciplinarity, continuity and innovation, availability and in-service training, and public-private partnerships.

All of these keywords are the values of Tracfin's commitment to AML/CFT and the protection of France's vital interests, in a spirit of autonomy and impartiality.

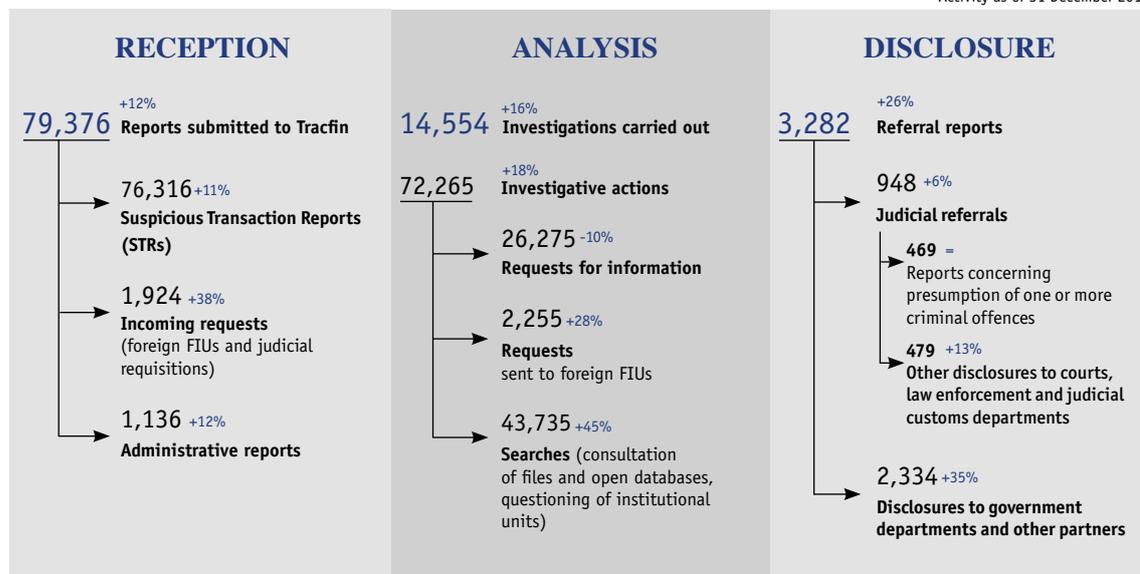
**Bruno Dalles,
Director**



TRACFIN'S SOURCES OF INFORMATION

HIGHLIGHTS OF 2018: CONTINUED GROWTH

Activity as of 31 December 2018



8

- The number of reports received and analysed by the Unit totalled **79,376**, a 12% increase over the previous year.
- Reporting entities alone submitted **11%** more STRs in 2018.
- Reporting entities alone submitted **11%** more STRs in 2018.
- In 2018, Tracfin carried out **14,554** investigations. They were the result of **9,150** reports received in 2018, and **5,904** reports submitted in previous years.
- **72,265** investigative actions carried out to add substance to existing data.
- These investigations led to the transmission of **3,282** reports, including **948** disclosures to the courts (of which **469** concerned a suspicion of a criminal offence) and **2,334** disclosures to partner authorities (tax and social security authorities, French Customs and the intelligence services). This represents a **26%** increase in reports in a single year.
- In ten years:
 - The number of reports received increased **fivefold**
 - The number of disclosures increased **sevenfold**
 - The number of Tracfin staff grew by a factor of **2.5**

REPORTING ACTIVITY OF REPORTING ENTITIES

Several types of report are submitted to Tracfin:

- 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 involving sums that they know, suspect or have good reasons to suspect are of fraudulent origin.

In 2018, 96% of reports received by Tracfin were sent by the reporting entities, up 11% in absolute terms from 68,661 suspicious transaction reports in 2017 to 76,316 in 2018.

Reporting entities	2013	2014	2015	2016	2017	2018	Change 2017-2018
Banks and credit institutions	21,950	29,508	31,276	46,901	46,882	50,756	+8%
Payment institutions	831	1,641	4,535	5,110	8,603	12,073	+40%
Insurance companies	1,169	1,423	2,159	3,200	4,939	5,409	+9%
Money changers	1,199	1,141	1,709	2,255	1,810	1,379	-24%
Electronic money institutions	-	1	10	36	178	507	+185%
Mutual insurance companies and provident institutions	60	139	320	213	241	346	+44%
Money-issuing institutions	259	254	142	477	291	331	+14%
Bank transactions intermediaries	-	-	-	-	209	120	-43%
Insurance intermediaries	25	62	65	107	103	108	+5%
Asset management companies	20	23	58	60	63	91	+44%
Investment companies	46	51	105	120	62	90	+45%
Crowdfunding intermediaries	-	0	0	6	23	72	+213%
Financial investment advisers	20	25	35	32	57	56	-2%
Digital currency traders and intermediaries	-	-	-	-	13	20	+54%
Crowdfunding investment advisers	-	-	-	-	-	1	NS
FIUs – Cross-border*	-	-	-	-	570	246	-57%
Total for all financial reporting entities	25,579	34,268	40,414	58,517	64,044	71,605	+12%
Notaries	970	1,040	996	1,044	1,401	1,474	+5%
Casinos	153	270	422	601	929	949	+2%
Court-appointed receivers and trustees	82	100	528	995	932	862	-7%
Chartered accountants	195	215	286	442	513	466	-9%
Real estate professionals	54	29	35	84	178	274	+54%
Gaming circles, games of chance, and sports and horse-racing betting	127	185	212	272	259	263	+1%
Auditors	72	84	88	132	152	124	-18%
Bailiffs	18	23	39	73	109	121	+11%
Online gaming operators	181	450	146	20	38	99	+160%
Auctioneers, auction houses	25	26	33	51	67	40	-40%
Commercial registered office providers	3	8	3	9	31	22	-29%
Dealers in precious goods	12	16	29	15	8	16	+100%
Lawyers	6	1	0	4	0	1	NS
Sports agents	0	0	0	0	0	0	NS
Total for all non-financial reporting entities	1,898	2,447	2,817	3,742	4,617	4,711	+2%
Total for reporting entities	27,477	36,715	43,231	62,259	68,661	76,316	+11%

*Crossborder information comes from a system where EU FIU redirect to France STRs received from their reporting entities but of interest to us under Article 53.1 of Directive (EU) 2015/849, known as the "Fourth Directive".

This growth was driven by the 11.8% rise in reporting by the financial reporting entities (7,561 more reports), while reporting from the non-financial entities, after trending strongly upwards in 2017 (23.4%), fell back to just 2.4% in 2018 (112 more STRs).

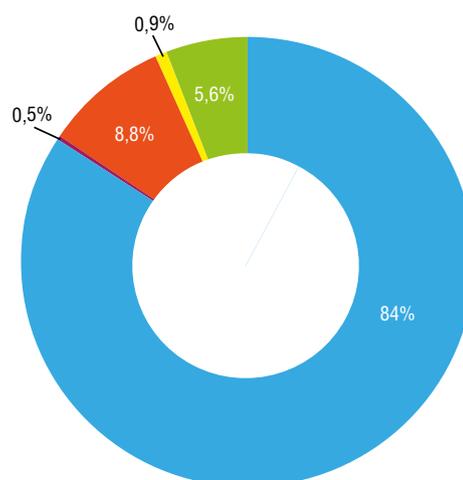
The increase in reporting activity by the financial reporting entities (11.8%) was attributable mainly to a surge in the number of reports from payment institutions (40.3%, i.e. 3,470 more reports in absolute terms) and the lion's share of credit institutions, whose reports were up by 8.3% (3,874 more STRs). Submissions from insurance companies grew by 8.3% (470 more), while those from electronic money institutions rocketed by 184.8% (329 more).

After the strong momentum of the past two years, the increase in reporting by the non-financial reporting entities levelled off at 2.4%, although there was potential for more reporting from some segments: while Tracfin continued awareness-raising with regard to regional chambers, and with their support, in 2018, submissions from notaries grew by only 5.2% (73 more). There was a sharper upswing for real estate professionals (53.9%; 96 more reports), and this progress is set to continue following the signing of guidelines in November 2018. The number of STRs from court-appointed receivers and trustees was still buoyant (862) but registered a drop for the first time (down 7.5%), as did submissions from the accounting professionals: chartered accountants (down 9.2%) and auditors (down 18.4%).

Distribution of reports on individuals and legal entities in 2018

Of the STRs received by Tracfin, a significant proportion – 84% – related to individuals. Legal entities, on the other hand, accounted for only 16%.

This preponderance of individuals is attributable to the scale of business with individual clients conducted by the main reporting entities; conversely, flagging tools for the business world are few and far between because of the small volume of STRs from relevant reporting entities such as accounting professionals and court-appointed receivers/trustees.



- Individuals
- Non-profit organisations
- Trading companies
- Non-trading companies
- Other

FINANCIAL SECTOR REPORTING ENTITIES

Fact sheet 1: Credit institutions and money-issuing institutions

Volumetric analysis

Reporting activity by credit institutions seemed under control, with an 8% rise after levelling off in 2017. Tracfin's focus was no longer on financial phenomena but on developments within each group, with specific explanations discussed at bilateral meetings. Sundry aspects of the French Monetary and Financial Code (CMF) were spelt out with the adoption of the ACPR/Tracfin joint guidelines and the common message put across at meetings with financial institutions, enabling the flow of reports to be controlled in this way.

The partnership between Tracfin and the reporting institutions makes it possible not only to understand and anticipate changes in the flow of reports but also to address their quality and the Unit's expectations. The various forms of discussion (day-to-day contact between the institutions and their Tracfin advisers at meetings with financial institutions, institutions' attendance of financial security meetings, bilateral review meetings, etc.) make for a constructive and versatile partnership, which is unquestionably an advantage for the French AML/CFT system. This is a genuine, thoroughgoing public-private partnership.

Analysis of submission practices

Quantitative data

Submissions from the seven largest banking groups rose again in 2018, by 7.1%, with 44,969 STRs. After a leap in 2016 (58%) and a slight fall-off in 2017 (down 2%), these figures seem to suggest that the overall pace of reporting for the main French banks has been levelling off, probably reflecting the impact of the ACPR/Tracfin AML/CFT guidelines updated in spring 2018.

Nevertheless, study of the reports shows considerable disparities between banks.

The share of mutual banks continued to grow. In 2018 they accounted for 66% of reports from the seven major groups, whereas the figure was 55.5% in 2016 and 63% in 2017. In fact the largest increases here – 34.3% and 20% – came from two mutual groups.

Conversely, two national banks were responsible for the largest declines in bank reporting, drops of 15.9% and 11.5%.

These changes were due to a number of factors: reduction of backlogs in some cases, bank restructuring, different allocation of AML/CFT resources, slower adoption of the revised guidelines depending on group's organisational structure, and inadequate analysis of case-law by some entities.

Year after year the six major players of online banking¹ have come to play an ever-increasing role in the French banking landscape, since all the large groups have expanded this branch. However, 2018 saw a slowdown with only 651 submissions – a modest increase of 7%, far short of the 44% growth in 2017. There were some disproportionate reporting disparities between banks, with a difference of 1 to 12, symptomatic of the diversity of these institutions and their customers. One bank stood out, continuing to show 20% growth with over 300 submissions.

Tracfin's concerns in 2017 about the poor investigation rate were acted on. The rate rose across the board, except in the case of one bank. For four institutions it was higher or even much higher – 16%, 19%, 21.5% and 28% – than for the banking sector as a whole (12.1%).

More unexpected but very constructive was the increase in the number of legal entities reported by online banks, from 5.9% in 2016 to 7.4% in 2017 and 10% in 2018. This sector, which has traditionally focused on individual customers, has now developed an attractive commercial offering for legal entities. This ought to be taken into account in their risk mapping.

The Unit stresses that, given the risk to which they are exposed, it is crucial for online banks to maintain robust due diligence for terrorist financing, one of the sector's main subjects of disclosure, together with tax evasion and social security fraud. Although awareness in this field actually increased, it was not reflected in reporting, with the exception of one institution which alone accounted for 78% of STRs relating to terrorist financing.

Remote banking will be central to tomorrow's banking landscape. New technology and regulations connected with digital identity are under discussion, and

¹ BforBank, Boursorama, Fortuneo, Hello Bank, ING Direct and Monabanq.

new players known as neobanks, licensed in France or abroad, have been appearing on the French market. Tracfin is following these developments closely.

Reporting by the private banking sector declined significantly (by 29%) with 729 reports in 2018 as against 1,031 the previous year. This was partly the result of a plunge in reporting from two institutions (down 44% and 57%) and also fewer cases of asset repatriation owing to closure of the Offshore Disclosure Unit (STDR).

Tracfin notes that this decline, already 8% in 2017, had worsened. It was indicative of widely varying reporting practices and also, in some cases, a lack of involvement in the AML/CFT system. In substance, the quality of STRs was generally satisfactory, having improved in recent years. Customer knowledge was detailed, suspicions were grounded and the supporting documentation substantiated the facts. The amounts reported were unchanged from 2017.

Only 9% of STRs concerned legal entities. It is important for reporting entities in the private banking sector not to focus solely on individuals but to include more transactions relating to legal entities (real estate investment companies, foundations, trusts, etc.) in their risk classification.

The investigation rate for reports from private banks (27% in 2018) was much higher than for the banking sector as a whole, in keeping with a clientele potentially more exposed to ML/FT risk (politically exposed persons, non-residents, etc.) and consistent with complex transactions involving large amounts.

Politically exposed persons (PEPs)

The number of PEPs reported fell in 2018, with 437 STRs (as against 467 in 2017). The seven largest institutions registered a 9% drop in PEP reports, with 319, as against 352 in 2017.

The new PEP guidelines published by the ACPR in April 2018 have not had the expected impact on reporting. Tracfin found that in practice the guidelines were not properly taken on board, as evidenced in the STR form by the PEP box often not being ticked or being ticked when it should not have been.

However, these guidelines have indicated the need for an effective PEP flagging system and additional due diligence measures for PEPs, including collection of information on the origin of assets and funds involved in a transaction or business relationship, as required

by subparagraph 2 of Article R.561-20-2 of the French Monetary and Financial Code, and more frequent updating of information about the purpose and nature of the business relationship (subparagraph 3 of Article R.561-20-2).

Regardless of the PEP categories resulting from the Fourth Directive being written into French law, Tracfin wishes to warn reporting entities about certain positions (mayors, deputy mayors, chairs of semi-public companies, etc.) that may have a high level of risk exposure.

Amounts declared in STRs

The breakdown of the amounts reported showed no significant change from 2017: 69% of STRs were for amounts under €100,000 (the same as in 2017).

Reports on larger sums levelled off at 21.4% for amounts between €100,000 and €500,000 (as against 21.3% in 2017) and 3.6% for amounts between €500,000 and €1 million (as against 3.8% in 2017).

Following up on STRs

The investigation rate is an important indicator of report relevance. Both Tracfin and the reporting entities monitor it closely for changes in level and pattern. Its interpretation is therefore a sensitive matter. Too low a rate suggests a poor standard of reporting to the Unit, while too high a rate implies excessive vetting of the information at source and under-reporting of weak signals. The rate also depends on the Unit's own criteria for handling reports. For this reason it is appraised individually with each reporting entity, in the light of that entity's characteristics, during annual reviews.

The investigation rate was still just over 1 in 10 reports but dropped in relation to 2017. However, the overall rate masked considerable disparities in the standard of reporting: clear reports with suspicious transactions properly identified and grounded were investigated more than poorly substantiated reports for which the grounds were not immediately apparent; this was often the case for reports concerning small amounts, which sometimes contained too little analysis. Because of their sensitive nature, submissions relating to suspected terrorist financing were studied in greater depth in order to verify them promptly. However, across the board, there was a levelling-off in the number of reports being investigated, including for the smaller amounts

under €50,000, which accounted for the majority of submissions concerning terrorist financing.

Five institutions were above the sector average, and the difference between the highest and lowest investigation rate varied by a ratio of 1 to 2. For the second year running Tracfin noted that the investigation rates for the different banks had moved closer together, a sign of the overall standardisation in reporting.

Disclosures to the courts and partner authorities

The number of disclosures to the courts originating in STRs from credit institutions declined in 2018 (down 5% on 2017). Conversely, the number of administrative disclosures continued to rise (up 15% in 2018). This increase was attributable mainly to disclosures to the tax authority and intelligence services (financing of terrorism).

The disclosure rate² for most credit institutions was on the rise in 2018.

Qualitative data

For several years now Tracfin has been stressing that effective information processing, and hence the operational efficiency of the national AML/CFT system, depends on the quality of STR analysis.

Quality of analysis is also a key criterion in international evaluations.

Generally speaking, it is hard to determine the overall quality of analysis from reporting entities with different organisational structures. In this respect 2018 showed no consistent trend, unlike 2016, which saw a general deterioration in analysis.

While the Unit notes the overall effort to arrange, explain and contextualise the facts reported, in 2018 there was also considerable variation in the quality of analysis between institutions and even, depending on the typology used, within the same institution.

Tracfin also notes that the standard of analysis differed between some reporting entities depending on the subject: excellent for the fight against terrorist financing, satisfactory for simple cases and deficient for more complex ones.

On the other hand, because some institutions were international in scope they were able to point out foreign links of interest in sophisticated financial arrangements.

Analysis by reporting entities focused on two individual issues: terrorist financing and the money laundering risk associated with correspondent banking. Over the past year the Unit has seen substantial activity by the sector in this field (see box).

² Ratio between the number of STRs and the number of resulting disclosures.

CORRESPONDENT BANKING

Correspondent banking carries a number of risks because of the nature of the relationship with the customer (location of correspondent banks' client institutions, for example) and the transactions themselves (large amounts, transactions on behalf of customers of a client bank, interwoven relationships through involvement of several correspondent banks, difficulty obtaining supporting documentation, etc.).

In 2018, 841 STRs related to correspondent banking, a sharp increase on 2017 (108%). Although there were considerable disparities in reporting by the different correspondent banks, the sector's key players have stepped up due diligence and resources for this field in recent years.

The investigation rate was 17% in 2018, significantly higher than the overall average for the banking sector (12.1%). However, this figure was not the same across the board, fluctuating considerably from bank to bank.

The standard of submissions from the sector was variable. Five bilateral meetings on correspondent banking were held with the banks concerned.

These meetings will continue in 2019, and Tracfin is urging banks to pursue their efforts to improve flagging of suspicious transactions and the quality of analysis for such transactions.

On a more technical level, Tracfin notes that in some cases the rapid bolstering of AML/CFT teams could adversely affect reporting consistency, with teams having uneven drafting and summarising skills.

Moreover, while spreadsheet format is now the norm for statements of transactions, some institutions' computer systems restrict the retention period to thirteen months, which may prove too short, for investigative purposes, to establish fraudulent behaviour. Tracfin therefore recommends an adjustment enabling the retention period for statements in spreadsheet format to be extended to two years.

Lastly, Tracfin notes a slight increase in the number and percentage of legal entities reported by banks in 2018. For several years the Unit has been warning reporting entities in the banking sector about transactions conducted through professional accounts. Here there is the frequent problem of how to distinguish between flows associated with commercial or financial transactions stemming from genuine, lawful economic activity on the one hand and flows for illicit purposes under the cover of bogus business activity on the other. But, for the accounts of legal entities, banks also have more information and supporting documentation (certificate of incorporation, general meeting minutes, tax documents, etc.) than they do for accounts of individuals.

Their analysis will enable them to highlight fraud, often involving large sums.

In 2018 one institution in particular improved its reporting rate for legal entities to 4% above the banking sector average (19.9%). Cases involving undeclared work and misuse of company assets were properly substantiated by this institution.

Requests for information

Requests to banks for information rose by 8% in 2018. Their average response time of five and a half days remained the same. Tracfin here wishes to stress the quality of the relationship with the reporting banks.

Awareness-raising

In 2018 there were 52 meetings with reporting entities in the banking sector. Awareness-raising took various forms: an annual review for each institution, meetings on specific activities (correspondent banking, private banking, etc.), involvement in the banking groups' financial security meetings, training sessions on specific themes (terrorist financing, tax evasion, etc.) and speakers for professional bodies in the sector.

On top of day-to-day contact between Tracfin advisers and the banks' compliance departments, these meetings provided operational feedback on the reporting activity of the institutions attending them, helped to clarify Tracfin's expectations and were used to present case types, thus enabling these institutions to add substance to their risk classifications and scenarios. This partnership between Tracfin and private entities subject to the requirements of the French Monetary and Financial Code is crucial to improving the AML/CFT system. The dialogue is much appreciated and regularly tailored by Tracfin to accommodate the needs of the institutions concerned.

MEETINGS WITH FINANCIAL INSTITUTIONS

Two meetings with financial institutions were held at Tracfin, the first on 8 February and the second on 6 March 2018. The former, focusing on operational issues, was devoted to combating the financing of terrorism.

The second meeting, attended by the ACPR, Tracfin, the largest financial credit and payment institutions and their professional bodies, was used to discuss the reporting flow and address subjects of common interest relating to AML/CFT reporting requirements.

The guidelines, updated in spring 2018, engendered lively discussion, backed up by actual examples, particularly regarding the concept of prompt reporting, documentary evidence for tax evasion and repatriation of foreign assets.

On this occasion Tracfin and the ACPR jointly reminded attendees of the provisions of the French Monetary and Financial Code, contained in the guidelines, concerning suspicious transaction reports about laundering of the proceeds of tax evasion: if a transaction is to be reported to Tracfin, the institution must suspect that the sums involved derive from tax evasion, and one of the decree's sixteen criteria must be met.

The importance of spending time on analysis was also discussed, since prompt reporting must never mean reporting without analysis.

Lastly, details were given of trialling of the specific due diligence alerts that had been brought into force.³

These meetings will continue in 2019.

³ Specific due diligence alerts are a Tracfin prerogative introduced by Law 2016-731 of 3 June 2016 establishing stricter measures to combat perpetration and financing of terrorism and organised crime (CMF, Article L.561-26).

THE BANKING SECTOR IN OVERSEAS FRANCE

The reorganisation of AML/CFT reporting requirements for the banking sector in overseas France between local institutions on the one hand and departments managed in mainland France on the other now seems to have been completed, since no new restructuring took place in 2018.

In 2017, to ensure detailed follow-up of STRs for this geographical area, Tracfin requested mainland banks reporting for their overseas institutions to introduce identification keys for their reports. This had mixed results: some banks complied fully with the Unit's request while others did not.

In terms of reporting activity, the Unit received 2,396 banking sector STRs relating to overseas France, up 21.2% on 2017. Of these, 1,130 were submitted by 20 local banks and 1,266 by 50 institutions (major groups and subsidiaries) whose AML/CFT services are now centralised in mainland France.

With 1,083 reports, the West Indies/French Guiana area accounted for almost half of all STRs, 81% of which concerned Martinique (484 reports) and Guadeloupe (397 reports). It was followed by French Guiana (172), Saint Barthélemy (22) and Saint Martin (8).

The Pacific region totalled 817 STRs. New Caledonia was the main contributor with 564 reports, well ahead of French Polynesia (244) and Wallis and Futuna (9).

Finally, 495 reports covered the Indian Ocean area: 439 for Réunion and 56 for Mayotte.

These reports resulted in 43 disclosures in 2018 – seven to the courts and 36 to partner authorities – compared with 30 referrals (6 and 24 respectively) the previous year.

Overall, the number of STRs for overseas France remained low, representing only 4.5% of banking sector STRs received by the Unit for the whole of 2018.

Study of these reports shows recurring case types with small-scale tax evasion and undeclared work predominating. By contrast, the Unit received virtually no reports of suspected laundering of the proceeds of trafficking (narcotics, contraband, migrants). Similarly, more complex types of case relating to real estate transactions, tax relief or more sensitive issues such as bribery, unlawful taking of interest and misappropriation of funds were largely absent from the reports or only included once they had given rise to judicial requisitions or newspaper stories.

Tracfin reminds reporting entities of their due diligence responsibilities for financial flows in overseas France.

Fact sheet 2: The insurance sector

Following the trend in previous years, reporting for this sector continued to rise, with 5,863 STRs in 2018 (as against 5,283 in 2017), although more slowly than before: 11% (compared with 50% in 2017 and 38% in 2016). Thus the insurance sector's share in the total volume of STRs, which had been trending upwards for two years, levelled off at 7.7% in 2018.

While insurance companies still accounted for most of the sector's submissions (92%), the surge in their reporting observed in 2016 (48.2%) and 2017 (54.3%) slowed in 2018 to a more measured 9.5%, the primary contributors still being the bank insurers (44.4% as compared with 47.7% in 2017).

Mutual insurance companies continued their 2017 upturn with 298 reports in 2018 (as against 192 in 2017).

By contrast, the growth for provident institutions was smaller, with 48 submissions (as against 38 in 2018). Otherwise, their involvement was still very uneven, since only half of all provident institutions submitted STRs. This figure fails to reflect either the economic significance of provident institutions within the insurance sector or the utility of some of the cases handled by the Unit, particularly in the fields of terrorist financing and benefit fraud.

Lastly, in 2018 five additional submissions from insurance intermediaries brought the latter's total to 108 reports, which was nowhere near enough for the 24,000 insurance brokers and 22,000 insurance intermediaries listed by ORIAS. The Unit notes that only 10% of ORIAS-listed brokers are registered with Tracfin. It urges them to comply with their obligations under the French Monetary and Financial Code and register without delay.

The rise in insurance sector reporting went hand in hand with a stabilisation of the investigation rate for sector reports at 7.3%. Since the rate was 15% in 2015, there seems to have been a decline in quality subsequently. However, the 7.3% rate reflected a variety of circumstances. Although there was slight upward movement in investigations of reports from mutual insurance companies and provident institutions and especially from insurance companies, the investigation rate for insurance intermediaries fell by half.

Tracfin reprocessed STRs to classify them as coming from life insurance companies, non-life insurance companies or firms in both lines of business. While the latter category predominated (63% of reports), the Unit

notes that in 2018 it received almost as many submissions from the non-life sector – where the upswing was largest (27%) – as from the life sector.

The types of case varied according to sector. Whereas tax evasion (such as undeclared gifts and holding of foreign assets) and abuse of weakness were the main issues in the life and "mixed" sectors, the suspicious transactions most frequently reported in the non-life sector related to criminal offences, such as fraud and terrorist financing (4.3% of reports as against 0.7% in the life sector). In fact the casework regularly showed non-life insurance fraud to be one of the money laundering channels used by low- to medium-level criminal networks. In some cases a suspicious transaction report for non-life business not only revealed such criminal activity of this sort but also provided input for mapping terrorist financing networks, given the porosity between some of these networks and the underground economy (cf. page 50).

With regard to property insurance, the Unit was surprised to find that it received very few insurance sector reports concerning works of art unless the latter were not insured in France. As small, unobtrusive high-value assets, certain works of art represent a potential money laundering channel for a whole range of criminal offences, including the proceeds of serious tax offences. They have also become implicated in terrorist financing. Tracfin therefore expects progress in this field.

In its 2017 annual report Tracfin focused on due diligence with respect to legal entities, not only for transactions that might amount to misuse of company assets but also for fraud in the healthcare and benefits sectors involving bogus companies. The number of submissions relating to legal entities rose from 449 in 2017 to 505 in 2018, owing mainly to the insurance companies. More reporting by provident institutions would undoubtedly bolster this trend.

The number of PEPs reported failed to rise significantly, remaining low at 57. Better reporting is expected as a result of heightened due diligence in contextual analysis of PEP life and non-life transactions.

The sector's STRs still suffered from a failure to ground suspicions. They were often confined to a description of transactions that were seldom associated with underlying criminal or tax offences. Yet rational grounding is essential for converting an atypical transaction into a suspicious one. This approach consists in providing the basis for the report and using the explanatory statement to present clearly and relevantly the facts giving

rise to the suspicion. The Unit received many reports about cash payments simply because the authorised threshold for such payments had been exceeded, without any underlying criminal and/or tax offences being connected with the source of the money. Such submissions also illustrated a striking lack of knowledge about AML/CFT reporting requirements.

Spelling out the grounds for a report is essential for high-standard reporting. The lack of rational explanation was one of the reasons for the poor investigation rate in this sector.

Similarly, too many reports still concerned questions regarding the origin of funds for buyback transactions, proving that the sector had not adequately taken on board the fact that verification of the lawful origin of funds, and the relevant request for proof, must not take place when the money is paid out but when it is paid in.

Lastly, in December 2018 Tracfin organised a financial meeting on insurance with the ACPR on the pattern of the meetings with financial institutions held since 2017 with banks, payment institutions and their professional associations. It was an opportunity to review reporting, clarify the Unit's expectations and answer questions from reporting entities in the insurance sector, particularly concerning the depth of analysis in the non-life sector given the problem of checking documentary evidence (identifying beneficial owners in the case of legal entities, for example).

Fact sheet 3: Money changers

The marked downturn in reporting by money changers that began in 2017 (down 19.7%) continued in 2018 (down 23.8%). Over the 2016-2018 period the number of STRs from the sector fell by 38.9%.

In 2018 Tracfin received 1,379 reports from 85 ACPR-accredited bureaux de change (out of a total of 176 bureaux de change in France). The proportion of bureaux de change producing at least one report a year remained stable (47.5% in 2018, 46.6% in 2017). Despite a slight attenuation, STRs from the money-changing sector were still the work of just four businesses in 2018, representing 49% of the sector's submissions (59% in 2017). The transactions reported were mostly carried out in mainland France. Nevertheless, 14% of reports related to overseas France, mainly the West Indies (Saint Martin, Guadeloupe, Martinique and French Guiana) but also French Polynesia (Tahiti).

The submissions received in 2018 almost all related to transactions concerning foreign exchange (95.6%), precious metals (3.7%), gold and collector coins. Other reports (0.7%) covered prepaid card purchase or top-up, duty-free transactions and cash remitted or received either at the same time as or separately from foreign exchange transactions.

There were still a wide range of grounds for reports: transactions involving large sums, no proof of origin or destination of funds, customers acting strangely, and inconsistent answers to questioning.

The downward trend in sector reporting was matched by an improvement in report quality, with a sharp drop in submissions without proper grounds for suspicion (for example, reporting PEPs simply because of their standing rather than the financial transactions they were requesting). Overall, reports contained better analysis and were based on more clear-cut suspicions. The sector has heeded the Unit's 2017 recommendations on quality.

By contrast, the differences in drafting quality noted in previous years persisted, and money changers' reporting practices varied considerably in this respect. Some reports had extremely brief explanatory statements, while other contained more detailed analysis and research, showing genuine thought.

Suspicious transaction reports must include a transaction analysis (foreign-exchange or gold) describing the customer's profile (age, occupation, etc.) and the

context (customer's attitude, presence of third party, etc.). Compliance with this requirement set out in the French Monetary and Financial Code and reiterated in the ACPR/Tracfin guidelines enables the unit to process submissions effectively.

As for referrals, the number of disclosures in 2018 was on the decline with 25 reports (including one to the courts) as against 28 in 2017 (including four to the courts).

Case study 1

The facts

Three individuals – X, Y and Z – used money orders to receive and make a number of high-value cash transfers despite the fact that they were in straitened circumstances and certain of them claimed to be students.

Over the same period one of these individuals carried out six foreign exchange transactions (purchase of US dollars) totalling €145,000. The transactions were made in two different bureaux de change belonging to the same network.

Tracfin's investigations

Two of the individuals were known for forged cheque fraud. The third was known for acquiring, possessing and carrying narcotics as well as handling stolen goods, conspiracy to defraud, aggravated money laundering, fraud and other breaches of the law.

Financial investigation of bank accounts revealed that between January and December 2017 they received roughly €274,000 from dozens of remitters. Over the same period they transferred over €200,000 to beneficiaries mostly in France and in the African country where they were born.

All these facts suggested that these individuals were engaged in concealed business, possibly connected with stolen cheque fraud.

Warning signs

- Individual's youth
- Holder of passport with student visa
- Substantial sum over limited period
- One transaction paid for in old €50 notes
- Far-fetched explanations for each foreign exchange transaction

Fact sheet 4: Payment institutions

Payment institutions continued their reporting momentum in 2018 with 12,073 STRs – a 40.3% increase on 2017, with 3,470 extra submissions – following the upsurge in 2017 (68.4% more than in 2016). Payment institutions' share in total STRs received reached 15.8% after representing only 8.2% in 2016 and 12.5% in 2017.

A sector breakdown of STRs confirms the dominance of the money remittance sector (64.9%) and the payment account providers known as neobanks (31.5%). By contrast, third-party payment institutions saw their share diminish from 5.5% in 2017 to 2.4% in 2018.

Reporting was still confined to just a few of the eighty reporting entities, since the five largest institutions provided almost 88% of the reports.

Over the past three years there has been a steady fall in the proportion of reports triggering investigations: 11.1% in 2016, 9.6% in 2017 and 8.7% in 2018. This general trend conceals substantial differences between institutions. Two of the five most prolific reporting entities saw their investigation rate drop below the sector average in 2018, while two others were significantly above it. These figures must be seen against the background of an absolute rise in the number of payment institution reports investigated: 566 in 2016, 821 in 2017 and 1,050 in 2018.

In general, the Unit notes that since 2016 the sector's reports have become less useful. A number of factors are at play here, such as submissions that are less relevant and a very poor standard of reporting that often makes the suspicion hard to understand and the information difficult to use.

The increase in payment institutions' reporting activity ought to be coupled with reports that are clear, precise and well-argued. As far as quality is concerned, there are two expectations.

Firstly, individuals must be comprehensively and accurately identified. Thus all the individuals implicated by the reporting entity's analysis (remitters and recipients in the case of money transfers) must be reported, and comprehensive personal information (date and place of birth, nationality, place of residence, telephone number, etc.) must be provided in the relevant fields on the ERMES e-reporting form.⁴ In particular,

the information needed to rule out homonyms and locate the individuals being reported must be available without having to consult supporting documentation.

Secondly, the suspicious transaction being reported must be properly analysed.

The explanatory statement field in the STR frequently consists merely of a list of transactions accompanied by stock phrases without any grounding of the suspicion. The table attached to the report, listing the suspicious transactions and detailing their characteristics, all too often takes the place of analysis.

Furthermore, a number of reports showed no evidence of public database searching, which in some cases, however, might have provided useful information on the individuals being reported and thus offered more context for the suspicion.

These shortcomings hamper the processing of information received by the Unit. Better substantiation of suspicions must be a priority for payment institutions. This year Tracfin is again compelled to point out that, if it is to be admissible, an STR must include "[...] particulars identifying the customer [...]; a description of the transaction, and the analysis that gave rise to the report".⁵ Otherwise, a report could be deemed inadmissible, and the Unit would then "invite the reporting entity to rectify it within one month, notifying it that without such rectification it cannot be taken into consideration for the purpose of giving effect to Article L.561-22 of the French Monetary and Financial Code".⁶

As for the reports investigated, they led to more referrals in 2018, both for disclosures to the courts (38 in 2018 as against 27 in 2017) and for unsolicited disclosures to administrative partners or foreign FIUs (226 in 2018 as against 116 in 2017). These figures are encouraging. They show that the sector has a great deal of potential, particularly for the networks that payment institutions alone understand, whether cash-generating trafficking (illegal immigration, procuring, etc.), online fraud or microfinancing of terrorism. This substantial potential makes it all the more necessary to improve the standard of reporting.

Lastly, payment institutions were sent requests for information from Tracfin, particularly in connection with the fight against terrorist financing. The number

⁴ For example, "Individual's civil status" and "Individual's contact details" and/or "Information about legal entity's identity".

⁵ French Monetary and Financial Code (CMF), Article R.561-31, paragraph III, subparagraphs 4 and 5.

⁶ CMF, Article R.561-31, paragraph V.

of requests rose by 31%, from 4,051 in 2017 to 5,289 in 2018, thus continuing the 2017 trend. The majority of these requests went to money transfer firms. The Unit would like to emphasise that the payment institutions' replies to its requests were generally very satisfactory in terms of quality and responsiveness.

Case study 2

Tax evasion: Collaborative economy, undeclared luxury concierge services linked to an account with a payment institution

A partner FIU alerted Tracfin to flows of funds through a bank account held by Mr X, tax resident in France.

The facts

Mr X was the legal representative of company Y, a provider of chauffeur-driven cars, and he had also declared a property letting business. However, the tax returns filed by Mr X showed no income or holding of foreign assets.

Tracfin’s investigations

Mr X was the legal representative of company Y, a provider of chauffeur-driven cars, and he had also declared a property letting business. However, the tax returns filed by Mr X showed no income or holding of foreign assets.

Between 2015 and 2017 the payment institution account about which information was requested recorded credit transactions (over 2,000) and debit transactions (nearly 300) for €360,000 and €260,000 respectively.

The incoming transactions frequently included e-mail addresses connected with aliases provided by an online booking website to individual customers carrying out a transaction on it. Some outgoing transactions were to accounts held by Mr X in two EU countries.

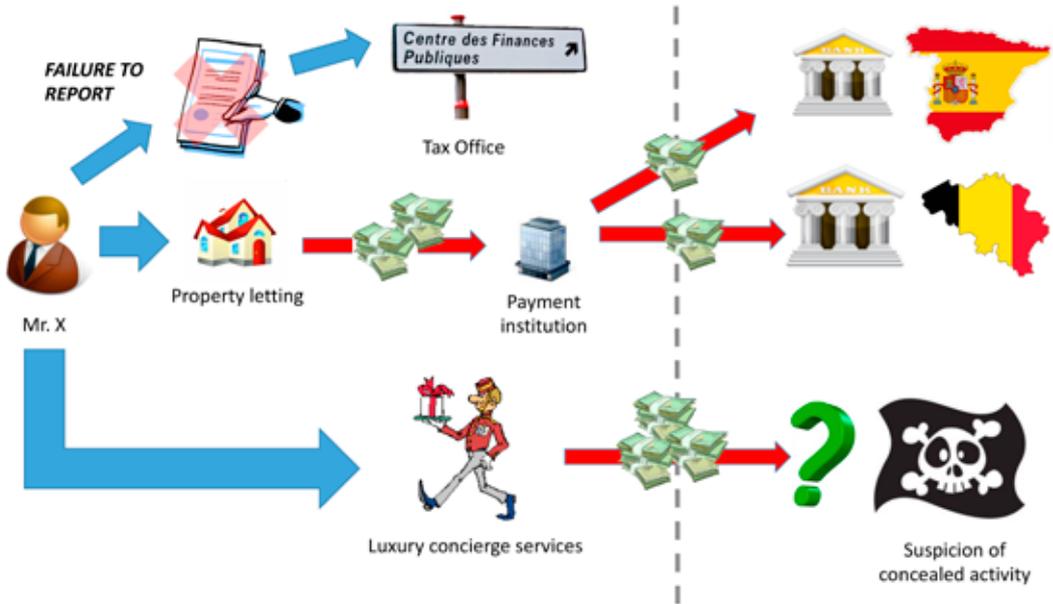
The Unit’s investigations also revealed that Mr X was the actual manager of a commercial website using the same name as company Y and offering luxury concierge services and personal assistants. The target group seemed to be a high net worth clientele, mainly international. Services were priced mostly through yearly subscriptions fluctuating between €1,500 and €20,000. Payment was made online through a payment institution established in another EU country.

As well as failing to comply with the specific reporting requirements for holding of foreign accounts laid down in Articles 1649 and 1649 A of the French General Tax Code, Mr X failed to comply with the reporting requirements for income from his letting business and was engaged in a concealed activity, generating income, which was also not reported, from luxury concierge services.

Warning signs

- Holding of a foreign account by a French resident
- Significant credit flows from a digital platform that are not consistent with the occupational status given when the payment account was opened

NB: The rules regarding payment institutions’ reporting requirements for the FICOPA database (French General Tax Code, Article 1649 A) were spelt out for reporting entities in a letter about these institutions published in February 2019.



Fact sheet 5: Electronic money institutions

With 507 STRs to Tracfin in 2018, electronic money institutions (EMIs) were very active in their reporting, recording 184.8% growth compared with the previous year. This was mainly due to the involvement of two neobanks, which made almost two thirds of these submissions, and to new institutions obtaining EMI status. It should be noted that all EMIs, bar one, contributed to this rise.

The number of information requests to EMIs also snowballed: 179 in 2018 as against 51 in 2017 and 47 in 2016. Although they were sent to a wider variety of institutions (twelve as compared with seven in 2017), half were received by just one (a neobank). This rise in the Unit's requests to EMIs is indicative of the sector's growing share in patterns of fraud investigated by Tracfin. The requests were answered promptly and well.

The 18.8% investigation rate for 2018, up 4% on 2017, bore witness to the utility of EMI reports, which generally contained relevant suspicions.

Submissions from EMIs covered a variety of case types: payment card fraud and fraud through receipt of fraudulent transfers, opening e-money accounts by means of forged documents or identity theft, transactions using means of payment regarded as problematic (prepaid cards, cryptocurrency), suspected financing of terrorism, money laundering through gambling, etc.

FOCUS ON EMIS OPERATING IN FRANCE UNDER THE EUROPEAN PASSPORT SCHEME

Reporting from EMIs operating under freedom of establishment declined sharply in 2018 (90 STRs as against 125 in 2017). Thus their reports represented only 17.8% of the sector's submissions in 2018, as against 70% the previous year.

What is more, a number of these institutions operating through cash dispensers have still not submitted any reports. The ML/FT risk to which a number of the sector's products are specifically exposed, combined with a low volume of reporting, raises concerns that EMIs operating in France under the European passport scheme are failing to comply with their due diligence obligations.

This is all the more worrying as a third of the 179 information requests sent to EMIs by Tracfin in 2018 were to foreign institutions. These institutions must be more closely involved in the AML/CFT system, with adequate staffing, risk analysis for each individual institution, an early-warning system and submission of relevant reports.

Fact sheet 6: Crowdfunding intermediaries and investment advisers

Reporting by crowdfunding intermediaries and investment advisers was on the increase: 73 STRs in 2018 as against 25 in 2017 and 8 in 2016. Participation in the AML/CFT system by these new reporting entities⁷ came almost exclusively from crowdfunding intermediaries, which sent 72 out of the 73 reports. Most of the reports came from just a few reporting entities (78% being submitted by three platforms in 2018).

At the same time Tracfin sent the sector a much larger number of requests for information: 40 in 2018 as against 4 in 2017.

Of the three branches of crowdfunding,⁸ peer-to-peer lending platforms⁹ raised €273 million in 2018 (up 40% year-on-year), rewards-based and donations-based platforms €81.5 million (down 2%) and equity platforms¹⁰ €47.1 million (down 19%). Online kitties collected €330 million (over double the previous year).

However, the breakdown of STRs does not reflect platform volume, since 86% of submissions were from reporting entities in the online kitties and donations sector, 12.6% from peer-to-peer lending and a mere 1.4% from equity crowdfunding. This predominance of the kitties and donations sector in reporting by crowdfunding intermediaries was consistent with the risks – particularly those relating to terrorist financing – inherent in these branches. Nevertheless, it is important for the equity crowdfunding platforms to become more involved, for example through a resilient AML/CFT structure generating suspicious transaction reports on the origin of funds for peer-to-peer or equity lending in potentially problematic sectors.

In terms of quality, STRs from crowdfunding intermediaries and investment advisers were satisfactory. The analysis was clear and substantiated, and reports were now accompanied by supporting documents.

The acts reported by these entities mostly fell under two headings: fraud (such as bogus projects, pyramid fraud and recycling of funds from stolen payment cards) and suspected financing of terrorism. Other types of case covered money laundering by individuals investing in their own projects, attempts to enter into business relationships using forged documents, and transactions connected with tax evasion (undeclared or concealed donations, repatriation of undeclared assets held abroad, platforms used as suspense accounts, etc.).

This positive overview of the sector's reporting is also supported by a snowballing investigation rate (20.8% in 2018 as against 8.7% in 2017). Overall, the submissions led to referrals in the form of ten reports relating to the fight against terrorist financing.

⁷ These two groups have been subject to AML/CFT requirements since the entry into force on 1 October 2014 of Order 2014-559 of 30 May 2014 relating to crowdfunding.

⁸ According to the 2018 French crowdfunding survey published by Financement Participatif France.

⁹ Lending to business.

¹⁰ Investment in capital or royalties.

VIRTUAL CURRENCY TRADERS AND INTERMEDIARIES

Since 1 January 2017, when they became subject to reporting requirements, crypto-asset traders and intermediaries have become much more involved in combating money laundering and the financing of terrorism:

- Higher registration with the ERMES e-reporting system: 13 virtual currency traders and intermediaries registered by the end of 2018 (3 in 2017);
- A greater number of suspicious transaction reports: 20 in 2018 (6 in 2017).

Despite some traders and intermediaries acting as a result of Tracfin's awareness-raising initiatives, reporting varied considerably with 85% of the sector's reports being submitted by a single reporting entity.

In 2018, 75% of the sector's submissions were investigated by Tracfin. This high investigation rate was indicative of the Unit's interest in the suspicious transactions reported by the sector as well as showing room for growth in terms of reporting volume among all crypto-asset professionals.

Leaving aside the sector's own growing, but still barely adequate, reporting activity, Tracfin received 528 reports relating to crypto-assets in 2018 (as against 250 in 2017). Over 81% of these reports came from credit institutions

and covered various types of case: fraud, tax evasion, unlawful practice of the profession of bank transaction and payment service intermediary, misuse of company assets, money laundering for individuals receiving large sums from cryptocurrency exchange platforms (with no proof of the money's origin), dark web transactions and a few ICOs (initial coin offerings).

In operational terms the creation in June 2018 of a new investigation division for financial cybercrime enabled Tracfin to increase its expertise and expand its investigative capabilities, particularly for analysis of crypto-asset transactions.

Last but not least, 2019 will be a key year for regulation of the crypto-assets market – a priority for French, European and international authorities. The EU's Fifth Anti-Money Laundering Directive requires Member States to make both cryptocurrency exchange platforms and custodian wallet providers subject to AML/CFT reporting requirements. At national level, introduction of a legal framework through the PACTE Act for business growth and transformation will ensure better regulation of cryptocurrency traders and intermediaries, in particular by establishing licensing requirements and designating one or more supervisory authorities.

BANK TRANSACTION AND PAYMENT SERVICE INTERMEDIARIES (BTSPIS)

Bank transaction and payment service intermediaries (BTSPIS) have been subject to AML/CFT reporting requirements since 1 January 2017.

BTSPIS are specifically covered by paragraph 3 of Article L.561-2 of the French Monetary and Financial Code (CMF) if they are instructed by a customer and entrusted with funds in their capacity as the parties' agent.

These various intermediaries, most of which have multiple statuses, are engaged in a range of activities – property loans, debt consolidation, payment services, etc. – as brokers, exclusive or independent agents or intermediary agents.

As at 31 December 2018 only 101 BTSPIS had registered with Tracfin, compared with 45 a year earlier. The Unit reminded BTSPIS of their obligation to designate a correspondent and reporting party for Tracfin under Articles R.561-23 and R.561-24 of the CMF. The APCR sent out a reminder to this effect.

In terms of reporting, 8 BTSPIS submitted a total of 120 STRs in 2018. Reporting activity, which plummeted (down 42.6% on 2017), came mostly from a single payment service provider, which produced 69% of the reports and was the recipient of all the information requests sent to the sector.

To strengthen the AML/CFT system it is important for the sector's intermediaries to register with Tracfin through the ERMES e-reporting platform and get organised in order to comply with their obligations, which include reporting to Tracfin "transactions relating to sums which they know, suspect or have good reasons for suspecting are the proceeds of an offence punishable by a custodial sentence of more than one year or are connected with terrorist financing" (CMF, Article L.561-15).

Fact sheet 7: Financial market professionals

Financial investment advisers

The volume of reporting from financial investment advisers was still low in 2018 (56 reports) although stable compared with 2017 (57 reports).

It is obvious that this does not reflect their knowledge of the transactions that they were handling, and they were not really engaged in the fight against money laundering. Considering the comprehensive nature of the information available to financial investment advisers in their advisory role, they ought to be able to flag and analyse a greater number of suspicious transactions (particularly given their customer knowledge) and send Tracfin a larger volume of relevant reports.

Submissions from financial investment advisers left room for improvement, seldom containing the information needed for optimum processing by Tracfin: information relating to customer knowledge (such as profession and assets), particulars of suspicious transactions and a formal analysis including documentary evidence and the research carried out and explaining why the transaction is inconsistent). Nevertheless in 2018, carrying on from 2017, Tracfin did receive some good-quality reports, containing relatively detailed analysis, particularly for suspected tax evasion.

Asset management companies

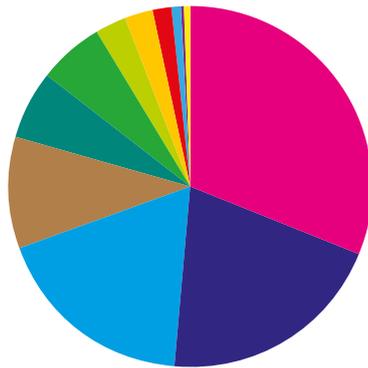
In 2018 asset management companies sent Tracfin 91 STRs. Although still low in absolute terms, the pace of reporting rose significantly compared with 2017 (44%). Carrying on from 2016 and 2017, most reports were the work of just a few reporting entities: three asset management companies were responsible for 63% of all submissions.

NB. With regard to discretionary asset management, asset management companies must be able to trace the origin of the funds entrusted to them and assess the consistency of transactions in the light of their customer knowledge.

If a management company suspects that the assets are the proceeds of an offence punishable by a custodial sentence of more than one year, that they are connected with terrorist financing or that they derive from tax evasion, a suspicious transaction report must be submitted to Tracfin in the manner provided for in the French Monetary and Financial Code.

NON-FINANCIAL SECTOR REPORTING ENTITIES

Overall breakdown
of reporting entities
within the non-financial sector in 2018



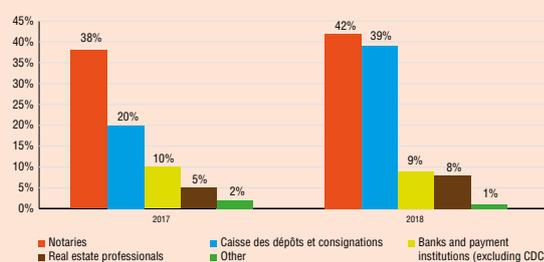
- Notaries, 31,2%
- Casinos, 20,1%
- Court-appointed receivers and trustees, 18,2%
- Chartered accountants, 9,9%
- Gaming circles, games of chance, and sports and horse-racing betting, 6,1%
- Real estate professionals, 5,8%
- Auditors, 2,6%
- Bailiffs, 2,6%
- Online gaming operators, 1,6%
- Auctioneers, auction houses, 0,8%
- Commercial registered office providers, 0,5%
- Dealers in precious goods, 0,3%
- Lawyers, 0,0%
- Sports agents, 0,0%

Reporting entities gave signs of greater collective awareness in 2018, with a total of 3,188 STRs for the real estate sector. As pointed out in the most recent FATF evaluation for France, real estate investment is a popular strategy for integration of illicit money.

Notaries continued to play a key role in the conveyancing chain, accounting for almost half of the submissions received. Last year showed a leap in reporting by the Caisse des Dépôts et Consignations (CDC) once the skills and structure of the Banking Service Centres (CSBs) – in charge of submissions from the regulated professions – had been streamlined. This trend confirms the CSBs’ pivotal and complementary role in the real estate field and calls for greater coordination and day-to-day cooperation between notaries and CSBs. Real estate professionals, and estate agencies in particular, also played a part in this reporting.

In addition, financial institutions’ reports on real estate transactions were used to broaden the range of case types. It still frequently happens that banks uncover offences which the professionals who are the specialists and directly concerned have nevertheless been unable to detect because their mapping is not detailed and relevant enough.

Real estate: distribution of STRs



Fact sheet 8: Notaries

For the second year running there was significant growth in the number of STRs from notaries, up 5% to 1,474, the highest figure since they began reporting in 1998.

This performance confirmed the profession’s leading position for reporting in the non-financial sector. The commonest suspected typologies are related to real estate investments. In most instances the notaries had questions or doubts about the origin of the money, particularly in the case of politically exposed persons (PEPs), who appeared in 4% of the submissions. By contrast, tax cases were less in evidence.

Nevertheless, there is substantial room for improvement. As in previous years, reports came mostly from three areas: the Greater Paris region, Provence-Alpes-Côte d’Azur and Grand Est, with the latter continuing to report steadily. On the other hand, reporting was extremely disparate in other parts of the country, where a shortage of notaries or lack of real estate transactions was not a credible explanation.

These disparities were also found for notaries’ offices. In 2018, 11% of offices sent at least one STR to Tracfin, down 2% on 2017. Closer study of the submissions showed that between 2009 and 2019 only 37% of offices contributed to the profession’s reporting by submitting at least one report.

When the volume of reporting by the profession is set against the buoyancy of the real estate market in 2018 – a year that saw 1,570,000 sales (source: DGFIP) – it appears that there is a rich seam of information to be mined.

Progress is also expected in terms of form: 53% of submissions had no attachments as well as often being too short, lacking analysis or clearly formulated suspicions and being based on tenuous individual signs rather than a body of evidence. Not all notaries were able as a matter of course to recognise atypical means of financing a sale or inconsistencies between the buyer profile and the value of the property despite the Unit’s extensive awareness-raising work.

Despite these areas for improvement, the profession has legitimate grounds for satisfaction. Notaries have emphatically embraced the ERMES e-reporting system, using it to send almost 90% of STRs in 2018.

In addition, 2018 saw the introduction of a number of resources to help understanding of AML/CFT issues. For instance, the National Association of Notaries (CSN)

provided the entire profession with open access to a commercial database to identify politically exposed persons or individuals whose reputation must be taken into account when considering a real estate transaction. The CSN also provided an IT tool in the form of a due diligence questionnaire designed to help notaries decide whether or not to submit reports. Lastly, the profession developed an e-learning module to raise awareness of AML/CFT reporting requirements among notaries. The provision of these resources reflects a genuine awakening to AML/CFT issues within the profession. Having made this unquestionable effort, notaries must now be helped to establish risk assessment and management systems specific to each office and focusing on different geographical areas, activities and clientele.

Thus 2018 showed that the greater demands made by the public authorities on notaries, who play a key role in real estate transactions and are therefore particularly exposed to the risk of money laundering, were vindicated. These moves to combat money laundering and terrorist financing are expected to continue in the long term, complemented by truly effective monitoring and inspection systems.

Fact sheet 9: Caisse des Dépôts et Consignations

(Although the Caisse des Dépôts et Consignations is an institution that belongs to the financial sector, its reporting is discussed in this section on non-financial reporting entities because of its connection with the bookkeeping of legal and accounting professionals subject to reporting requirements).¹¹

Reporting by the Caisse des Dépôts et Consignations (CDC) shot up in 2018 with 1,763 submissions to Tracfin, a 72% increase (as against 20% between 2016 and 2017).

Tracfin's frequent meetings with the CDC teams in charge of AML/CFT in mainland and overseas France – the Banking Service Centres – reflected the government-funded institution's growing investment in this field.

BANKING SERVICE CENTRES

When it comes to AML/CFT requirements, the CDC relies on the DGFIP's network of Banking Service Centres (CSBs), set up in September 2014. There are five CSBs, serving the South-West (Angoulême), the North-East (Metz), the South-East (Mâcon), the West (Rouen) and Greater Paris (Versailles). In 2016, shared departments were established in Martinique for the West Indies/French Guiana area and in Réunion for Réunion and Mayotte.

STRs from the CDC virtually all concerned suspicious transactions connected with their notary clients.¹² The overwhelming majority related to real estate transactions, with a smaller proportion devoted to transfer of shares, inheritance, gifts and loans.

Although suspicions could have been better grounded, the standard of reporting was satisfactory, with information on clients and transactions being included. Reports were usually supported by copies of bank transfers, deeds or sale agreements, and identity papers, depending on the replies from the CDC's customers.

¹¹ See box.

¹² There were few reports concerning court-appointed receivers and trustees, bailiffs or auctioneers.

Here it is regrettable that, of the notaries approached by the CDC, almost one in ten refused to meet its requests despite the partnership charter signed between the National Association of Notaries (CSN) and the CDC.

The CDC made frequent use of commercial databases to improve its knowledge of individuals and legal entities. Reference to open sources, even though more frequent and efficient than in 2017, could still be more effective.

One third of the reports received in 2018 related to real estate transactions involving amounts between €100,000 and €500,000. A further 28% concerned transactions for amounts between one and ten million euros.

RELATIONS BETWEEN NOTARIES AND THE CAISSE DES DÉPÔTS ET CONSIGNATIONS

Notaries' obligation to deposit sums held on behalf of third parties with the CDC stems from a decree of 30 November 2000 giving the CDC a monopoly of custody over such funds. Through the DGFIP network, the CDC has had sole custody of notaries' regulated deposits ever since.

The CDC is also able to hold notaries' personal accounts and the office accounts of notaries' offices, although this is not mandatory.

A partnership charter drawn up between the National Association of Notaries (CSN) and the CDC in April 2012 lays down the arrangements for AML/CFT cooperation.

Fact sheet 10: Real estate professionals

As in previous years, reporting by real estate professionals was on an upward trend, rising from 84 STRs in 2016 to 178 in 2017 and 274 in 2018.

In 2018, 67% of reports concerned transactions of under €500,000. This percentage alone belies the prevailing orthodoxy that only transactions involving extremely large sums are exposed to the risk of money laundering. The share of real estate transactions over €1 million euros, amounting to 23% of the reports sent to Tracfin in 2018, illustrates the degree of risk exposure represented by prestigious properties and the fact that it is recognised by the profession.

As in 2017, reporting from the Greater Paris region accounted for over 50% of submissions to Tracfin from the real estate profession as a whole in 2018. Professionals in the Provence-Alpes-Côte d'Azur region sent 15% of reports and those in Auvergne-Rhône-Alpes 11%.

The significant increase in reporting (54%) – which was still not enough given the growing number of real estate transactions requiring the services of a real estate professional – might be connected with these professionals' greater awareness of their reporting obligations. It is important for professional bodies to play an ever-increasing support role in the provision of training and information on the fight against money laundering and terrorist financing. At the same time the DGCCRF and Tracfin will continue their work targeting real estate professionals. The legislation on combating money laundering was made easier to grasp with the publication, in autumn 2018, of the Tracfin/DGCCRF guidelines for the real estate sector (see box below). In addition, a partnership with chambers of commerce and industry to raise these professionals' awareness of their AML/CFT obligations was established by Tracfin and the DGCCRF and will continue in 2019.

It should be noted that there were very few supplementary STRs (five). Real estate professionals ought to be encouraged to make more than one submission to Tracfin for the same transaction if new information is uncovered that seems to confirm the initial suspicion.

Suspicious transaction reports on rented property represented only a small proportion of total submissions to Tracfin. Reports in this field resulted in disclosures to the courts on the grounds of money laundering and terrorist financing.

The observation in 2017 that the standard of reporting left room for improvement is just as applicable to 2018. It was often the case that suspicions were not clearly expressed and the reporting entity gave only patchy information about the client and transaction. It should be reiterated that a suspicion must be based on a body of evidence. For instance, PEP status is not in itself enough to constitute a suspicion but should be considered an opportunity to employ additional due diligence measures, especially for the origin of funds. The poor standard of reporting showed that their obligations under the French Monetary and Financial Code had not been properly understood by real estate professionals.

Almost half the STRs sent to Tracfin contained supporting documentation (identity papers, e-mail correspondence, sale agreements, letters of intent, memoranda and articles of association, bank records, tax notices, certificates of incorporation, web pages). It is necessary once again to emphasise the importance of these documents, which back up the suspicions formulated.

Real estate professionals are strongly encouraged to ask their clients for supporting documents and to check the Internet. Some professionals use commercial databases to learn more about a client's character.

TheERMES e-reporting system was used for 95% of the reports sent to Tracfin. This figure shows a high uptake for this secure reporting channel.

These professionals should continue to receive training in order to gain a better understanding of the legislative framework in which they are operating. This is the prerequisite for improving the quantity and quality of suspicious transaction reports.

AML/CFT GUIDELINES FOR REAL ESTATE PROFESSIONALS

The upshot of cooperation between Tracfin and the DGCCRF, the AML/CFT guidelines for the real estate sector were published on 6 November 2018. A financial meeting with key players in the real estate sector and government (Tracfin, DGCCRF, National Enforcement Commission and Directorate General of the Treasury) was held to present these guidelines, which had been updated in the light of recent legislative and regulatory changes. The guidelines are explained with case studies and warning signs. In particular, they lay out – with constant reference to legislative and regulatory provisions – the obligations concerning establishment of a risk assessment and management system as well as the reporting requirements for professionals in the sector. A notice in the national press also helped to foster broad awareness among real estate professionals.

Fact sheet 11: Bailiffs

Reporting by bailiffs rose to 121 STRs in 2018, up 11% on the previous year. The upward trend thus continued, but less strongly, since there was a 49% increase between 2016 and 2017. It would nevertheless seem to fall short of what might be expected of a profession covering over 3,200 people.

The number of offices producing STRs remained steady. However, 75% of the reports to Tracfin were the work of four reporting entities, which annually send between 16 and 30 submissions each to Tracfin. The Grand Est region confirmed its lead, with 42% of the reports submitted, well ahead of the Greater Paris region with 22% (a six-fold increase all the same) and the Auvergne-Rhône-Alpes region with 16%. Some important areas were not really represented, if at all: Provence-Alpes-Côte d'Azur provided only 6% of reports. Likewise, Essonne was the only department to be represented in the Greater Paris region.

The main type of case to emerge from bailiffs' reports concerned low-value cash payments, usually under €10,000, of indeterminate origin. Only one submission related to a different type of fraud: benefit fraud for a beneficiary of the statutory minimum. Brief and largely unsubstantiated, these reports were hard to use as they stood.

As for what was reported, bailiffs covered a significant but insufficient part of their work. It has already been pointed out by the National Chamber of Bailiffs (CNHJ), with which the profession's risk analysis and typologies were drafted, that bailiffs' monopoly powers, whether concurrent or auxiliary, are also exposed to risk. Potential links between creditors and buyers thus require the profession to focus its attention on debt recovery, service of writs and, somewhat in advance, auctioning. The impending amalgamation of bailiffs with auctioneers in the shape of debt enforcement officers will complicate the risks to which the profession is exposed. The professions' take-up of the ERMES e-reporting system rose slightly, with 72% of submissions sent electronically.

Tracfin has high hopes of the distribution of guidelines to the entire profession by the National Chamber of Debt Enforcement Officers (CNCJ) in 2019: this is necessary for appropriate risk mapping and to give the profession a proper understanding of the whole range of powers and activities at risk. This work must be combined with joint nationwide awareness-raising by Tracfin and the CNHJ to achieve a quantitative and qualitative leap in reporting by bailiffs.

AML/CFT GUIDELINES FOR BAILIFFS

Tracfin and the National Chamber of Bailiffs (CNHJ) published joint AML/CFT guidelines for bailiffs for the first time in September 2018.

Bailiffs are subject to AML/CFT reporting requirements if, in the course of their work, they participate for and on behalf of a client in any financial transaction (French Monetary and Financial Code (CMF), Article L.561.3, paragraph I.1) or assist a client in the preparation or execution of transactions relating to buying and selling real estate or goodwill, to organisation of the contributions required to create companies, or to the formation, administration or management of companies (CMF, Article L.561.3, paragraph I.2). However, they are not required to submit suspicious transaction reports if they are giving legal advice, unless this is provided for the purposes of money laundering or terrorist financing or in the knowledge that the client is requesting it for such purposes (CMF, Article L.561-3, paragraph III).

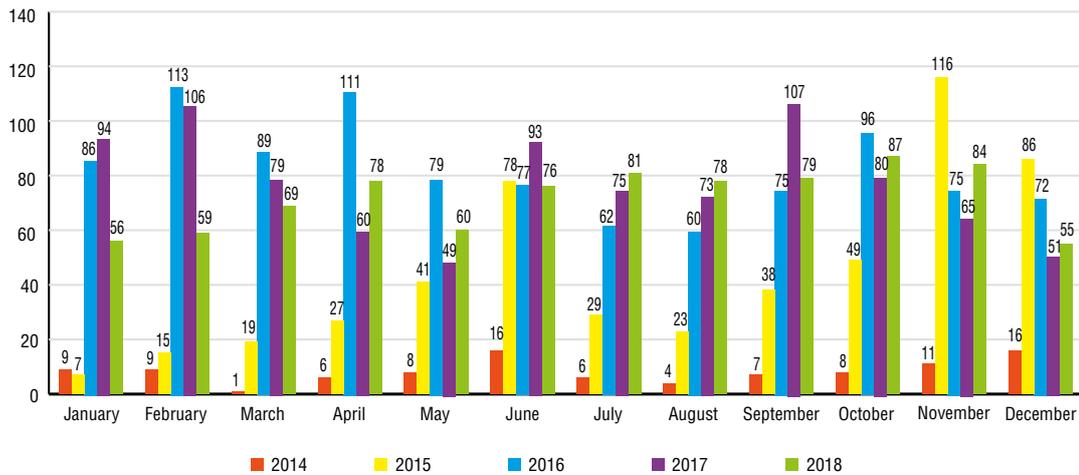
The signing of these guidelines is pivotal in involving bailiffs in the fight against money laundering and terrorist financing. Designed as a practical aid, they lay out in detail the risks to which the profession is exposed. Warning signs are described in relation to the transaction, the nature of the assets, the money paid and the individual concerned. Examples are given to highlight the types of case relevant to the profession.

The guidelines are supplemented by a step-by-step guide on how to report using the secure ERMES e-reporting system.

Fact sheet 12: Court-appointed receivers and trustees

After an upward trend in reporting over four consecutive years, court-appointed receivers and trustees submitted fewer STRs in 2018, with 862 reports as against 932 in 2017, for which there are several explanations. Firstly, the economic recovery partially reduced the number of ailing companies and therefore the number of insolvency proceedings in which court-

appointed receivers and especially court-appointed trustees were involved. Secondly, the belated publication (in April 2018) of the decree implementing the Order of 1 December 2016 strengthening the French AML/CFT system meant that the CNAJMJ training sessions had to be postponed. Resumption of training saw resumption of the upward reporting trend. The first few months of 2019 thus herald a reporting level at least equivalent to that of 2017.



The profession's STRs come from areas with thriving economies and the proportions have remained the same for the last three years: the Greater Paris area, Provence-Alpes-Côte d'Azur and Nouvelle Aquitaine alone represent over half the reports sent by the sector. As in 2017, the Unit received no submissions from court-appointed receivers and trustees in Corsica, while overseas France was under-represented. Given the risks identified in these reports, the entire profession is expected to make an effort in 2019.

Regarding types of case, court-appointed receivers and trustees mostly reported misuse of company assets, bankruptcies and fraud involving the public purse, mainly tax-related. The most significant criterion for reporting was shareholder loans. It should be possible to refine the typology with further work on the reputation of individuals and legal entities. The reports that Tracfin found most useful were often the result of research on individuals in the trade and companies register, making it possible to identify repeat appearances in liquidated companies. It would also seem that these professionals' due diligence ought to take better account of company exposure in specific sectors

such as construction, second-hand goods and alternative energy. (Moreover, court-appointed receivers and trustees are in an excellent position to detect capital investment and takeover bids that might adversely affect France's scientific and industrial assets. It would be worth paying special attention in the future to ailing companies which are of particular interest in terms of intellectual property: computer service firms, innovative businesses, licences).

STRs concerning amounts over €10 million doubled in 2018. Although they constituted only about 4% of the profession's submissions, this was a move in the right direction. It showed a better understanding and appraisal of suspicious transactions and was an endorsement of Tracfin's work on getting the profession to grasp the idea of "amounts declared". These amounts were either the liabilities of a company in receivership or the total amount of suspect funds provided. In every case these reports were effectively exploited.

Submissions from court-appointed receivers and trustees were lacking in detail. They were not always accompanied by supporting documentation, and the explanatory statement did not immediately identify

the information that gave rise to the report. Consequently, a significant proportion of Tracfin's requests for information were intended to provide context for STRs that had already been sent. There was thus substantial room for improvement among court-appointed receivers and trustees, less than half of whom used the ERMES e-reporting system. Despite calls for greater take-up of this digital tool, court-appointed receivers and trustees were not really responding.

The reporting trend for late 2018 and the first few months of 2019 looks promising. The resumption of CNAJMJ training sessions, together with joint work on the guidelines, should lend some impetus to reporting by the profession, which is Tracfin's third largest non-financial reporting sector and whose STRs are vital in such various areas as money laundering, tax evasion and economic predation.

AML/CFT GUIDELINES FOR COURT-APPOINTED RECEIVERS AND TRUSTEES

On 25 September 2018 the CNAJMJ and Tracfin published the profession's first AML/CFT guidelines. Following on from the partnership begun several years earlier between the Unit and the regulatory authority, these non-binding guidelines are designed to provide help and guidance for court-appointed receivers and trustees in complying with national AML/CFT reporting requirements. They offer risk-mapping models and provide advice to professionals on the meaning of their business relationships and additional and enhanced due diligence measures, and are intended to reflect the diverse services of this wide-ranging profession: insolvency proceedings, civil-law services, ad hoc mandates. In addition, the guidelines set out quite an extensive list of tax-evasion and money-laundering typologies, together with a number of warning signs. The document should provide the necessary support for more sophisticated and specific training, in which Tracfin proposes to take an occasional part.

Fact sheet 13: Commercial registered office providers

Reporting by commercial registered office providers was on the decline in 2018 with 22 STRs as against 31 in 2017. This trend must be seen in the light of the checks carried out by the Directorate General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF), which every year have shown a reduction in misreporting and the number of cases considered by the National Sanctions Commission (CNS), which has had to rule on ten cases of inadequate identification of clients, leading to deterrent measures.

As in 2017, the breakdown of STRs was very uneven, with a major business hub in the Grand Est region accounting for fifteen of the submissions to the Unit. More generally, only eight out of the 2,500 known commercial registered office providers sent suspicious transaction reports to Tracfin.

As far as quality was concerned, reports related to issues concerning transfer of registered offices but failed to pinpoint a clear underlying criminal offence. They left room for improvement in the drafting – often too brief – and included no supporting documentation. The effective processing mentioned in 2017 did not continue in 2018.

Better reporting is thus expected from the profession, particularly as STRs from other partners such as commercial court registries show that commercial registered office providers can play a key role in detecting fraud, especially in multi-management cases. To this end, these companies' due diligence measures and their ability to identify their clients, in what are often remote business relationships, are crucial.

There is still work to be done on typology, which ought to be reflected in widespread and better publicised action. The French Union of Company Hosting Professionals (SYNAPHE) seems to be a key player here. In 2019 the close working partnership between Tracfin and the DGCCRF should lead to a complete overhaul of the guidelines produced in 2010. The new guidelines will update the reporting requirements, following enactment of the Fourth AML/CFT Directive in French law, and opt for an educational approach coupled with case studies. It will be up to the commercial registered office providers to adopt them.

Fact sheet 14: Auditors and chartered accountants

After an upsurge in reporting over the past few years, 2018 saw a sharp fall in the number of STRs from accounting professionals. The volume of reports received by Tracfin dipped by 11% (590 in 2018 as against 665 in 2017), with the decline being particularly marked in the case of auditors, with 124 submissions (down 18%).

The geographical breakdown of STRs, unchanged from previous years, showed reporting concentrated on the Greater Paris region (producing almost a quarter of submissions for 2018), followed by Auvergne-Rhône-Alpes (13%), Nouvelle Aquitaine (12%), Hauts de France (9%) and Grand Est (8%). Tracfin once again notes the virtual absence of reports from professionals in Corsica and overseas France (apart from Réunion) despite the considerable challenges in those areas, whether in terms of organised crime or fraud involving the public purse.

The Unit notes greater take-up of the ERMES e-reporting system, now being used in almost 80% of cases (as against 70% in 2017), a rise attributable to chartered accountants in particular.

The main types of case reported by accounting professionals related either to misuse of company assets or to tax evasion, usually revealed by transactions in cash or suspected false invoicing. In 2018 the Unit noted a rise in submissions concerning possible breaches of trust, mostly in connection with the non-profit sector.

As far as quality is concerned, the Unit found somewhat more care being taken in the description of the facts and transactions that had led the auditor or accountant to submit an STR. The standard of reporting was still uneven across the sector. There was definitely room for improvement: almost half the reports had no supporting documentation, and the reporting entities sometimes left out the SIREN number of the legal entity being reported, or else the full identity of its representative, which complicated investigations.

Nevertheless, the high investigation rate (almost 27%, as against 12% for financial reporting entities) is evidence of the potential and the future role of these accounting professionals in the AML/CFT system.

Tracfin has high expectations of the accounting professionals: through their work, auditors and chartered accountants know both the context and professions in which their clients operate and possess a comprehensive set of data enabling them to grasp a situation

and transactions as a whole. They are thus in a position to detect suspicious transactions and report them.

The priority concern for accounting professionals in their reporting is therefore to shed more light on suspicious transactions in their day-to-day business as well as to extend their risk mapping to cover the whole range of their work, especially in the case of valuers of contributions.

Tracfin has called on the representative bodies – the Governing Council of Chartered Accountants (CSOEC) and the National Company of Auditors (CNCC) – to step up their policy of training and informing professionals at national level. The Unit has welcomed and promoted the local initiatives begun in 2018, with which it was associated.

Through the partnership between Tracfin and the two regulatory authorities, professional AML/CFT standards for both professions were discussed jointly. For accounting professionals, 2019 is set to be a significant year in terms of AML/CFT, since both auditors and chartered accountants have begun, through their regulatory bodies, to draft new guidelines to provide the necessary support for awareness-raising at local level as well as proof of how seriously the sector takes AML/CFT a few months before France's FATF evaluation.

However, the change in statutory audit thresholds enacted by the PACTE Act will clearly make it harder to meet the goal of increasing the number of STRs from statutory auditors in 2019 and 2020.

Fact sheet 15: Lawyers

In 2018, lawyers sent only one suspicious transaction report admissible by Tracfin. This state of affairs proves, if proof were needed, how very limited the profession's commitment still is. This trend is all the more problematic because reporting entities connected with lines of business in which lawyers are also engaged (financial investment consultancy, real estate, trust activities) have shown greater compliance and revealed assignments exposed to money laundering problems.

Requests for information to Lawyers' Financial Settlement Funds (CARPAs) in 2018 had promising results. Overall, the ten or so requests revealed a variety of case types: tax evasion, organised crime, financing of terrorism, breach of trust, and money laundering through real estate. Although the CARPAs could have been more responsive, these initial results highlighted the relevance of the system and underlined the key role of these bodies in the fight against money laundering and terrorist financing. This partnership should be taken further by 2020.

In 2019, Tracfin and the National Bar Council are set to finalise a revised version of the second edition of the handbook on combating money laundering and terrorist financing, in order to add to lawyers' knowledge and detail what they should do.

Fact sheet 16: Gaming sector professionals

The overall health of the gambling sector was confirmed in 2018 with registered growth of around 3% in gross gaming revenue (GGR).

The focus here must be on the buoyancy of the online gambling sector, where in 2018 GGR grew by 25% and the number of players by 40%.

The casino and gaming circle sector

The gaming establishment sector underwent several developments in 2018: while the number of "traditional" casinos remained much the same, the games on offer changed for the sector's major casino groups with the closure of the last gaming circle and the new possibility of opening gaming clubs in Paris. The first gaming club¹³ opened in the Champs-Élysées neighbourhood. Licensing by the Central Racing and Gaming Unit (SCCJ) is also under way for other establishments due to open in Paris during 2019.

Although the relationship between the supervisory authority and the profession is not based on a consensus, the volume of reporting from casinos has not suffered, since the number of reports produced in 2018 totalled 949, up 2.2% on the previous year and 58% on 2016. Nevertheless, there was a drop in the number of entities reporting over the year, with 8% fewer establishments.

Reporting from the casino sector was uneven geographically; the regions sending the most STRs were Auvergne-Rhône-Alpes, Provence-Alpes-Côte d'Azur and Greater Paris. Also of note were the 49 reports concerning non-residents.

In addition to misuse of company assets, submissions covered laundering of the proceeds of criminal activities such as drug trafficking.

Many reports raised doubts about how AML reporting requirements were being put into practice, since suspicions were not adequately grounded and there was a failure to provide the context and customer knowledge behind the analysis, particularly through an establishment's records of winnings. This was all the more obvious given the quality of reporting by some other entities whose detection work, arguments

¹³ The range of games provided by such clubs is different from that of "traditional" casinos, since they do not include slot machines, single-zero electronic roulette or blackjack but they do offer mah-jong, poker, etc.

and explanations of the information leading to their reports allowed optimal processing by Tracfin.

Very few reports related to gamblers with casino membership or loyalty cards. These gamblers have entered fully into what the law deems to be a “business relationship” and should thus be covered by customer knowledge and specific measures leading to more reports with greater detail.

The partnership between Tracfin and the profession should start to build fresh momentum in 2019 with joint awareness-raising and identification of possible improvements of the sort mentioned above.

La Française des Jeux

Following a 2017 reporting year that was mixed in terms of quantity and quality, Tracfin and La Française des Jeux (FDJ) agreed on some specific approaches. Areas for improvement included diversification of sensors to detect organised-crime issues, development of tools to identify the most problematic points of sale and introduction of appropriate due diligence measures, closer analysis of gaming transactions prior to submitting reports, and enhancement of customer knowledge.

As part of the partnership instituted with Tracfin, various technical workshops were held after the roll-out of a new data-processing and scoring tool (Saferg@me). They marked the start of joint discussions designed to improve understanding of the ML/FT risks facing the operator. A significant proportion of the Unit’s recommendations were acted on.

Various work was begun by FDJ to gain a better understanding of gaming transactions that were highly problematic with regard to AML/CFT. Thus 2018 saw an increase in inspections at points of sale and the emergence of a proper policy of manual blocking of gambling. These efforts were reflected in terms of quantity, as the operator submitted 144 STRs, up 20% on the previous year. These reports, although uneven, demonstrated a genuine willingness to meet the Unit’s expectations.

Reports about players who were recording winnings from atypical gambling again accounted for a significant proportion of the operator’s submissions in 2018. The operator was also able to identify and analyse emerging case types (unexplained increases in turnover on gaming connected with sports betting). In addition, the reports in 2018 were notable for their increasing coverage of digital gambling risks and more detailed analysis of issues relating to repurchasing winning tickets.

In 2019 the Unit’s expectations are centred on a further rise in STRs, closer analysis of the most problematic points of sale in terms of AML/CFT (enhancement of network inspections, policy of manual blocking of gambling, in-depth analysis of timestamping data, etc.) and continuing diversification of the case types reported (online gaming and manipulation of sports events).

PMU

In 2018 Pari Mutuel Urbain (PMU) submitted 114 STRs, 2.7% up on the previous year. As in 2017 the types of case reported related mainly to players recording a series of winnings showing inconsistencies in terms of financing and to issues relating to repurchasing winning tickets.

With regard to quality, the operator’s reporting showed mixed results. A total of 114 reports was achieved thanks to a significant catch-up effort during the last quarter of 2018, in which quantity trumped quality. The marked reduction in the sums reported over the course of 2018 is also a matter of concern.

In 2018, PMU was able to reveal new types of cases involving complex arrangements (online gaming) by bringing a range of relevant analysis criteria to bear.

The majority of STRs covered issues relating to repurchasing winning tickets. Here the reports were accompanied by information on the “customer journey”.

In 2019 the Unit is expecting to see a rise in account-based gaming, particularly for high-spending gamblers, and development of feedback from the field, which should be an integral part of the operator’s analytical approach. Lastly, PMU ought to promote procedures for easier identification of transactions exposed to ML/FT risk.

Online gaming

Law 2010-476 on the opening up to competition and regulation of the online gaming sector offers a number of safeguards concerning arrangements for financing player accounts and the monitoring of gaming transactions. Gaming operators should be able to use this information to fulfil their due diligence obligations satisfactorily.

Updated risk analysis and interpretation of the reports received highlighted the ML/FT vulnerabilities associated with entering into a remote business relationship.

As in previous years, further risks were identified, relating firstly to arrangements for financing player

accounts (new means of payment conducive to anonymity) and secondly to sector-specific issues connected with entering into a remote business relationship (identity theft, for instance, to launder proceeds of digital fraud).

This assessment was shared by the sector's operators and regulatory authorities. Thus 2018 saw a round of discussions between Tracfin and the Online Gaming Regulatory Authority (ARJEL) on an overhaul of sector guidelines, which are due to be published in the course of 2019.

In 2018 Tracfin also held meetings with five of the sector's fourteen operators, representing over 50% of market share. These sessions, deemed useful by the operators, were used to spell out the Unit's expectations and discuss emerging types of money laundering.

In terms of quantity, the sector saw a rise in reporting for the second year running with 99 STRs, a significant increase compared with the previous year. These reports were submitted by a growing number of operators, and the breakdown was more in line with respective market shares.

It should, however, be emphasised that there was a notable difference in reporting quality between operators. Most reports still concerned money laundering cases relating to introduction of cash into the banking system. These reports, which were indeed substantiated, did not cover the sector's vulnerabilities adequately and did not contain sufficient analysis. However, a small number of operators stood out on account of their in-depth analysis, using all the information available to them to report complex money-laundering issues.

Consequently, the sector will again be the focus of attention in 2019, when reporting potential must be further improved through diversification of case types, especially those relating to identity fraud issues. Tracfin will continue its dialogue with operators to this end.

Fact sheet 17: Auctioneers and auction houses

Initial indications regarding the performance of the French art market in 2018 showed Paris satisfactorily maintaining its position on the international scene.

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 auction sales for all sectors came to €3 billion, including €1.47 billion for the “art and collectibles sector” alone. Web-based sales accounted for 37% of the total.¹⁴

The scale of art market activity in France and the financial flows that it generated had scant impact on reporting from auctioneers and auction houses. The number of STRs received by Tracfin was on the decline, dropping from 67 in 2017 to 40 in 2018.¹⁵

The number of reporting entities making submissions fell from 31 in 2017 to 20 in 2018, divided equally between Greater Paris and the rest of France. The ten auctioneers and auction houses in Greater Paris submitted 26 reports to Tracfin in 2018, a performance that did not measure up to the sums at stake. This was even truer of reporting entities outside Greater Paris, which regressed this year, since their number fell from 21 to 10, whereas the number of reporting entities in Greater Paris remained the same.

Reported amounts skyrocketed, from €4.6 million in 2017 to €56.8 million in 2018, mainly owing to a submission concerning an exceptional sum of €49.8 million. The financial flows represented by the other reports totalled over €7 million in 2018, a 52% increase in value compared with the previous year.

This upward trend in transaction amounts reported was due in particular to much greater involvement in the AML/CFT reporting system by some of the largest voluntary auction houses in the French art market, all sectors combined.¹⁶ It would seem that the significant drop in reporting by art sector professionals was offset by the larger amounts reported, a tendency that should be continued.

¹⁴ 2017 CVV annual report.

¹⁵ Combined total for both auction houses and auctioneers.

¹⁶ According to the 2016 ranking by the Voluntary Auction Council (CVV), publicly available from the CVV’s in-house website.

Most of the submissions to Tracfin concerned the “art and collectibles” sector, and half of them were about non-residents.

Reports on industrial equipment sales made up the remainder of the reports received by Tracfin.

The quality of reporting left ample room for improvement. As for the reports themselves, although some of the analysis was found to be substantiated and usable, once again their content too often consisted of just one or two extremely vague lines, sometimes without even identifying a suspicious transaction. If this vagueness was compounded by lack of any supporting documentation imparting a better understanding of the facts or more accurately identifying the individuals reported, it was impossible to act on the information provided.

Among the points to note and publicise throughout the sector is the continuing diversification of case types, particularly through greater involvement of the auction houses responsible for the largest transactions.

The most frequent anomalies were mismatch between the name of the successful bidder and the holder of the account issuing the payment, difficulty identifying the actual beneficiary of a transaction, especially if offshore accounts or bodies were used, presentation of more than one passport by foreign buyers, and attempts to make cash payments in excess of the authorised thresholds. Useful money laundering case types emerged: payment of a very large deposit, followed by a request that it be reimbursed in instalments to an account in a Gulf state through a country in North America; buying orders for amounts much higher than the (put) price of the item concerned, with insistence on payment of an excessive bond. Suspicious transactions were also reported concerning individuals with a bad reputation in commercial databases.

There were also cases of suspected tax evasion: a suspected undeclared gift in connection with a sale by an individual asking for the proceeds of the sale to be divided between third parties with the same surname; and suspected concealment of turnover by a business finder who wanted her commission to be paid into her personal account rather than her business one.

One report related to suspected money laundering by brothers implicated in financial court proceedings in their country of origin who had attempted to resell paintings in an auction room. The planned sale was reported to Tracfin by the auction house concerned. This resulted in disclosure to the authorities of their country

of origin to notify them of what might be attempted tax evasion.

Reporting entities other than auctioneers also sent Tracfin STRs covering art-related financial flows that could concern, directly or indirectly, art dealers, auctioneers, antique dealers or art galleries. There were 196 such reports in 2018. Of these, 156 came from banks and credit institutions, 21 from insurance companies, 7 from payment institutions, and the remaining 12 severally from dealers in precious goods, notaries, chartered accountants, auditors, court-appointed receivers, a government authority (Court of First Instance), a public reporting entity (France's Central Office for Countering the Trafficking in Cultural Goods, OCBC) and real estate professionals. This information could relate directly to an arts sector professional whose account showed atypical transactions or name an arts sector professional as the remitter or recipient of funds received or remitted by the person being reported.

For the first time there were two reports from the antique dealer/art gallery category (dealers in precious goods). One was from an antique dealer, concerning a genuine money laundering case. It related to an individual residing in a Gulf state who had provided funds for a work of art and made a transfer for an amount far exceeding the actual price, and who subsequently asked for it to be reimbursed.

It should be reiterated that the due diligence measures required for the buyer are just as important as those for the seller and it is vital for the reporting entity to send Tracfin all the information needed to identify the customers reported. It is also essential for reporting entities to pay particular attention to potential links between buyers and sellers.

To improve arts sector professionals' knowledge of the scope of AML/CFT reporting requirements and the substance of their obligations, meetings between Tracfin and these professionals continued in 2018 and a lecture on money laundering and AML/CFT reporting requirements in the arts sector was given at the École du Louvre as part of training for trainee auctioneers. There was further basic action, such as publication of the Tracfin newsletter on the fight against money laundering and financing of terrorism in the arts sector, distributed to all the sector's professionals and posted on Tracfin's website. In addition, guidelines on AML/CFT requirements for antique dealers and art galleries are being finalised and will be published in 2019.

Generally speaking, with the involvement of the customs authority and receipt of the first STRs from the

antique dealer/art gallery category, Tracfin believes that there is significant potential for such reporting, which is on the right track. The situation is very different in the auction category, which ought to be the driving force in the arts sector. Although the Unit has found in past meetings that auctioneers and auction houses are not unwilling to fulfil their AML/CFT obligations and are open to awareness-raising by Tracfin and more occasionally the French Union of Voluntary Auction Houses (SYMEV), the ambivalent position of the Voluntary Auction Council (CVV), the AML/CFT supervisory and enforcement authority, especially in what it has said about the STR system and its confidentiality (a central feature), may have been counterproductive. The CVV does indeed recognise the need to start awareness-raising – hitherto non-existent – in association with Tracfin, since both bodies have begun to draft guidelines. It will not be enough to remove the legal limitations on the CVV's supervisory powers – even partly. The field requires experience and a great deal of operational expertise. At a time when there is progress in other sectors of the art market (galleries, antique dealers) and consistency is gradually emerging with the designation of the customs authority and the National Enforcement Commission as the supervisory and enforcement authorities, the question of AML/CFT regulation of the voluntary auction sector has to be tackled.

Luxury sector

Decree 2018-284 of 18 April 2018 designates the DGCCRF as the supervisory authority for the entities subject to reporting obligations under paragraph 11 of Article L.561-2 of the French Monetary and Financial Code (CMF).¹⁷ This category of professionals covers “persons accepting payments in cash or electronic money in excess of a threshold set by decree and engaged in trading in the following goods: precious stones, precious metals, jewels, furnishings and ornaments, cosmetics, textiles, leather goods, gourmet products, clocks, watches and tableware.”

The same decree set €10,000 as the threshold for the payments in cash or electronic money referred to in paragraph 11 of Article L.561-2 of the CMF.¹⁸

A Tracfin/DGCCRF meeting was organised in late 2018 to prepare for introduction of future checks. Entities

¹⁷ Article 59, incorporated in the French Monetary and Financial Code as Article R.561-40.

¹⁸ Article 21, incorporated in the French Monetary and Financial Code as Article D.561-10-1.

registered in the “dealers in precious goods, fine arts and high-value goods” category sent Tracfin 16 STRs, with two from an antiques dealer and an art gallery (reporting entities under paragraph 10 of Article L.561-2 of the CMF). The fourteen others came mainly from jewellers and companies trading in precious metals, diamonds, precious stones and the like.

The range of business categories listed in paragraph 11 of Article L.561-2 of the CMF, the payment threshold and the means of payment concerned make it particularly complicated to implement AML/CFT checks. Further thought needs to be given to this article with regard to the cash payment thresholds and reporting entities concerned.

In any case, introduction of AML/CFT checks will require prior information and awareness-raising campaigns for reporting entities.

TRACFIN PARTNERSHIP WITH COMMERCIAL COURTS

Renewal of the partnership agreement in 2018 gave fresh impetus to cooperation between Tracfin and the National Association of Commercial Court Registrars (CNGTC).

Tracfin made its expertise available to the CNGTC in order to raise commercial court registrars’ awareness of atypical financial transactions and the risks connected with illicit financial networks by providing it with typologies for money laundering, terrorist financing and fraud involving the public purse that the profession might come across.

The profession worked out relevant warning signs that could trigger a submission to Tracfin and then publicised them through a video shown to all its members. In addition, two tutorials, one on registering with the ERMES secure e-reporting service and the other on submitting and following up STRs, led to 105 registrars registering with ERMES, i.e. 78% of the profession.

As a result, 18 STRs were produced, most of which concerned documentary fraud when setting up a business: forged identity papers, false notices in publications carrying official announcements, and payment with cheques that were rejected, particularly on grounds of theft.

First results were promising, especially for early detection of missing traders, and an initial assessment of the information submitted will be carried out in late 2019. Following on from the partnership, it might be appropriate to make the profession subject to AML/CFT reporting requirements, since commercial court registrars have shown that they are responsive and play a key role in economic transparency.

ADMINISTRATIVE REPORTING

Aside from suspicious transaction reports, Tracfin also receives information from various public bodies or bodies with a public service mandate. They include government departments, local authorities, government-funded institutions and any individual 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 STRs, and can be used by Tracfin as a basis for in-depth investigations.

In 2018, Tracfin received 1,136 administrative reports, against 1,011 the previous year, a 12% increase. These good results, however, conceal disparities between contributors.

There was a sharp rise in the number of reports submitted by members of the intelligence community: 758 reports were received in 2018, against 502 the previous year, a 51.4% increase. These included reports intended solely for documentation purposes (222) and those submitted for operational reasons (536).

Submissions from the Prudential Supervision and Resolution Authority (ACPR) and the *Autorité des marchés financiers* (AMF) totalled 151 in 2018, against 196* in 2017.

Other contributors included the Ministry for Government Action and Public Accounts, which ranked third with 94 reports submitted in 2017 (63 in 2018). The decrease can be attributed to frauds based on false transfer orders received by the Public Finances Directorate General (DGFIP), of which there were fewer.

The Ministry of Justice came in fourth in terms of submissions (47 reports submitted in 2018 against 88 in 2017), with a strong focus on terrorism and increasing ties with the French Financial Prosecutor's Office.

* Tracfin's 2017 annual report mistakenly reported 280 submissions received from these two bodies.

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SYSTEMATIC INFORMATION DISCLOSURES (COSIS)

QUANTITATIVE DATA

In 2018, Tracfin received some 3.4 million COSIs relating to fund transfer transactions, which was roughly the same as the previous year (+3.9% compared to 2017), but substantially higher in terms of value (+15.3%). More specifically, recorded remittances of funds grew by 14.9%, and receipts by 14.4%.

In terms of systematic information disclosures regarding cash deposits and withdrawals, Tracfin received more than 51 million in 2018, against 55 million in 2017.¹⁹ The disclosures concerned more than 260,000 legal entities and nearly 227,000 individuals, whereas in 2017, these figures were over 270,000 and nearly 138,000 respectively.

In contrast to STRs, COSIs are transmitted on the basis of quantitative criteria, set out in decrees, and concern transactions that carry AML/CFT risks. They give Tracfin heightened investigative powers. This data is systematically checked in order to enhance information about individuals and legal entities mentioned in STRs.

QUALITATIVE DATA

To improve the relevance of analyses made using this data, Tracfin provides reporting entities with regular, customised feedback about the standard 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

¹⁹ In 2017, Tracfin's annual report stated that more than 56.1 million transaction reports had been submitted. This figure has been corrected, based on a more careful dissection of the reports received.

Fund transfer COSIs: room for improvement

For this type of COSI, three of the five quality indicators are deemed unsatisfactory: completeness, uniqueness and regularity.

Completeness	Correctness	Uniqueness	Promptness	Regularity
72%	97%	68%	100%	54%

In terms of completeness, missing data primarily has to do with information concerning beneficiaries (surname, first name, contact details, etc.) and the identity of the senders (number and authority to issue identity documents).

The middling level of the uniqueness indicator is a reflection of the presence of many duplicate transactions as well as the use of non-discriminatory transaction references.

Finally, the weak regularity indicator shows that reports are still submitted manually.

Cash deposits and withdrawals COSIs: high quality

As in 2017, COSIs in this category were excellent, with all indicators above 95%.

Completeness	Correctness	Uniqueness	Promptness	Regularity
96%	100%	97%	100%	92%

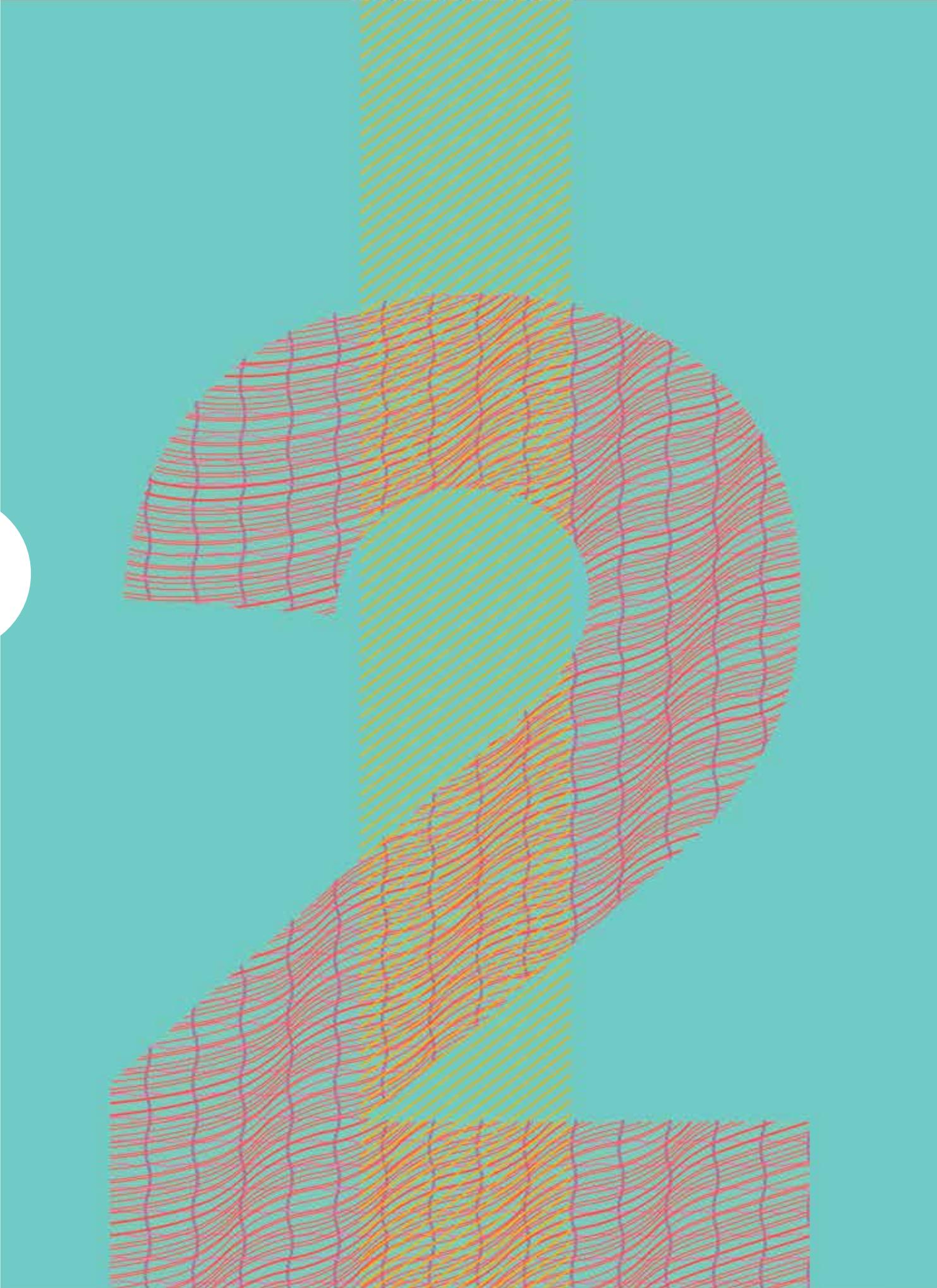
WHAT ARE COSIs USED FOR?

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.

Concurrently, Tracfin's data scientists have developed COSI visualisation tools. These include an application that displays fund transfers in graphic form and highlights the links between individuals, which significantly boosts the Unit's ability to contextualise its analyses. This application was used as part of efforts to identify individuals in Lebanon or Turkey who collect funds, particularly from France, in order to finance ISIS.

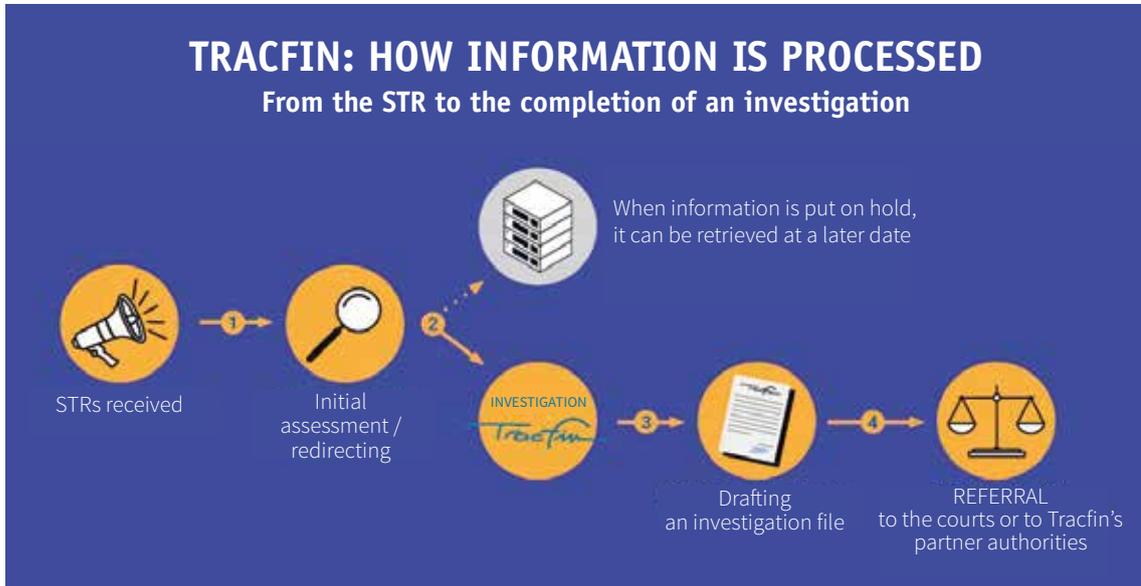
Act 2013-100 of 28 January 2013 and the Separation and Regulation of Banking Activities Act 2013-672 of 26 July 2013 introduced the Systematic Information Disclosure (COSI) system for credit, payment and digital currency institutions, which must send Tracfin information relating to fund transfer transactions in which there is a significant risk of money laundering or terrorist financing due to the country in which the transaction originated or its destination. Initially, the focus was on fund transfer transactions carried out through a cash transfer or using a digital currency, when such transactions exceed €1,000 per transaction or €2,000 per customer per calendar month.

The Decree of 25 March 2015, derived from the July 2013 Banking Activities Act, introduced a new obligation for financial institutions: cash deposits and withdrawals into/from deposit accounts, as well as cash payments totalling more than €10,000 in one month, must also be systematically reported to Tracfin. This entered into force on 1 January 2016. The reporting entities involved are listed in 1°, 1 bis and 1 ter of Article L.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.



TRACFIN'S ACTIVITY IN 2018

HOW INFORMATION IS PROCESSED



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 correlated with individuals in the database (merging or creating links and aliases). Reporting entities must supply the precise identity of individuals (first and last name, date and place of birth) and legal entities (SIRET no.). In 2018, this information was supplied for 67% of individuals reported, but for 35,423 individuals, the profile was incomplete. For legal entities, the profiles were complete in 79% of cases.

In 2018, out of 76,316 STRs, 812 were received in paper format, a 30% decrease over 2017. In 2018, 138 STRs were subject to amendment requests, as against 255 in 2017 (a 46 % increase). 55 reports were able to be amended following positive replies to these requests. For the remainder, 83 letters were sent to the relevant entities to advise them that their reports were definitively inadmissible.

THE ERMES E-REPORTING SYSTEM

Non-financial reporting entities, for whom Ermes is not mandatory, used it for 84% of their submissions (compared with 75% in 2017).

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

Reporting entities	2018
Court-appointed receiver and trustee	429
Notary	145
Chartered accountant	85
Bailiff	34
Casino	33
Auditor	30
Real estate professional	18

ADMISSIBILITY OF SUSPICIOUS TRANSACTION REPORTS

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

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

ANALYSING AND ORIENTATING INFORMATION

Once it has been integrated, the information 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 is usable, Tracfin employees contextualise the suspicion by comparing it 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 security organisations, etc.). Public-access databases are also consulted.

orientating is the first step in processing information and it either leads to an investigation or is put on hold if the report appears to be potentially unusable, if the

suspicion is unclear, or if any doubts are resolved after enquiries. It may, however, be reactivated in light of new information subsequently received by the Unit.

All of the information received by Tracfin is analysed and orientate. In 2018, 14,554 reports led to an in-depth analysis – 9,150 based on information received in 2018 and 5,904 based on information that had been received earlier and reactivated.

INFORMATION ENHANCEMENT

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

Investigative actions include directly or indirectly consulting files (the National Centralised Bank Accounts Register (FICOBA), tax authority or customs files, company data or gendarmerie or police files), mining open databases and sending requests to members of the intelligence community, foreign intelligence units or 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 requests for information provided for by the French Monetary and Financial Code, Tracfin staff gather and analyse 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 2018, the Unit carried out 72,265 investigative actions, including 26,275 requests for information, 2,255 requests sent to foreign FIUs and 43,735 consultations of files, open databases and questioning of institutional departments.

OPERATIONAL ANALYSIS TO ENHANCE FINANCIAL INTELLIGENCE

Operational analysis is a part of every FIU's remit. Tracfin has been working in this area over the past two years. In our view, operational analysis involves targeting and selecting specific data that can direct information processing in ways that an isolated, just-in-time approach does not allow.

Operational analysis starts with working hypotheses developed from concrete typologies and uses the Unit's available resources (datamining, information requests) to reprocess data and connect the dots. Tracfin's information is thus treated from various angles – individuals or legal entities, comparison of SIREN numbers, addresses, KYC elements, or IBAN codes.

Initially, operational analysis was used to provide support to the CFT Division, but it can also serve to launch cooperative efforts with the Unit's partners, government departments or the intelligence services.

In this way, after a number of months, the work on short-lived companies specialising in selling second-hand vehicles in the Greater Paris region made it possible to reprocess STRs submitted months or years earlier by insurance groups concerning insurance fraud. Using geographical cross-referencing, the Unit was able to detect the use of front men via transfers of shares in companies whose managers were found to have used unbanked cash that was not commensurate with their known income in recent years. Cooperation with a partner department made it possible to uncover a network linked to a major figure in Eastern European organised crime in the Greater Paris region.

These initial experiences show how important it is to preserve STRs for the structural and long-term fight against money laundering and terrorist financing and to have an operational understanding of new typologies. They also allow us to draw institutional lessons – in this case, the IARD's awareness of large and small criminal networks.

THE USE OF THE POWER TO POSTPONE

Tracfin may exercise its power to postpone 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.

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.).

Since 2013, when this power was introduced, the Unit has exercised it 86 times, including seven times in 2018.

DISCLOSING INFORMATION

If, at the end of its investigations, Tracfin discovers presumptions of money laundering, an offence punishable with a custodial sentence of more than one year, or terrorist financing, the Unit submits a report to the public prosecutor with territorial jurisdiction.²⁰

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 units,²¹ 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 *Autorité des Marchés Financiers* (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.²²

²⁰ See Article L.561-30-1 of the French Monetary and Financial Code.

²¹ See Article L.561-29-1 of the French Monetary and Financial Code.

²² See Article L.561-31 of the French Monetary and Financial Code.

TRACFIN'S DISCLOSURES TO ITS PARTNERS

DISCLOSURES TO COURTS

In 2018, Tracfin submitted 948 reports to the courts, up 6% compared with 2017:

- 469 reports concerning suspicions of one or more criminal offences
- 294 disclosures to magistrates (129 concerning terrorism), including 2 responses to judicial requisitions
- 185 disclosures to police, gendarmerie and judicial customs departments, including 146 responses to judicial requisitions

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

In 2018, 469 cases concerning a suspicion of a criminal offence were referred by Tracfin to the courts, compared with 468 the previous year.

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

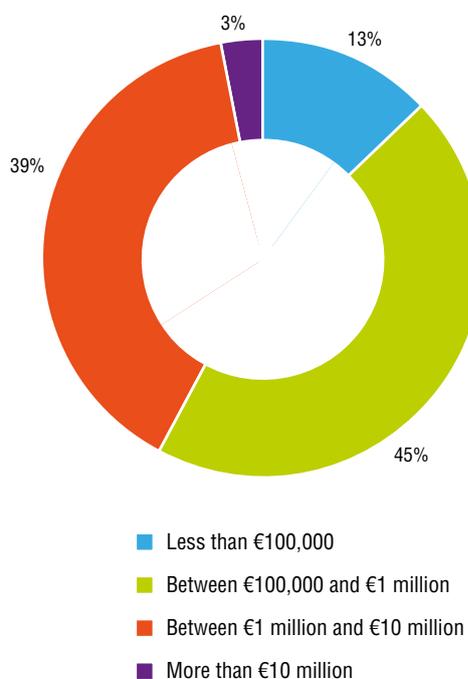


* The surge in 2016 can be attributed to a single substantial case involving sums in excess of €500 million

The financial amounts at stake in these referrals may be estimated at €792 million in 2018, compared with €993 million in 2017.

Out of the 406 reports referred to the courts in which the amounts at stake were quantified, 13% concerned amounts of less than €100,000, 45% amounts between €100,000 and €1m, 39% amounts between €1m and €10m and 3% amounts in excess of €10m. These proportions are roughly the same as in 2017.

Estimated sums involved in cases in 2018



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

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

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

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

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

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 presumption referred by Tracfin to the courts provides sufficient elements to determine the offences.²³

Court referrals by category of primary underlying offence

In 2018, as in previous years, the five categories of predicate offence that were the most frequently reported were tax evasion, breach of trust, fraud (ordinary or aggravated), undeclared work and misuse of company assets.

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

²³ See Article R.561-34 of the French Monetary and Financial Code.

Primary offences reported to the courts

Primary offences	Number
Money laundering	138
Undeclared work	118
Fraud	98
Tax evasion	69
Breach of trust	61
Misuse of company assets, misuse of credit, abuse of power	47
Other crime or offence	40
Abuse of weakness	39
Aggravated fraud	28
Forgery / Falsifying certificates / Use of forgeries	27
Handling stolen goods	13
Violation of legislation on poisonous substances, narcotics and doping agents	12
Corruption	8
Extortion	6
Falsifying, using stolen or falsified means of payment	5
Fraudulent organisation of insolvency	4
Unlawful taking of interest	4
Embezzlement of public assets	4
Conspiracy to commit a crime	3
Bankruptcy	3
Theft	2
Influence peddling	1
Counterfeiting	1
Weapons, explosives and other hazardous resources	1
Terrorism	1
Customs violation	1

Courts of Appeal receiving referrals

	2014	2015	2016	2017	2018
Paris	197	207	195	246	218
Versailles	39	45	36	44	47
Aix-en-Provence	36	31	41	34	42
Amiens	10	9	4	4	17
Douai	28	9	18	22	17
Toulouse	9	7	2	13	13
Bordeaux	15	10	6	5	9
Orléans	3	2	7	3	9
Nîmes	6	4	5	3	9
Rennes	9	14	17	10	8
Lyon	19	13	20	18	8
Reims	1	4	1	7	7
Poitiers	4	3	3	3	6
Montpellier	5	8	11	7	6
Dijon	1	2	6	1	6
Colmar	7	11	7	4	5
Rouen	6	8	7	4	4
Caen	2	4	3	3	4
Chambéry	7	6	6	5	4
Pau	5	4	5	2	3
Riom	6	6	6	3	3
Nancy	7	2	4	2	3
Agen	4	2	3	0	3
Limoges	2	1	2	2	3
Grenoble	4	5	5	4	2
Bastia	7	11	3	6	2
Guadeloupe	2	1	2	1	2
Angers	9	3	2	2	2
Fort-de-France	2	3	1	1	2
Papeete	1	1	2	1	1
Saint-Pierre-de-La Réunion	1	2	0	0	1
Cayenne	1	1	1	0	1
Besançon	3	1	2	3	1
Mamoudzou	0	0	0	0	1
Metz	2	5	7	2	0
Bourges	2	1	3	2	0
Pointe-À-Pitre	0	0	1	1	0
Nouméa	0	2	4	0	0
Saint-Denis-de-La Réunion	2	0	0	0	0
Overall total	464	448	448	468	469

In 2018, as in 2017, three Courts of Appeal received most of the Unit's referrals: Paris, Aix-en-Provence and Versailles.

With 218 cases (as against 246 in 2017), the Paris Court of Appeal received over 46% of the Unit's referrals, including 107 for the Tribunal de Grande Instance de Paris (Paris Court of First Instance) alone (114 in 2017). The Parquet National Financier (French Financial Prosecutor's Office) received 14 referrals (23 in 2017). The Bobigny, Créteil and Evry Courts of First Instance received 44, 25 and 17 referrals respectively, versus 51, 28 and 14 the previous year. Adding the 47 cases received by the Versailles Court of Appeal (versus 44 in 2017), the public prosecutor's offices in the Greater Paris region received nearly 57% of Tracfin's disclosures in 2018 (compared to 62% in 2017).

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

Paris: 107 (114 in 2017)

Bobigny: 44 (51 in 2017)

Créteil: 25 (28 in 2017)

Nanterre: 29 (26 in 2017)

Évry: 17 (14 in 2017)

Melun: 7 (9 in 2017)

Pontoise: 8 (9 in 2017)

Versailles: 10 (7 in 2017)

Meaux: 2 (6 in 2017)

Fontainebleau: 1 (1 in 2017)

Distribution of court referrals in France's overseas départements:

Basse-Terre et Pointe-à-Pitre: 2 (1 in 2017)

Cayenne: 0 (0 in 2017)

Fort-de-France: 2 (2 in 2017)

Nouméa: 0 (0 in 2017)

Papeete: 1 (1 in 2017)

Saint-Denis-de-La Réunion: 1 (0 in 2017)

Disclosures to the courts and criminal investigation departments

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

In this respect, the Unit may send elements which does not itself establish a suspicion of an offence 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 report sent to the competent judicial authority on this basis will constitute an exhibit that may be included in the case file.

In 2018, 292 reports were sent to the judicial authorities versus 322 in 2017 (excluding responses to judicial requisitions). This slight fall-off in referrals is partly due to a drop in information exchanges between the Unit and the counter-terrorist unit of the Paris public prosecutor's office, which received 129 reports related to terrorism financing in 2017, down from 224 in 2017). Among the 165 reports transmitted to magistrates for criminal proceedings (excluding terrorism), 28 bolstered proceedings initiated by the French Financial Prosecutor's Office (against 41 reports in 2017).

Thirty-nine reports were sent directly to the police and gendarmerie criminal investigation departments. This was the case when the reports supplemented Tracfin's prior responses to judicial requisitions from these departments, or when they involved investigations initiated by these departments independently and not handled by a public prosecutor at that stage.

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
- The 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 French Monetary and Financial Code). In this case, the requisition may only be issued by the magistrate in charge of the investigation.

The judicial authorities or criminal investigation department officers cannot obtain the disclosure of a suspicious transaction report directly from a reporting entity during a search or via a requisition.

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 scenario.

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

These rules, which depart 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 148 judicial requisitions in 2018 (versus 87 in 2017): 1 requisition from the French Financial Prosecutor's Office and 1 from the Pontoise Court of First Instance, 112 from the police and gendarmerie, and 34 from the National Customs Judicial Department (SNDJ).

LIAISON OFFICERS SECONDED FROM POLICE, GENDARMERIE AND JUDICIAL CUSTOMS DEPARTMENTS

Within the Legal and Judicial Department, two liaison officers seconded from the Central Office for the Fight against Corruption and Financial and Tax Crime (OCLCIFF) and the Central Office for the Prevention of Serious Financial Crime (OCRGDF) coordinate efforts between Tracfin and police departments. A lieutenant colonel, seconded from the gendarmerie, and a liaison officer from French Customs coordinate relations with these bodies.

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

- They typically provide information on: Suspicious flows and transactions carried out by the persons being investigated and reported to the Unit
- Foreign assets and bank accounts held by the persons being investigated, and more generally, any information regarding their financial and asset base
- 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 response of the Unit to these requisitions is relevant.

In parallel, liaison officers are contacted by Tracfin's officers when information received by the Unit might help proceedings currently in the investigation phase. They 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 magistrate handling the case) is relevant.

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.

Daily, active interactions with the judicial system

Tracfin's Legal and Judicial Department 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 reports 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 Department receives inquiries from judicial authorities and criminal investigation departments seeking information about several thousand 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. These inquiries, which numbered 4,000 in 2017, concerned nearly 6,000 individuals or accounts in 2018. In 40% of cases, Tracfin was in possession of information concerning the person or account in question that could be disclosed. In cases where this information was not known to the requesting department and was relevant to the investigation, it was thus transmitted to the applicants, via reply to judicial requisition or transmission of information. In 2018, nearly 200 of the 350 responses to judicial requisitions and disclosures were the result of these exchanges.

The liaison work of the Legal and Judicial Department is particularly useful for helping the police and courts quickly seize criminal assets, especially when Tracfin has exercised its power to postpone. Even if the Unit

is not currently in a position to precisely quantify the amounts seized as a result of its referrals, partial feedback from the courts appears to show that these amounts are rising sharply. In 2018, they totalled at least €170 million.

However, despite the provisions of Article L.561-30-1 of the French Monetary and Financial Code,²⁴ 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.

Tracfin and its partner organisations in the fight against all forms of unjust enrichment

The Transparency, Anti-Corruption and Economic Modernisation Act no. 2016-1691 of 9 December 2016 (known as the "Sapin II" Act) has reshaped how corruption and breaches of probity are prevented. The Act has broadened the scope of intervention and bolstered the powers of the High Authority for Transparency in Public Life (HATVP) and created the French Anti-Corruption Agency (AFA).

Order no. 2016-1635 of 1 December 2016 bolstering the French AML/CFT system gave Tracfin expanded abilities to provide these two bodies with information useful for the performance of their remits. It also allows Tracfin to provide information to the financial courts (Government Audit Office, and regional and territorial audit offices) via their public prosecutors. For their part, these bodies may forward to Tracfin any information that may be necessary for the work of the Unit, either spontaneously or upon request, under the provisions of Article L.561-27 of the French Monetary and Financial Code.

Tracfin has been keen to develop these new partnership opportunities, the framework of which was put in place in 2017 as regards the HATVP and the financial courts. Numerous discussions between the various departments led to the dissemination, on 2 May 2017, by the Public Prosecutor for the Government Audit Office, of a

²⁴ Article L.560-30-1 of the French Monetary and Financial Code: «in cases for which reports were sent under the terms of this article, the Public Prosecutor or the General Prosecutor informs the Unit when proceedings are instituted, when the case is closed without further investigation, or when decisions are taken by an enforcement jurisdiction».

memorandum on the relations between Tracfin and the regional and territorial audit offices, and to the signature, on 25 October 2017, of a cooperation agreement between the HATVP and Tracfin.

As part of this, operational exchanges with the HATVP took place in late 2017 and in 2018, which helped to foster smooth cooperation. These exchanges concerned some twenty cases, and in several instances resulted in a disclosure by the Unit and/or the HATVP to the courts.

As regards the financial courts, the Government Audit Office sent two disclosures to Tracfin in 2017, but none in 2018. For its part, Tracfin sent four disclosures to the Government Audit Office and to the regional audit offices. Three regional audit offices also took advantage of their ability to request information from Tracfin, and operational exchanges took place regarding two audits carried out by these bodies. In one case, Tracfin was able to provide relevant information. The Unit hopes that 2019 will provide an opportunity to strengthen these new partnerships with the regional audit offices and to relaunch exchanges with the Government Audit Office.

Exploratory meetings were held during 2018 to look into the possibility of similar partnerships with the French Anti-Corruption Agency and the Agency for Managing the Recovery of Seized and Confiscated Assets (AGRASC). Tracfin sincerely hopes that these initiatives will be carried forward to fruition.

Tracfin and the courts

Tracfin's operational exchanges with magistrates are carried out by the Legal and Judicial Department, which comprises two seconded magistrates, three expert advisers, two of whom are partially or totally assigned to relations with the courts, and four liaison officers from the gendarmerie, the police and French Customs who also conduct exchanges with the investigation departments.

Tracfin also organises bilateral meetings with the courts or, within the courts, with the sections of the public prosecutor's office with which the Unit exchanges information. These meetings are an opportunity to review exchanges that have taken place and to explore avenues for joint action. In 2018, for example, meetings were held with the magistrates of the Financial Prosecutor's Office (PNF), the head of the financial section of the Pontoise prosecutor's office and the head of the economic and financial section of the Nanterre prosecutor's office, with whom a test phase was set up

to deal more effectively with cases of undeclared work. The Department's two expert advisers also visited the financial section of the Créteil public prosecutor's office for two days of immersion and exchange. Tracfin's director also travelled to work with magistrates of the courts of appeal in Pau, Montpellier, Bordeaux, Toulouse and Lyon. In 2017, he had met with magistrates from the courts and courts of appeal in New Caledonia and Polynesia, Martinique, Nice, Douai, Paris, Aix-en-Provence, Marseille, and Bastia. Finally, Tracfin enjoys excellent relations with the counter-terrorist unit of the Paris Public Prosecutor's Office and the Paris Public Prosecutor, and several meetings per month take place both at institutional level and as part of more operational discussions.

Concurrent with these discussions, which also provide an opportunity to inform magistrates about how the Unit operates, Tracfin uses several channels to help raise magistrates' awareness concerning the role and contribution of financial intelligence in criminal matters:

There are regular exchanges with the Ministry of Justice, and the Director meets several times a year with the Deputy Directors of the Directorate for Criminal Affairs and Pardons (DACG) and the Directorate for Civil Affairs and Justice (DACJ).

When memoranda, guidelines and technical support guides for criminal court magistrates are drafted, particularly by the DACG, Tracfin regularly provides its views on the contribution of financial intelligence, the role and functioning of Tracfin and the practical arrangements for possible exchanges. Tracfin is also called on to specify the types of offences that it detects, as well as when dispatches aimed at implementing a criminal policy focused on a specific theme or jurisdiction concerning financial offences or money laundering are prepared. In 2018, the Unit was asked to provide information on international criminal cooperation (in particular the tracing of assets and bank accounts abroad), its role in helping with criminal seizures and confiscations, the issue of golden passports, fraud involving crypto-assets, fraud in the renewable energy sector and specific economic and financial aspects under the jurisdiction of Bobigny.

Tracfin contributes to many deliberative and cooperative bodies on a variety of themes linked to its activity; magistrates from the relevant courts are also involved in these efforts. In 2018, it took part in working groups on topics that included terrorism, radicalisation, smuggling (particularly narcotics), proliferation,

corruption in sport, social security fraud, tax evasion, fraud related to energy saving certificates, and fraud and money laundering related to crypto-assets.

Tracfin is also involved in in-service training provided by the National Magistrates Academy, in which it presents the organisation of the French AML system, the role and organisation of the Unit and the role played by financial intelligence in criminal investigations. Depending on the theme being addressed, various Tracfin officers take part in training sessions about ten times a year. As part of this, in 2018, the Director discussed the judicialisation of financial intelligence.

Lastly, Tracfin, alongside magistrates, attends a number of national and international seminars. In 2018, the Unit spoke about the role of financial intelligence during a conference by the “Crimes against Humanity” section of the Paris Court of First Instance. Tracfin was part of a French delegation to Morocco, which included magistrates from the Financial Prosecutor’s Office and focused on bolstering police and judicial cooperation between the EU and the Maghreb countries in the fight against money laundering and the detection and seizure of criminal assets. In Spain, it took part in the first meeting of the Franco-Spanish bilateral anti-corruption group, and in Cyprus, together with several magistrates (Financial Prosecutor’s Office, investigating magistrates specialising in financial matters, and the Directorate for Criminal Affairs and Pardons) it attended a seminar on combating financial crime and Franco-Cypriot judicial and police cooperation.

Tracfin also ensures that its analysts remain trained and up-to-date on criminal matters and the latest judicial developments. Thus, new recruits attend several training courses given by magistrates concerning the primary financial offences and money laundering, and on the specific conditions for using the Unit’s referrals in court.

To this end, the head of the financial section of the Créteil public prosecutor’s office met with some thirty Tracfin staff in 2018. The National Magistrates Academy saves places for Tracfin staff on training courses that may be relevant to their remits. An agreement formalising the availability of these training sessions to Tracfin’s officers was signed in May 2018, and the Unit’s staff were able to take part alongside magistrates and exchange views with them during training sessions on terrorism, economic and financial criminal law, organised crime, fraud involving the public purse and the judicialisation of intelligence. In 2019, Unit employees will have access to these four training courses, and also

to specialisation courses in economic and financial criminal law, cybercrime and digital evidence, democracy and terrorism.

DISCLOSURES TO OTHER PARTNERS

To intelligence services

2018 represented a milestone for Tracfin in its position within the intelligence community. Exchanges with specialised services have nearly doubled, and the number of reports provided to the intelligence community rose from 614 to 1,105 (an 80% increase).

The thematic breakdown remained the same as in previous years, with three-quarters of the reports focusing on individuals suspected of terrorist activities. In this respect, 2018 also revealed Tracfin’s widening operational objectives, with an increasing number of reports contributing to asset freezing measures. The Unit’s involvement in the fight against terrorism and its financing is quite varied, ranging from real-time activation of the CFT Division during a crisis or an attack alert, to long-term investigations of networks and consolidation of efforts undertaken on groups of financial collectors and facilitators.

Although Tracfin continues to relay information about foreign politically exposed people from at-risk countries, 2018 saw an increasing number of referrals about newer issues, such as the support it provides to counter-intelligence and counter-proliferation services. Tracfin continued its fruitful cooperation with the country’s defence industries, begun in 2017, focusing on counteracting efforts to undermine France’s scientific and industrial potential.

While Tracfin’s remit naturally involves subjects directly connected with France, in 2018 there was growing support for the non-domestic aspect of intelligence. Lastly, the Unit was firmly committed to interdepartmental cooperation, particularly in the fight against proliferation and illegal immigration.

THE OFFICE SPECIALISING IN ECONOMIC AND FINANCIAL PREDATION

In July 2015, an office specialising in economic and financial predation was set up within Tracfin. Its investigators are tasked with analysing and using information relating to facts, actions or attempts to interfere with capital, know-how, human resources and the research efforts of French firms.

There was a noticeable upswing in judicial referrals and unprecedented cooperative efforts with other specialised departments in 2018.

Thus, after extensive financial analyses, backed by wider research, 76 reports were sent to partner authorities (55) and the courts (21). They covered issues relating to infringements of French intellectual property, attempts to take control or acquire a stake in French companies, suspicious proposals to buy out companies in difficulty, and criminal misconduct by company directors.

In addition, the Unit continued its partnerships with the specialised departments, with a twofold rationale:

- An examination of possible equity investments in French companies located in France by foreign stakeholders, based on reports from the AML/CFT system
- A search for ways to hamper operations that are likely to undermine France's fundamental interests

Finally, mutual secondments of staff helped to build shared knowledge of investigation methods between Tracfin and its partners.

To the tax authorities

In 2018, Tracfin sent 637 reports to the tax authorities (a 2% increase). Over five years, the number of reports sent to the Public Finances Directorate General (DGFIP) has grown by 169%. This upswing can be attributed to the introduction of a system to speed up the disclosure of information: the so-called "flash" disclosures (299 disclosures of this type, see Box).

Concurrently, as far as Tracfin was able to ascertain when issuing these disclosures, the average amounts involved remained stable – €940,029 in 2018, against €966,286 the previous year.

The use of Tracfin reports by the DGFIP resulted in the following: At 31 December 2018, 1,333 tax audit proposals had been instituted on the basis of 2,022 reports sent by Tracfin since 2015. The total revenue includes more than €193 million in reassessed taxes and more than €111 million in penalties.

The additional amounts originating from the DGFIP's audits conducted on the basis of Tracfin reports are as follows:

	2015	2016	2017	2018
Number of completed audits	231	232	241	230
Amount of tax reassessed	€45.6 million	€39.9 million	€60.1 million	€47.6 million
Total amount of penalties	€26.7 million	€23.6 million	€35.4 million	€26 million

The main typologies encountered

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

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

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

“FLASH” TAX DISCLOSURES

Possessing a tax audit background, the DGFIP liaison officer took part in efforts to implement and develop an additional system for speeding up the disclosure of information, the so-called “flash” disclosures. The idea is to quickly pass on tax information, of which Tracfin has received increasing amounts in recent years.

Tax intelligence can be disclosed almost immediately when the confirmation of a suspicion does not require any other investigation besides searching tax databases.

During the course of 2018, 299 flash disclosures were sent to the DGFIP, compared with 248 the previous year.

As an example of the types of cases Tracfin handles, sometimes autoentrepreneurs claim the tax status of microentrepreneur, even though their turnover greatly exceeds the maximum allowable limit to be able to enjoy this status. Specifically, microentrepreneurs do not pay VAT, which allows these traders to unfairly compete with professional businesses in their area of activity.

The DGFIP has received increasing quantities of financial intelligence in recent years, and a decentralised processing unit was set up.

At the initiative of the DGFIP liaison officer, information meetings for the benefit of inter-regional tax auditors were organised. With support from a Tracfin executive in charge of presenting the Unit, the liaison officer gave a detailed explanation of the new flash disclosure procedure.

During 2019, Tracfin will partner with the DGFIP to assess the impact of flash disclosures in terms of tax audits.

The most frequently reported subjects are:

- Financial arrangements 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 an undeclared business activity or the partial concealment of an activity or turnover, sometimes using third-party accounts. For instance, a recurrent business activity for buying/selling vehicles acquired in countries bordering France.
- Failure to file corporation tax and/or VAT returns. This is often related to a suspicion of employing labour that has not been declared to URSSAF.
- Suspicions of carrying on an undeclared professional activity in addition to a salaried activity, or combined with the receipt of minimum social benefits. These cases involve heterogeneous sums, and may be the subject of parallel disclosures to the relevant social protection body.
- Financial transactions carried out with an eye to unduly benefiting from tax exemption arrangements such as non-eligible capital gains deposited in a share savings plan (PEA) or invalid application of capital gains tax exemption arrangements when retiring.
- Improper or fraudulent application of the tax relief regime in France’s overseas *départements*, regions and communities (DOM-COM) under the “Girardin Act”
- Financial transfers between individuals or legal entities in the form of loans which are often unjustified and granted under highly favourable terms (interest-free, repayment date non-commensurate with the lender’s age, amount loaned disproportionate as regards the borrower’s financial resources, etc.). The purpose of these transactions is often to conceal gifts.

Case study 3 Unearned VAT refunds

According to information provided by the DGFIP (an alert by the VAT Task Force), Mr X was believed to be the organiser of a VAT refund fraud through his company, SSL, based in an EU country

The facts

Each month, reimbursement claims for small amounts (€4,000 to €6,000) were filed by recently-created sole proprietorships (entreprises individuelles, or EIs) with registered offices at virtual office firms, and whose owners – all of whom were born in the same EU country – worked in the same sector (advertising).

This profile covered two such sole proprietorships, EI1 and EI2. Moreover, to accompany its final claim for reimbursement, which was rejected, EI1 submitted bank details for Account C1, which was held in the same EU country used by other EIs (together with false expense invoices).

At the same time, according to information provided by a bank, EI1 and EI2 received bank transfers issued by their respective Business Tax Departments corresponding to VAT refunds, although no other banking transactions of a commercial nature were recorded prior to these refunds. EI2 then wired money to Account C2, which was also held in this EU country.

Tracfin's investigations

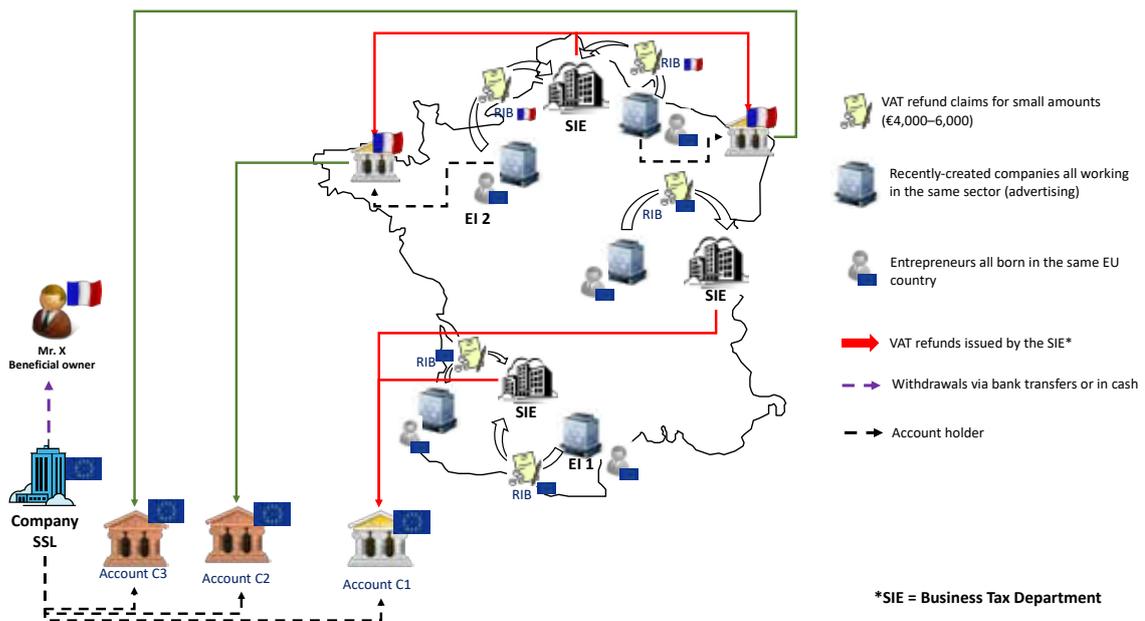
According to information gathered by Tracfin from the FIU in the relevant country, SSL, which was managed by Mr X, held three bank accounts – C1, C2 and C3 – which were found to have:

- Received bank transfers in a total amount of €300,000 from French companies (including EI2) and the DGFIP, for VAT refunds authorised for EI
- Issued bank transfers to several beneficiaries, primarily Mr X

The information provided by the FIU therefore confirmed the involvement of Mr X and the company SSL in the fraud scheme uncovered by Tracfin.

Warning signs

- Lack of transactions prior to bank flows exclusively consisting of repetitive bank transfers from the French Treasury, issued by a Business Tax Department
- A recently-created company
- At-risk sector (e.g.: advertising agency, construction sector, security)
- Headquarters with a virtual office address
- Unjustified bank transfers abroad



- Asset-based issues that are sometimes connected to handling large amounts of cash (reducing wealth tax liability, hidden gift, inheritance, etc.).

Tracfin's involvement with the VAT Task Force

The VAT Task Force, an interministerial operational unit for the early detection of VAT fraud, is responsible for leading the fight against this type of fraud with a view to coordinating and improving the government's performance.

Tracfin takes part in the task force's work, alongside tax and customs officials, and representatives from the Ministry of the Interior and the Directorate for Criminal Affairs and Pardons (DACG). The alerts issued by the DGFIP when fraudulent networks are discovered are communicated to Tracfin with the twofold aim of cross-checking information with any STRs and of improving the detection phase of other fraudulent efforts by the same players.

Several alerts gave rise to in-depth work during the year, some of which resulted in disclosures to the courts or the DGFIP, following enhancement by contacting the network of foreign FIUs, as shown in the example below.

Conversely, Tracfin has initiated three task force alerts on payment operators involved in fraudulent scams and/or having defective remote contact procedures.

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 the compensation paid is partially declared). The same may be true for self-employed workers, adhering to the RSI social security scheme (for independent workers) 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 (income received from carrying on an undeclared business or failure to comply with a special condition governing entitle-

ment to a social security benefit, for example, the condition of French residency). Sometimes individuals present false documents to illegally obtain social security benefits. Tracfin also receives STRs concerning fraud involving health professionals whose financial dealings or conditions for practising their profession may have alerted the reporting entities.

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

In 2018, 263 reports were sent, an 18% increase over the previous year, which itself saw strong growth (35%). In five years, the volume of these type of reports has more than tripled.

In correlation with this surge in volume, the amounts at stake soared by 21% in 2018, reaching €215 million (versus €202 million in 2017). The average amount per case was €820,453, against €904,764 the previous year (a fall-off of 9%). This fall-off can be attributed to the increase in the number of reports sent to the CNAF and Pôle Emploi, which primarily related to small individual amounts. Looking only at reports sent to ACOSS, the main recipient, the average amount involved per case totalled €1,052,377.

As in previous years, at nearly 73% of the total, ACOSS is the primary recipient of reports concerning social security fraud. This reflects the scope of efforts to combat undeclared work and the importance of the close partnership that began in 2016 with the arrival of a liaison officer from the URSSAF office for the Greater Paris region.

In addition, it should be noted that a further increase (54%) in 2018 in reports to CNAF, the second-largest recipient, was due to the rise in those concerning residency fraud (see below).

The main types of social security fraud

The main types of social security fraud resulting in a report are as follows:

Social security contribution fraud:

- Suspicion of undeclared work and failure to declare the use of labour
- Understatement of the base for calculation of social security contributions by concealing a major or minor proportion of professional activity

Social security benefit fraud:

- Carrying out regular undeclared work while at the same time collecting unemployment benefit, the RSA (social inclusion benefit) or other means-tested benefits
- False declaration of residence
- Suspicion of the diversion of pension benefits via “collection accounts”
- For health professionals, defrauding supplementary mutual insurance companies

Sector-based breakdown

In recent years, the construction sector has come out on top with, essentially, undeclared labour. Figures for the security sector were up on 2017. STRs from the transport sector, primarily concerning private hire vehicle (VTC) companies, fell off slightly during the year, after strong growth in 2017.

Geographic breakdown

A majority of STRs came from the Greater Paris region. Its share remained stable at 68% of the total, against 67% in 2017. The relative preponderance of two of the region’s *départements* fell during the year: Paris accounted for 23% of the region’s cases (compared with 26% in 2017), while Seine-Saint-Denis’s share fell from 38% in 2017 to 32%.

Elsewhere in France, the regions of Hauts de France, PACA and Nouvelle Aquitaine submitted more STRs than the previous year. Occitanie and Normandy, on the other hand, witnessed a drop-off.

FRAUD AGAINST THE NATIONAL FAMILY ALLOWANCE FUND (CNAF)

After a sharp rise in 2017, 2018 saw a twofold increase in the number of reports sent to the CNAF. As a result, the number of reports increased by a factor of 6 in 3 years. This increase can be attributed to a rise in false declarations of residence.

A growing number of cases involving false declaration of residence by recipients of various social security benefits:

Pursuant to Articles R.262-4-2 and R.265 of the French 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 (social inclusion benefit), residence outside France must not exceed three months per calendar year. Nevertheless, analysis of transactions from bank accounts used by recipients to deposit CNAF benefits brought to light a pattern of repeat purchases or withdrawals abroad over a long period of time. This indicates that people unduly received these allowances.

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 into the bank accounts of individuals who all reside at the same address and act as “consolidators”. After the funds are deposited, the amounts in question are withdrawn in cash in France or abroad, or are wired to third-party bank accounts in foreign countries (primarily Romania).

Social security fraud: detailed report

A detailed synthesis of Tracfin reports sent to social welfare agencies is drawn up twice a year under the aegis of the National Anti-Fraud Office (DNLF).

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

Year	Cases closed	Total taxes and penalties due
2012	27	€6,294,769
2013	40	€3,131,775
2014	35	€13,150,221
2015	82	€42,451,142
2016	71	€37,036,521
2017	67	€35,734,637
2018	59	€49,949,505
Total	381	€187,748,570

THE URSSAF LIAISON OFFICER

Since 1 January 2016, an URSSAF collection inspector has been working as a social security liaison officer with Tracfin. He is tasked with ensuring permanent contact between the ACOSS and Tracfin to foster exchanges both centrally and nationally, but also at URSSAF regional directorate level. He thus provides the Unit's investigators with technical support and honed expertise. This involves managing investigative actions by providing responses to requests for information issued by Tracfin. 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.

To the Directorate General of Customs and Excise (DGDDI)

Information provided to the Directorate General of Customs and Excise (DGDDI) is intended for both the administrative and judicial investigation departments.

For judicial matters, the National Customs Judicial Department (SNDJ), which specialises in complex money laundering cases, is a priority partner. In 2018, thanks to closer collaboration between the SNDJ and Tracfin, various public prosecutor's offices referred 26 new cases to the SNDJ based on intelligence provided by Tracfin – this represents an increase of 30% over the previous year. Using judicial requisition, the SNDJ can also obtain information from Tracfin that is vital to its investigations. In 2018, Tracfin fielded 34 such requisitions, a 42% increase from 2017.

On the administrative side, the National Directorate for Customs Intelligence and Investigations (DNRED), which is also a vital intelligence service, worked closely with Tracfin on two fronts. On the one hand, in their capacity as intelligence services, Tracfin and the DNRED maintain close relations in areas concerning national security, particularly with respect to combating terrorism. On the other hand, as an investigative and operational department, the DNRED receives information from Tracfin, either at its request or at the initiative of the Unit. In 2018, 67 reports were passed on for investigation, which represents a 68% rise over 2017. In addition to issuing more reports in 2018, Tracfin also widened the scope of their subject matter – 9 of the year's reports concerned narcotics, compared with none in 2017. In administrative matters, however, the dominant theme is still suspected breaches of the reporting obligation for cash and securities worth more than €10,000. The complementarity between Tracfin and the DGDDI is particularly evident when it comes to financial offences, in response to which French Customs has been deploying a global strategy since 2016.

For its part, under the provisions of Article L.561-27 of the French Monetary and Financial Code, the DGDDI also provides Tracfin with information that is vital to its remit, including cross-border flows of goods, which are a critical counterpoint to the financial flows investigated by Tracfin. In this area, the DGDDI processed 169 database access requests from Tracfin in 2018.

Lastly, Tracfin and the DGDDI work closely together in the field of art and antique dealers, who have been subject to Tracfin's reporting obligations since 1 December 2016. The Unit thus made valuable contributions

during the drafting of guidelines governing the art and antiques profession, which are now subject to the control of the DGDDI and the DGCCRF.

To the supervisory authorities

In 2018, Tracfin sent 19 reports to the supervisory authorities and professional associations, a 137% increase. This information is provided pursuant to Article L.561-28 of the French Monetary and Financial Code which stipulates:

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

As in 2017, 74% of the reports issued in 2018 were sent to the French financial regulatory authorities, the Prudential Supervision and Resolution Authority (ACPR) and the *Autorité des Marchés Financiers* (AMF). Of the 11 referrals to the AMF, half concerned price manipulation. The others concerned fraudulent investment schemes (rare earths, Ponzi-type pyramid schemes and a case of Bitcoin investments) and the Illegal exercise of the profession of banker by an investment «adviser». For the latter, a report was also sent to the ACPR. Similarly, four cases resulted in information being sent to the Directorate General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF) based on the fact that consumer protection in the area of financial investments is managed by a national AMF/ACPR/DGCCRF Coordination Unit, which is represented regionally by the DGCCRF.

For the first time, Tracfin passed on a file for disciplinary purposes to a local notarial disciplinary board concerning a notary who failed to conduct due diligence for a series of some thirty successive transactions carried out at excessive prices in the same municipality by an atypical buyer.

COMBATING THE FINANCING OF TERRORISM

As a member of the French intelligence community since 2008, Tracfin implements exchanges and forges ties with all the community's stakeholders.

In 2018, Tracfin sent **1,038** CFT-related reports, including 899 that were sent to the specialised intelligence services. This represented a 51% increase over 2017.

The 1,038 disclosures were broken down as follows:

- 139 disclosures to courts
- 899 disclosures to partner authorities, including 880 to the intelligence community
 - 19 to the Directorate General for Domestic Security (DGSI)
 - 553 to the inter-agency unit at the DGSI (including 350 «flash» disclosures)
 - 259 to the “Counter-Terrorist Asset Freezing” working group (see box below)
 - 45 to the Directorate General for External Security (DGSE)
 - 1 to the Military Intelligence Directorate (DRM)
 - 3 to the National Intelligence and Counter-Terrorism Coordinator (CNRTL)

Tracfin has by now cemented its position within the intelligence community and even more so in shared inter-agencies. Moreover, the growing number of inquiries the Unit receives is further proof of financial intelligence's critical role in the fight against terrorism. These results reflect the commitment of the Unit to combating terrorist financing through joint and

collaborative action with other partners ranging from complex analysis to operational response (such as «flash» disclosures). This is primarily the work of the 14-member specialised CFT Division.

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 in financial intelligence analysis to advise partner departments.

The CFT Division forges and maintains close relationships with the other specialised divisions of European and international FIUs that are joined in the fight against terrorism. Operational changes within the Egmont Group – with the creation of an international office following the “No Money for Terror” conference (see box on page 88) – now allow for round-the-clock exchanges between member FIUs.

Tracfin sends certain disclosures to the courts and is keeping up initiatives from previous years, particularly in connection with the Paris Public Prosecutor's Office's counter-terrorist unit, for cases leading to the opening of investigations into terrorist financing. In 2018, 139 reports were sent to courts or to criminal investigation departments tasked with fighting terrorism, against 226 in 2017. Tracfin's continued efforts to map the support and financing of jihadists in war zones focused on the attrition of jihadist networks while allowing the courts to systematically identify their financing networks. The CFT Division, which is an operational unit, also helped to inform the courts during time-sensitive operational phases.

The profiles established were shared with the compliance departments of France's major financial stakeholders to further bolster their detection capabilities. CFT meetings organised by Tracfin are now a permanent feature.

When it comes to combating terrorist financing, particularly during times of crisis (attacks or imminent threats), making use of all relevant information within a short time frame is critical. For this reason, Tracfin has set up an on-call system to be able to carry out vital research and disseminate it to its partners as quickly as possible. Reporting entities, and financial institutions in particular, have similar mechanisms in place to be able to answer Tracfin's questions at any moment. These have been implemented on several occasions during attacks within France and have proved to be invaluable. It is critical that these mechanisms remain long-term resources.

NON-PROFIT ORGANISATIONS

During 2018, Tracfin, in coordination with its partners and based on information in its possession, focused on financial flows by non-profit organisations that could be affected by ties with radical movements. Whether working for the well-being of communities within France or for the relief of populations affected by war, Tracfin noted the lack of transparency in certain flows, which raised a number of questions.

Tracfin attempts to trace the origin of the funds that these structures rely on and to check whether their outflows correspond to their stated social, non-profit purposes.

Funding from abroad provided by various legal entities, money collection websites and the use of cash are some of the methods that are sometimes employed to hide the real sources.

As for outflows, they are not always consistent with these organisations' initial goals. Appropriation of cash collected by the management teams to be able to support French jihadists in war zones or to help them return, diversion of funds towards other projects, embezzlement of funds from money collection sites – all of these abuses undermine the trust of communities that believe in the legitimacy of these organisations' commitments.

To combat these wrongdoings, Tracfin relies on the legal resources at its disposal. The Unit works with its partners to identify flows that could be used to support illegal causes, and during 2018, forwarded 43 cases to them.

ASSET FREEZING

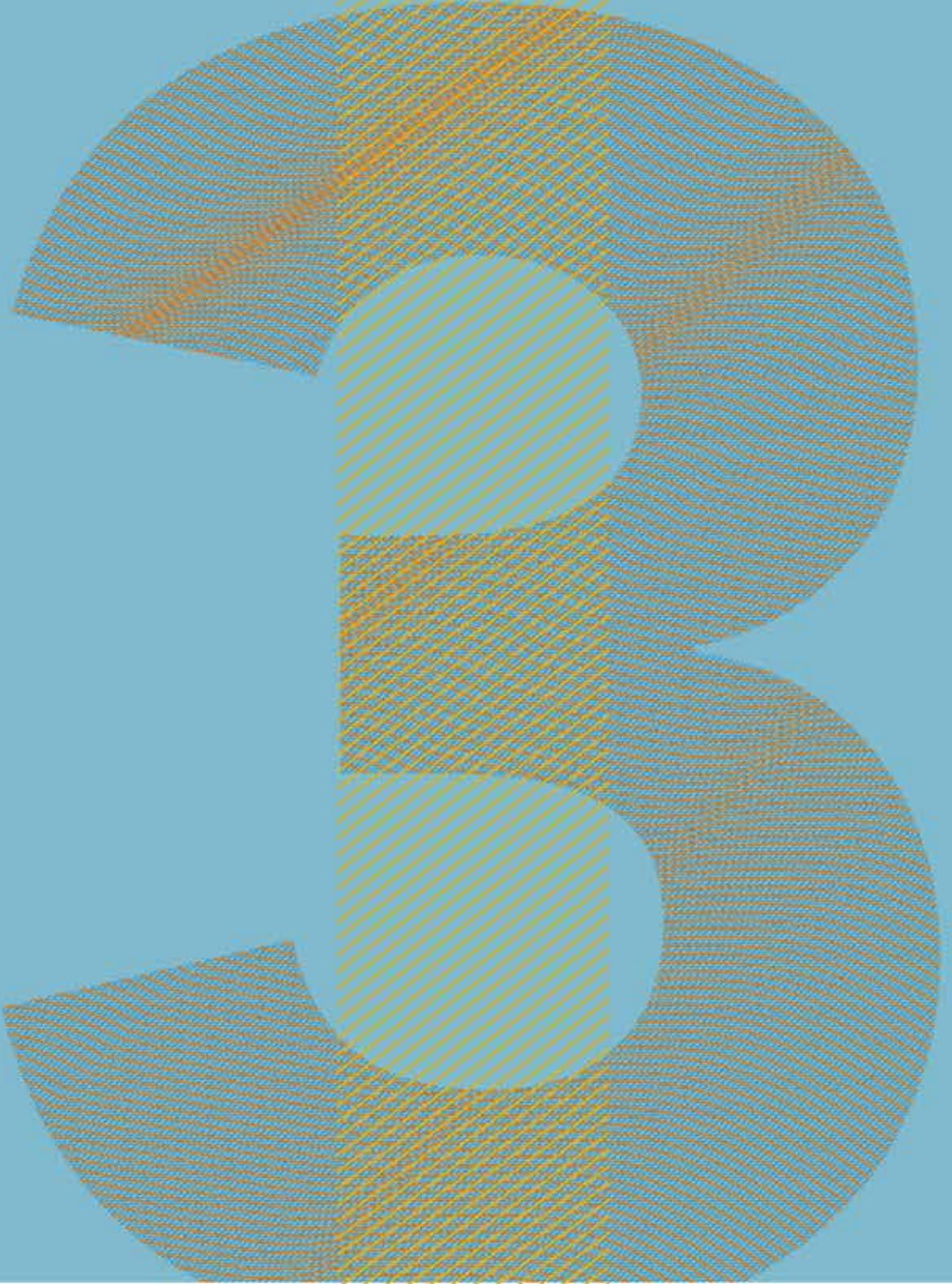
As an administrative police measure (under Article L.562-1 of the French Monetary and Financial Code), freezing assets helps prevent terrorism by limiting access to financial circuits for individuals or legal entities involved in carrying out or supporting terrorist actions.

At the end of 2017, a working group on freezing anti-terrorist assets, co-chaired by Tracfin, was set up. Its goal is to reinforce the process for identifying individuals or legal entities who may be subject to domestic and/or international measures for freezing anti-terrorist assets. Within this regulated setting, the role of the Unit and its partners is to assess individual situations that could lead to asset freezing. The group gathers supplementary information that may be used to bolster the government's position as part of the measures it has proposed.

As a result, the CFT Division issued 259 reports in 2018, based on which the Interior and Economy and Finance ministries carried out more than 100 asset freezing orders. This domestic initiative was followed by international ones, since three of the four European freeze orders currently in force are French in origin.

Anti-terrorist financing efforts – key figures for 2018:

- 1,718 suspicious transaction reports received and analysed
- 17,029 investigative actions carried out by investigators
- 1,038 disclosures to the courts or to Tracfin's partner authorities



CASE STUDIES

Case study 4

Tax evasion - calling a tax compliance procedure into question

The facts

Tracfin's attention was drawn to transactions on the bank accounts of a resident of France for tax purposes, Mr P., involving credits in the form of transfers from a Luxembourg-based life insurance company totalling €3,670,000.

Tracfin's investigations

For their 2016 income, Mr and Mrs P declared wages and salaries, investment income and capital gains on the sale of securities.

Mr P stated that he had held a Swiss bank account since he filed his 2015 income tax return.

Following the power to request exercised vis-à-vis the DGFIP's tax compliance department, it was discovered that Mr P had been known to them since 2015. The tax compliance procedure was followed by a settlement with the tax authorities.

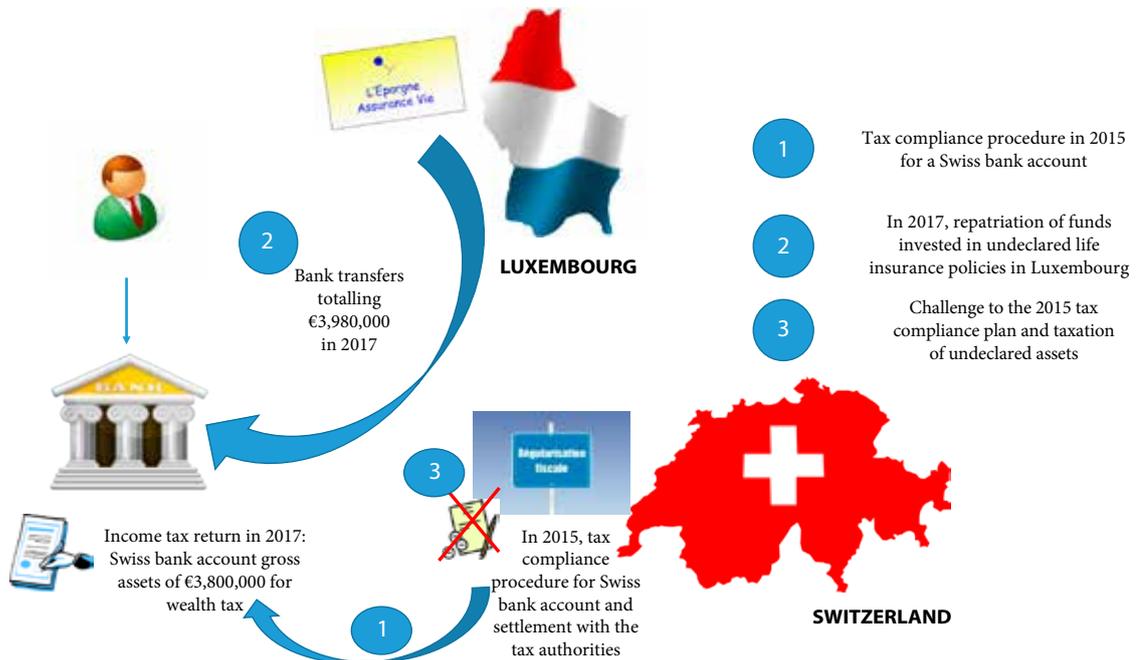
Subsequent to this procedure, Mr P failed to declare any life insurance policies held abroad. Nevertheless, during this period, Mr P repatriated funds from a life insurance policy held in Luxembourg.

As Mr P also failed to submit an accurate declaration of assets held abroad, the settlement concluded following the tax compliance procedure could be called into question.

Moreover, for his 2017 wealth tax, Mr P declared gross assets of almost €4 million even though the amount originating from his life insurance policies in Luxembourg already exceeded €4 million. As a result, his failure to declare the life insurance policy held abroad may have significantly reduced his wealth tax assets in respect of 2017 and previous years.

Warning signs

- Transfer from abroad
- Copy of life insurance policy held abroad



Case study 5

Tax evasion - undeclared activity of a foreign entity operating in France as a liaison office

The facts

Tracfin’s attention was drawn to transfers of over €1.5 million from Entity Z to its parent company which had its registered office in another EU Member State where corporate tax rates are much lower than in France.

Tracfin’s investigations

An examination of Entity Z’s tax situation revealed that it had not filed any corporation tax returns and that it was not liable for VAT.

It had a registration number with the Commercial Court Registry but was considered to be a foreign company not registered with the trade and companies register.

Social contributions were paid to the “Bas-Rhin URSSAF” which is the contact point for employers without an establishment in France.

This meant that, in France, Entity Z was considered to be a liaison office of a principal place of business located in another EU Member State. A liaison office is an observation post for the main company for potential business ventures in another country. As a result, it should have no business activity (issuing invoices, executing commercial contracts, etc.) and no legal identity other than that of the head office.

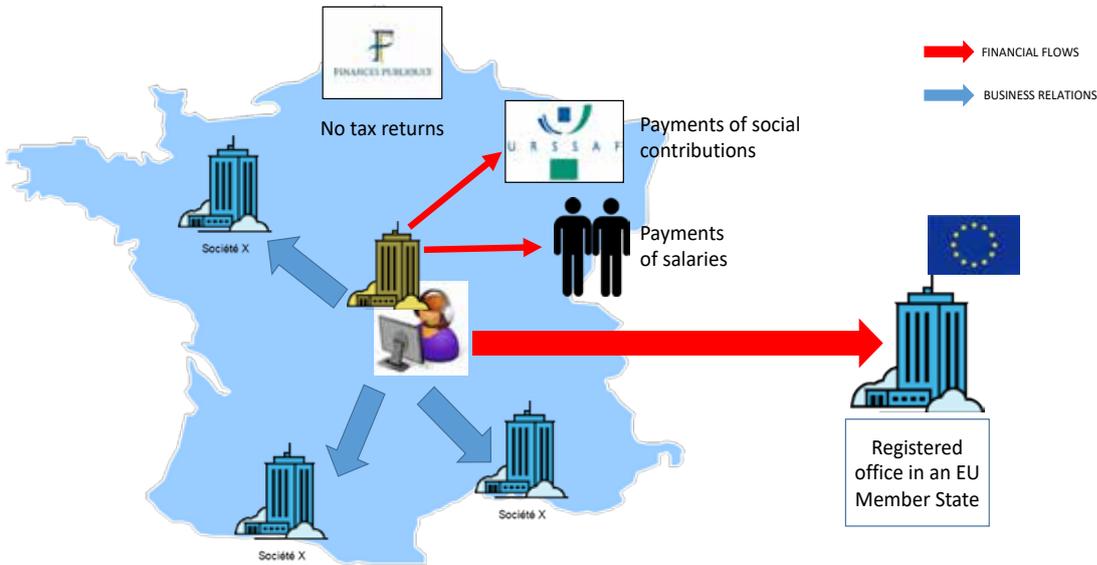
As long as the liaison office only carries out canvassing and preparatory or ancillary advertising within the strict meaning of the tax convention between France and the country in question, it is not liable for tax and is not required to be registered on the trade and companies register. But, an examination of the credit transactions on Entity Z’s bank account revealed that it was actually carrying on a business for profit.

The structure, which had been based in France for more than a decade, had rolled out sustainable resources enabling it to expand its business activity in France, had a fixed establishment (rented premises) and paid its staff. An analysis of the cheques and transfers credited to its account clearly showed that the company had built up a professional customer base in France where it conducted a full cycle of business transactions.

Consequently, the tax authorities considered that this liaison office was a permanent establishment whose earnings were taxable in France under Article 209 I of the French General Tax Code.

Warning signs

- Size of the amounts credited to the bank account representing the conducting of a business activity
- Status of the company in France (“liaison office”)
- Refusal to reveal the identities of the beneficial owners of the company’s EU-based head office
- Payments of salaries and social contributions



Case study 7

Misuse of company assets in the gaming sector, handling the proceeds of misuse of company assets, money laundering

The Unit was alerted to unusual financial flows on the bank accounts of a general partnership (SNC), which was a gaming sales outlet (FDJ and PMU). Tracfin’s investigations extended to include another similar establishment owned by a member of the family of the manager of the first SNC.

The facts

Over a two-year period, there were unusual credit flows on the two SNCs’ bank accounts totalling almost €1.8 million essentially in the form of cheques (around €1.2 million) and, to a lesser extent, wire transfers (approximately €600,000), originating from a large number of companies operating, for the most part, in the construction industry.

Tracfin’s investigations

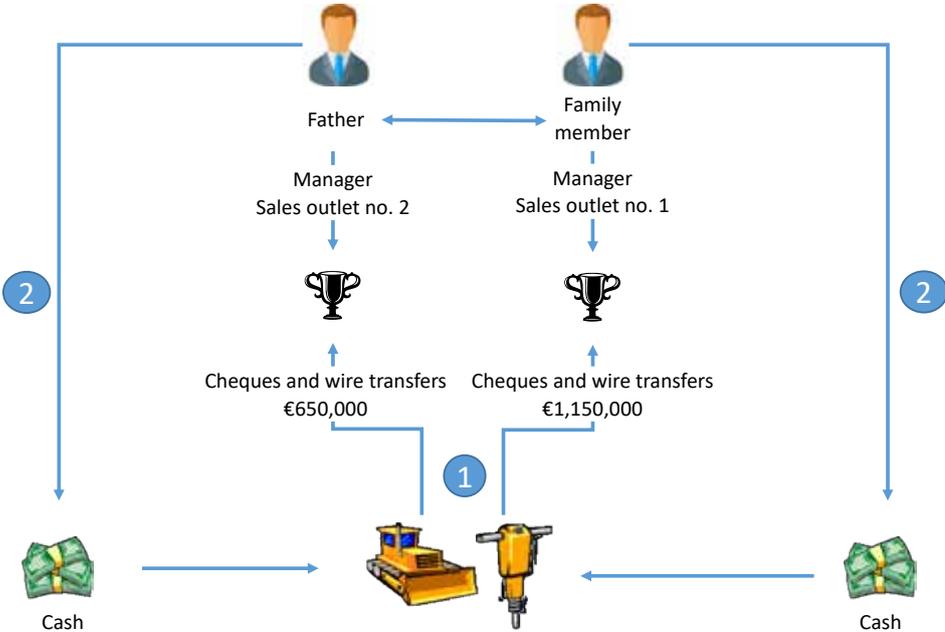
Tracfin’s investigations revealed a family network fraud scenario, probably by setting up a system for offsetting cheques and/or transfers against cash:

- Three SNCs, all operating as gaming sales outlets (FDJ and PMU), generating huge amounts of cash and managed by a father and a member of his family, respectively
- Collection of a large number of flows, with no clear legal economic justification, from companies operating in the construction sector:
 - Certain companies sent funds to both sales outlets
 - Others were already known to the Unit for suspected undeclared work
 - Some of them had been struck off the trade and companies register or were being wound up by order of court

The case was referred to the courts for misuse of company assets and handling the proceeds of this misuse, money laundering and undeclared work as well as tax evasion.

Warning signs

- Large number of cheques issued by legal entities seemingly without legal economic justification in light of the payer companies’ sector of business
- Companies essentially specialising in the construction industry, an at-risk sector for fraud, in particular undeclared work for which a large amount of cash is required to pay wages
- Absence, shortfall or major variation in cash deposits on the sales outlets’ accounts



Case study 8 Suspicious use of crypto-currencies

The facts

The Unit's attention was drawn to the financial affairs of a foreign student working for a French company who deposited cash and received funds from abroad on French bank accounts. On a first platform, over €180,000 were then converted into crypto-currencies.

Tracfin's investigations

Tracfin's investigations clarified the student's actions on various crypto-currency platforms and the use made of these currencies.

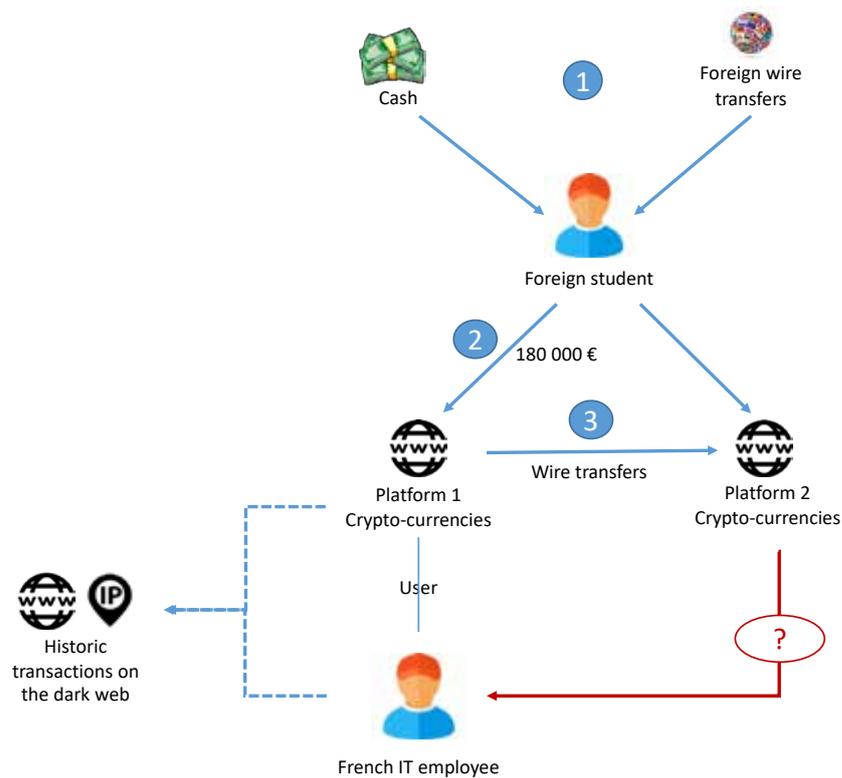
When making a number of transfers to the first crypto-currency platform, the student mentioned the identity of a French national who worked for a French IT services company. This employee also had a crypto-currency port-

folio on the same platform from which he had previously carried out transactions on dark web sites potentially relating to the purchase of illegal goods.

The digital assets that had been acquired by the foreign student on the first platform were transferred to a second platform managed by citizens of his home country. The final destination of the funds was not known. The transfer of the student's crypto-currencies to the second platform could have been an attempt to fully obfuscate the transactions involving the French employee.

Warning signs

- Major unjustified cash deposits onto a bank account
- Receipt of transfers in France by a foreign student which were incommensurate with his lifestyle from people who did not appear to be members of his family
- Conversion of large amounts of bank assets into crypto-currencies without justification for the transactions



Case study 9

Fraud against the government concerning the jobs for the future initiative in the non-profit sector

The facts

The Unit was alerted to abnormal movements on the bank accounts of three non-profit sporting organisations in the same département which were chaired by the same individuals.

These bank accounts had the following features:

- On the credit side, essentially wire transfers of public funds
- On the debit side, cash withdrawals, transfers made by individuals and payments by bank card and cheque which were seemingly unrelated to the non-profit organisations' official business (everyday expenses in mass retail outlets, purchases of furniture, purchases from car dealers, etc.).

Tracfin's investigations

Tracfin's investigations revealed fraud against the government based on setting up non-profit organisations that hired young people under the jobs for the future initiative:

- The organisations officially filed pre-hiring declarations for young people aged between 16 and 25 who were eligible for the jobs for the future initiative (job support contracts introduced in 2012 and phased out in 2018 which enabled employers of young people with few or no qualifications to receive government grants for the corresponding professional integration, in the non-market sector, equal to 75% of the French minimum wage, SMIC) and applied for payment of a professional integration grant for each employee hired.

- Each month, they received a grant paid by a public body of around €1,100 per declared employee
- The grants received were not used to pay the declared employees or to fund expenditure related to the organisations' activity but were sporadically transferred to other individuals (but not as salaries) or used by the managers or their friends and families for personal expenditure

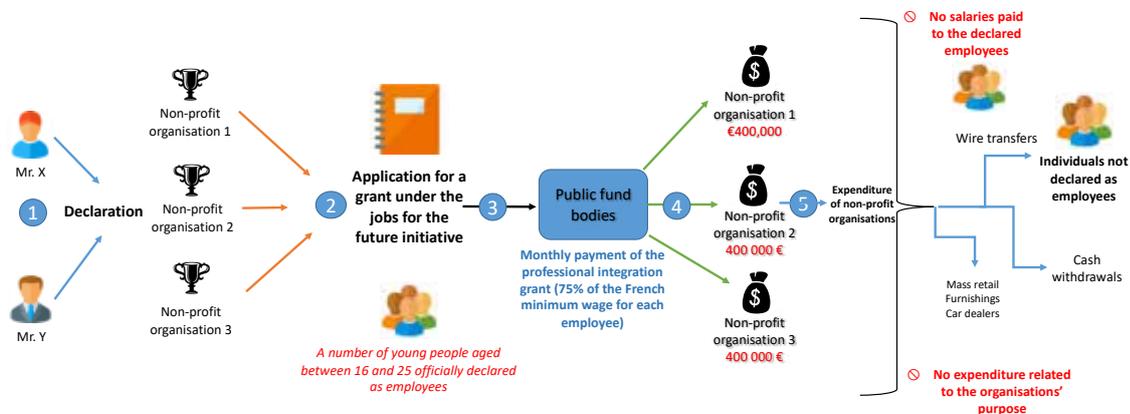
This case was referred to the courts for fraud against the government concerning an overall loss of more than €1.2 million.

Warning signs relating to the non-profit organisations themselves

- Newly-created
- Broad purpose ranging from playing a sport to support with social inclusion or academic training
- Almost no online presence except for listings on general non-profit association websites (no special website, no reference to organising events or sporting competitions)
- Problems with obtaining up-to-date articles of association and organisation charts
- Official addresses with commercial registered office providers

Warning signs relating to the non-profit organisations' bank accounts

- Expenditure with no clear relation to the organisations' purpose (cash withdrawals, purchases from mass retail outlets, furniture stores and car dealers)
- Transfers to individuals who were not officially-hired employees under the jobs for the future initiative and, in particular to the managers of the organisations who were the main beneficiaries of the fraud



Case study 10 Social security fund fraud

The facts

The Unit was alerted to unusual financial transactions being carried out by a specialist doctor in his medical practice located in an area known for high levels of criminal activity.

On the credit side, this practice collected over €2 million from the CPAM (national health insurance office) and mutual societies. On the debit side, a vast proportion of the flows, in the form of cheques and transfers, was paid out to a large number of individuals.

Tracfin's investigations

Tracfin's investigations brought to light the following facts:

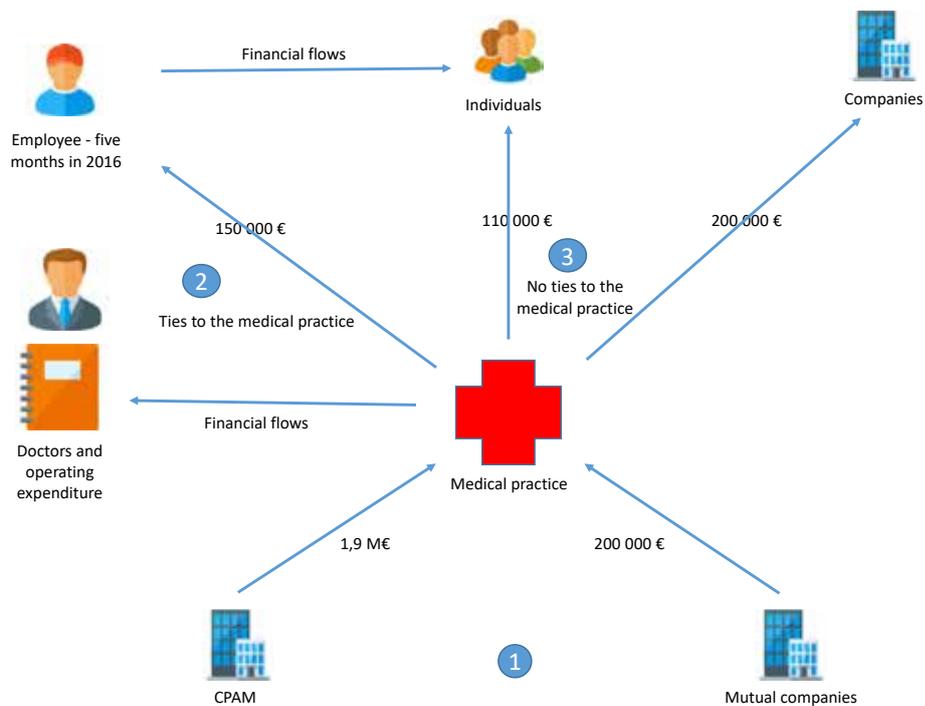
- This practice's turnover was much higher than the annual average in the local area which according to a statistical study conducted by the CNAMTS (National Health Insurance Fund for Employees), was €300,000 for this profession.
- In light of the credits received, the doctor would have had to have worked every day of the year and held an extraordinary number of consultations (70 per day for a seven-day week) which raises questions as to their effectiveness. The medical practice was comprised of one permanent doctor and, occasionally, a locum.

- The payments to individuals, the majority of whom were not employees of the medical practice, had no legal economic justification.
- One of these individuals, who had been an employee of the practice for a few months, collected over €150,000. This amount was not declared to the tax authorities. An analysis of the doctor's bank accounts showed that they were used as transit accounts: the funds originating from the medical practice were almost all transferred to individuals and legal entities with no economic ties to it. A number of beneficiaries also received funds directly from the medical practice.

The medical practice was suspected of declaring false consultations to the CPAM and the various mutual societies. These funds, which were fraudulently obtained, are thought to have been provided to a large number of individuals connected to organised crime. This case was referred to the courts for fraud against social security funds.

Warning signs

- Significant activity for a medical practice with few employees
- Substantial non-justified payments from the medical practice to individuals and legal entities with no economic ties to it
- An individual who receives amounts from a medical practice that bear no relation to his/her actual activity



Case study 11 International bank card fraud

The facts

The Unit's attention was drawn to the operating of a payment account held in establishment X by Company A, which was registered in a European country (no. 1) and specialised in online sales of dietary supplements from five websites, for the following reasons:

- Three of the four websites owned by Company A had an IP address in an African country with the other having its IP address in European country no. 1
- Company A's websites had no online visibility (Google, social media) and had very few visits compared to the number of transactions recorded, which totalled €64 million between December 2015 and February 2018
- All payments were made in euros by visitors logging on from the American continent
- Almost all the bank cards used for the purchases originated from European country no. 2
- The legal representative of Company A was a national of European country no. 1 and lived in European country no. 3; its sole shareholder, a national of European country no. 4, lived in European country no. 5
- All the payments recorded on the French accounts of Company A were then transferred to accounts in European country no. 6 held by Company B which was registered in a country in the Pacific zone

Tracfin's investigations

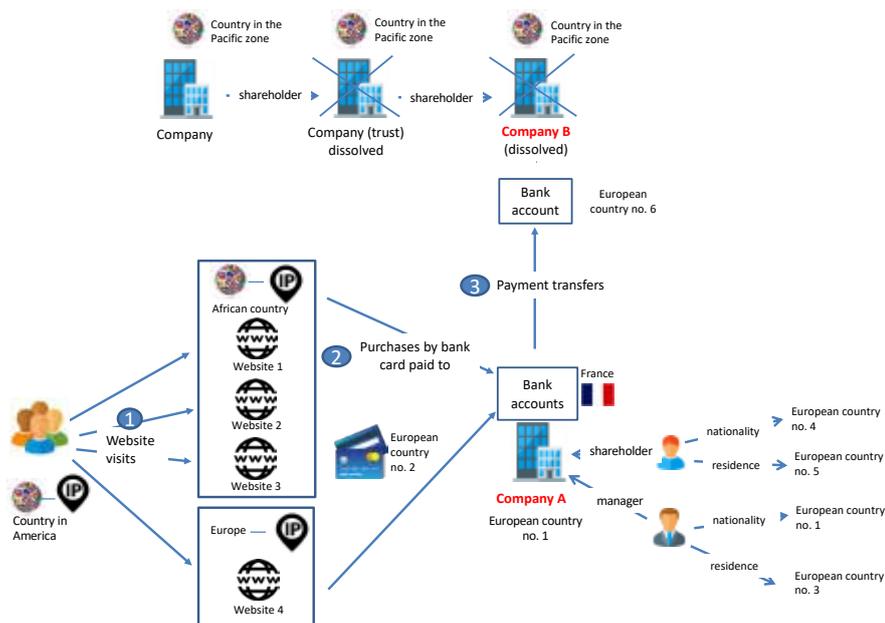
- Certain bank cards were used on several websites and, sometimes, for mass transactions
- Company B, which ultimately received the funds, was dissolved in March 2017
- Difficulty in identifying the beneficial owners of Company B which was held by a trust which was also dissolved in January 2017

This case's only focal point in France was Company A's payment account which had since been closed. The case was therefore investigated in conjunction with the six relevant foreign FIUs in order to clarify the international scenario's structure.

The investigations brought to light a potential bank card fraud involving at least six countries. In return, the FIUs were provided with unsolicited disclosures informing them of the facts that directly concerned their country.

Warning signs relating to payments recorded by financial institution X

- Transfer of all payments to a company (Company B) that was different from the payment contract holder (Company A), without the latter having any equity relationship and with no economic justification
- Company B's bank account was held in a different country from where it was registered
- Difficulty in obtaining a picture of Company B's shareholders and, accordingly, in identifying its beneficial owner
- Divergence between the locations of the IP addresses recorded when payments were made on the websites and the country having issued the bank cards that were used



Case study 12 Suspected breach of trust

The facts

The Unit was alerted to suspicious transactions on the account of a cultural non-profit organisation with ties to the Salafist movement that was planning to open a mosque. As the project was postponed, the chairman requested a transfer of €66,000 from the organisation's French bank account to his personal account abroad.

Tracfin's investigations

The cancellation of the project led to a notary returning a €12,000 deposit. The organisation's chairman sought to withdraw this amount in cash.

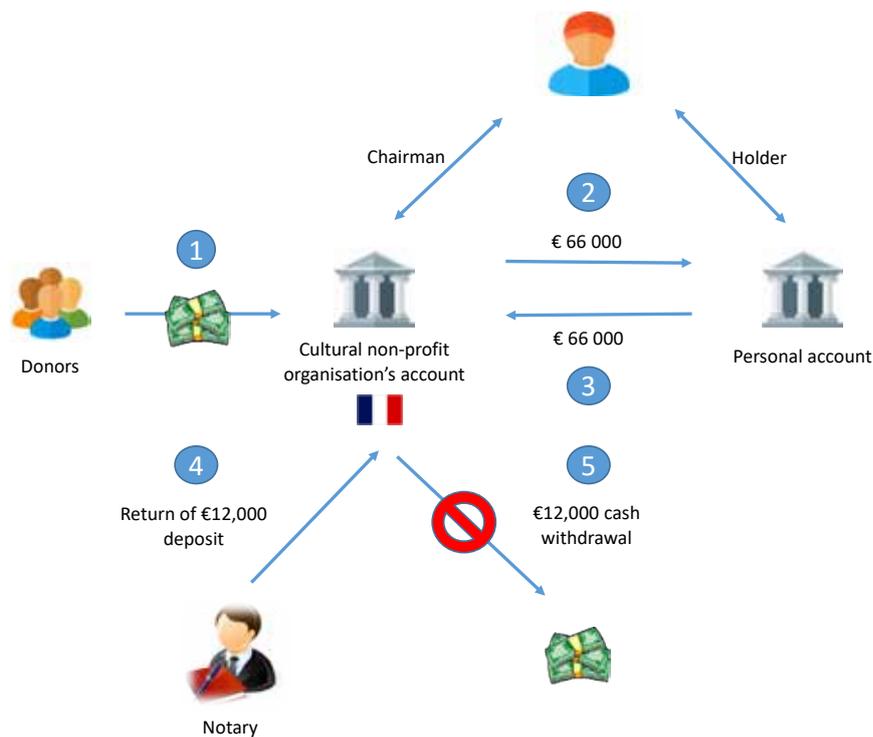
Under the provisions of Article L.561-24 of Monetary and Financial Code, Tracfin exercised its power to postpone withdrawals of €12,000 or more.

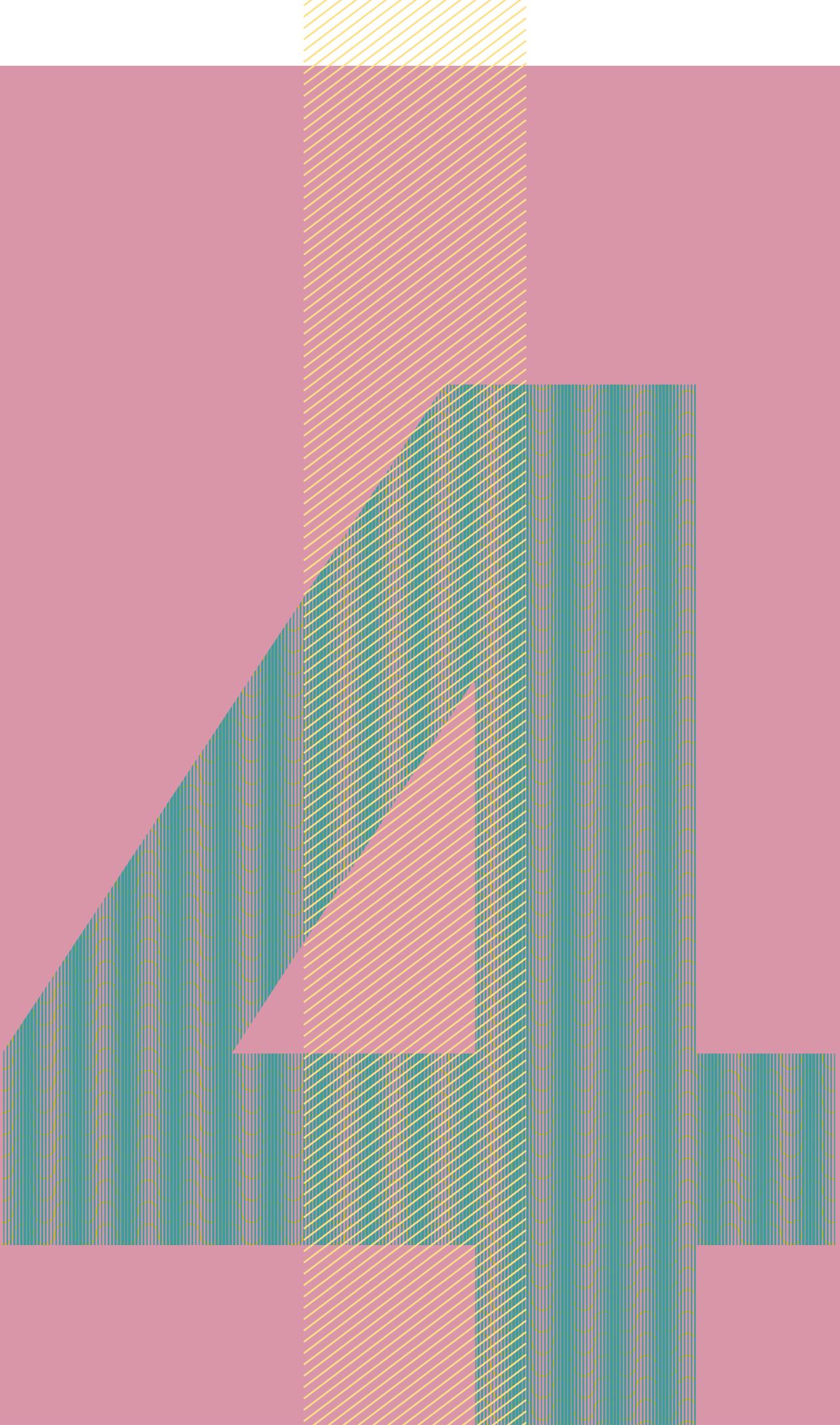
As regards the €66,000, the bank subsequently confirmed the return of the funds after it had been subject to a criminal attachment.

This case was referred to the courts for suspected breach of trust.

Warning signs

- Transfer from a non-profit organisation's account to the personal account of the chairman held abroad.
- Request for a cash withdrawal from the organisation's account by its chairman upon receipt of a transfer from a notary justifying the cancellation of the project.





TRACFIN ABROAD

TRACFIN WITHIN INTERNATIONAL BODIES

TRACFIN'S CONTRIBUTION TO THE FATF AND MONEYVAL

The Financial Action Task Force (FATF) is an intergovernmental body which was founded in 1989 at the Paris G7 Summit and which currently has 38 members. Its work focuses on fighting money laundering, the financing of terrorism and other threats to the integrity of the international financial system.

The FATF has drafted 40 Recommendations, which were revised in 2012, and a number of Interpretive Notes to be applied by countries in order to effectively combat financial crime.

One of the FATF's main tasks is to assess its members' compliance with its recommendations as regards their domestic legislative, regulatory and operational systems. This is a peer review and is based on FATF methodology. The current assessment mandate (2012-2020) is focused on gauging the effectiveness of national systems. The French system will be assessed in 2020 and the French authorities are already primed for this. Tracfin is fully involved in this groundwork.

Lastly, within the French delegation, Tracfin is a member of the FATF's various working groups. For instance, the Unit represents France in the Risks, Trends and Methods Group which provides operational insight into the work conducted by the FATF.

Tracfin is also a member of the French delegation to Moneyval, the Council of Europe's regional FATF group, and takes part in peer reviews of the systems of this body's members. France will be a member of the Moneyval Bureau until 2019.

TRACFIN WITHIN THE EGMONT GROUP

The Egmont Group, which was founded in 1995, represents 159 FIUs throughout the world with an eye to heightening cooperation between the latter. To support FIUs in combating money laundering and terrorist financing, the Egmont Group has built a secure communication and information exchange system called Egmont Secure Web which supplements the options available with the European FIU.net network.

The Egmont Group's Charter sets out its four-fold objective:

- Promote the establishment of FIUs that serve as national centres for the receipt and analysis of suspicious transaction reports and all other information relevant to money laundering, associated predicate offences and financing of terrorism, and for the dissemination of the results of that analysis to the competent authorities, in compliance with international standards
- Expand operational exchanges between FIUs to combat money laundering and terrorist financing
- Promote programmes for personnel exchanges, technical assistance and training for FIUs to bolster their effectiveness
- Support these structures' capacity-building by boosting their operational independence, in line with international standards laid down, in particular, by the FATF

Tracfin is this organisation's regional contact (EU and EEA) and sits on the Egmont Committee. The Unit is actively involved in Committee discussions and therefore acts as an intermediary between the organisation and the European FIUs. Furthermore, Tracfin regularly provides technical and legal support to FIUs which are looking to join the organisation. For instance, the Unit supported the membership of Benin's FIU, which joined at the Sydney plenary meeting in September 2018.

Lastly, Tracfin is involved in coordinating meetings of the Workshop for French-speaking FIUs comprised of Units that are members of the Egmont Group and that share a common language. Discussions within

this forum are geared towards promoting best practices and having its members benefit from their respective experiences. Tracfin supported the Luxembourg FIU arrange an anti-money laundering symposium.

Tracfin also plays an active role in the EU's FIU Platform which meets in Brussels on a regular basis. This Platform, which was provided for by EU AML/CFT legislation, has been registered as a Commission Expert Group and is essentially tasked with facilitating cooperation and fostering coordination between the EU's FIUs. It also provides a venue for discussions where the FIUs can be consulted on the Commission's initiatives, particularly with regard to legislation.

TRACFIN'S CONTRIBUTION TO EFFORTS WITHIN THE EU

Following on from its Action Plan to strengthen the fight against terrorist financing of 2 February 2016, the European Commission has rolled out a large number of initiatives in this field with particular focus on FIUs. Since the Action Plan was adopted, Tracfin's expert knowledge has often been sought as part of the work conducted.

The 4th Directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing was revised in June 2018 to provide the EU with more robust rules to fight financial crime. The new directive must be enacted in Member States' legislation before 10 January 2020. The amendments will affect the work of FIUs in a number of ways, in particular by bolstering cooperation between European FIUs and by extending the scope of reporting entities to AML/CFT regulations.

During 2018 and under the impetus of the Commission, a proposal for a Directive laying down rules facilitating the use of financial and other information for the prevention, detection, investigation or prosecution of certain criminal offences was discussed by the Council and the Parliament. A number of its provisions relate to FIUs and the Unit helped draw up the French position as part of the negotiations.

BILATERAL COOPERATION

Due to the international development of financial flows, fighting financial crime requires the forging of sustainable and reliable relations between FIUs.

BILATERAL MEETINGS WITH FOREIGN DELEGATIONS

Tracfin and its foreign counterparts have numerous opportunities to meet outside the confines of international FATF, Egmont Group and EU-level meetings. This allows for discussion of specific operational cases and the potential for future cooperation.

In addition, with an eye to bolstering bilateral relations and improving knowledge of respective investigative capabilities, Tracfin regularly holds special meetings on its premises. In 2018, delegations from Algeria, Saudi Arabia, Morocco, Iraq and the Republic of the Congo came to Paris to heighten this cooperation and discuss conditions for exchanges. In the same vein, Tracfin's international department also visits its foreign counterparts on a regular basis. During 2018, visits to partner FIUs were organised, notably to the United States and Spain.

Lastly, Tracfin provides training and technical assistance and may be called upon to raise the awareness of the competent foreign authorities as to the role of FIUs in combating money laundering, terrorist financing and corruption.

These exchanges, which have been made easier by the fact that more units are joining the Egmont Group and complying with its principles, are handled by Tracfin's international department and its division which is tasked with processing requests from its counterparts.

INTERNATIONAL CONFERENCE ON COMBATING THE FINANCING OF DAESH AND AL-QAEDA – “NO MONEY FOR TERROR”

On 25 and 26 April 2018, France hosted an international conference on combating the financing of Daesh and Al-Qaeda called “No Money for Terror”. Under the impetus of President Macron, 70 countries and 20 international organisations attended the conference to draw up a joint action plan for fighting terrorist financing.

Using a novel format to gather contributions from experts – such as intelligence services and enforcement authorities, and government departments in charge of rolling out public policies, the French ministries for the Interior, Justice, Foreign Affairs, the Economy and Finance and Government Action and Public Accounts and their counterparts – this initiative culminated in the adoption of a 10-point final statement, the Paris Agenda.

At the conference, Tracfin coordinated a round-table on the role of financial intelligence in fighting terrorist financing which highlighted the action of FIUs and the need for an integrated strategy for collecting, analysing and sharing information by national authorities. The participants called for the powers of FIUs to be bolstered in compliance with the international standards laid down by the FATF and for the sharing of information at international level to be improved.

PROCEDURES FOR INTERNATIONAL INFORMATION SHARING

INFORMATION RECEIVED FROM ABROAD

A large proportion of Tracfin’s activity involves operational exchanges with its foreign counterparts.

The Unit treats information received from a foreign FIU in the same way as suspicious transaction reports. In practice, this means that by drawing on information received from a foreign FIU, Tracfin can exercise the same powers as for its investigations based on domestic STRs. This includes using requests for information vis-à-vis all reporting entities and competent public authorities.

The standard of the Unit’s answers to requests from foreign FIUs is obviously dictated by the information to hand but also by the clarity of the purpose of the request as regards identifying targets and the context of the case.

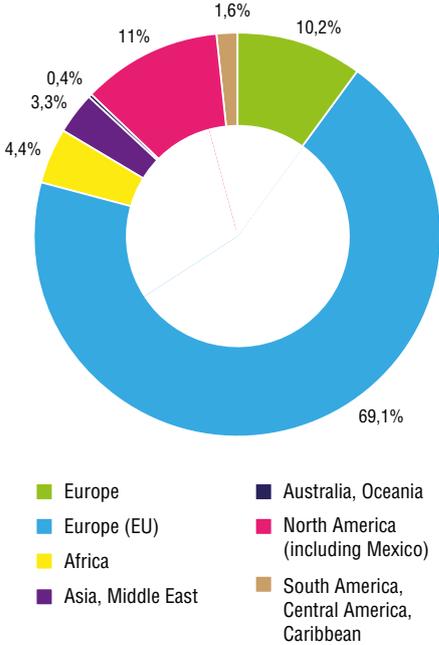
As exchanges are governed by the notion of reciprocity, an FIU can only ask a foreign counterpart for information that it itself would be able to provide.

Besides requests for information, FIUs may also send spontaneous reports. This involves providing partners with information which is considered relevant without expecting anything in return.

In 2018, Tracfin received 1,740 (up 34% compared to 2017) information reports from abroad (788 requests for information (up 12%) and 952 spontaneous reports (up 59%). This information related to 8,768 (up 23%) different individuals or legal entities.

Exchanges with Tracfin’s partners in the EU accounted for 1,203 information reports (up 69%), including 655 spontaneous reports (up 181%) and 548 requests for information (up 14%). As for the previous year, this upswing in European activity related to implementation of Article 53 of the 4th AML/CFT Directive. This so-called cross-border mechanism provides that any European FIU that receives an STR concerning another Member State must immediately transfer it to the latter. In 2018, Tracfin received information on 246 cross-border cases.

Breakdown of incoming information by geographical area



Tracfin received reports from 99 different FIUs and requested information from 120. The Unit does however exchange more with certain countries:

- Luxembourg, Belgium and Switzerland owing to the geographic and linguistic proximity. The majority of offences concern money laundering, tax evasion and terrorist financing.
- The UK: a country of interest as regards taxation and in terms of the registration of a large number of payment or electronic money institutions, as well as crypto-currency structures. The sharp increase in operational cooperation should be welcomed.
- Jersey, Guernsey, Isle of Man: receipt of a large number of spontaneous reports on residents of France for tax purposes, whether French nationals or not, having assets which have not definitely been declared correctly to the tax authorities.

- Russia: exchanges still focus on searching for the property and financial assets of certain individuals.
- Poland, Hungary, Portugal, the UK and Spain: robust cooperation for cases of false transfer orders or financial investment fraud, especially in cryptocurrencies.
- United States: bilateral cooperation remains strong, in particular as regards combating the financing of terrorism. Exchanges are also being stepped up in respect of virtual currencies.
- Exchanges with Africa could also increase as the FIUs of countries having financial ties to France bolster their information exchange resources by, for instance, becoming members of the Egmont Group.

List of countries having sent more than ten information reports

Countries	Number of reports received in 2018	Of which unsolicited reports
Germany	478	380
Luxembourg	257	161
United States	182	153
Belgium	156	20
UK	55	18
Spain (including the Balearic Islands)	48	21
Switzerland	40	19
Jersey	39	37
Italy	36	2
Malta and Gozo	34	11
Guernsey	21	18
Russian Federation	20	5
Slovakia	20	12
Isle of Man	18	16
Netherlands	18	2
Hungary	15	7
Romania	12	1
Bulgaria	11	2
Monaco	10	4

INFORMATION SENT ABROAD BY TRACFIN

In 2018, Tracfin sent its foreign partners 883 replies (down 3%). So as to provide relevant material, the division tasked with international operational cooperation sent over 1,055 requests for information (up 23%) to private sector reporting entities.

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

- Spontaneous disclosures as a result of analyses of domestic STRs received by the Unit. In 2018, Tracfin sent 231 (up 14%) reports so that the intelligence gathered in the STRs received in France could be used abroad. The overall amount of the disclosures in question was around €845 million (+106%). Out of these reports, 131 were sent to 20 European FIUs.
- Requests for information, particularly financial information, on individuals or legal entities. Tracfin also draws its counterparts' attention to the targets of investigations. This concerned 2,254 (up 28%) of them in 2018 in relation to 1,100 different cases.

List of countries to which Tracfin sent at least five spontaneous disclosures

Countries	Number of unsolicited disclosures sent to FIUs in 2018
UK	21
Poland	17
Italy	16
Belgium	14
Hungary	11
Benin	11
Switzerland	10
Spain (including the Balearic Islands)	9
United States	8
Russian Federation	7
Luxembourg	6
Romania	6
Portugal (including the Azores and Madeira)	6
Germany	5
Tunisia	5

EGMONT SECURE WEB (ESW)

This system, which was introduced in 1995, is also secure. It can be used by the 159 FIUs that are members of the Egmont Group. It provides access to a broad network of FIUs that share common operating standards. ESW is a vehicle for operational exchanges. It 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 2018, 985 requests or spontaneous reports were received by the Unit via this channel.

INTERNATIONAL COOPERATION RESOURCES

FIU.net

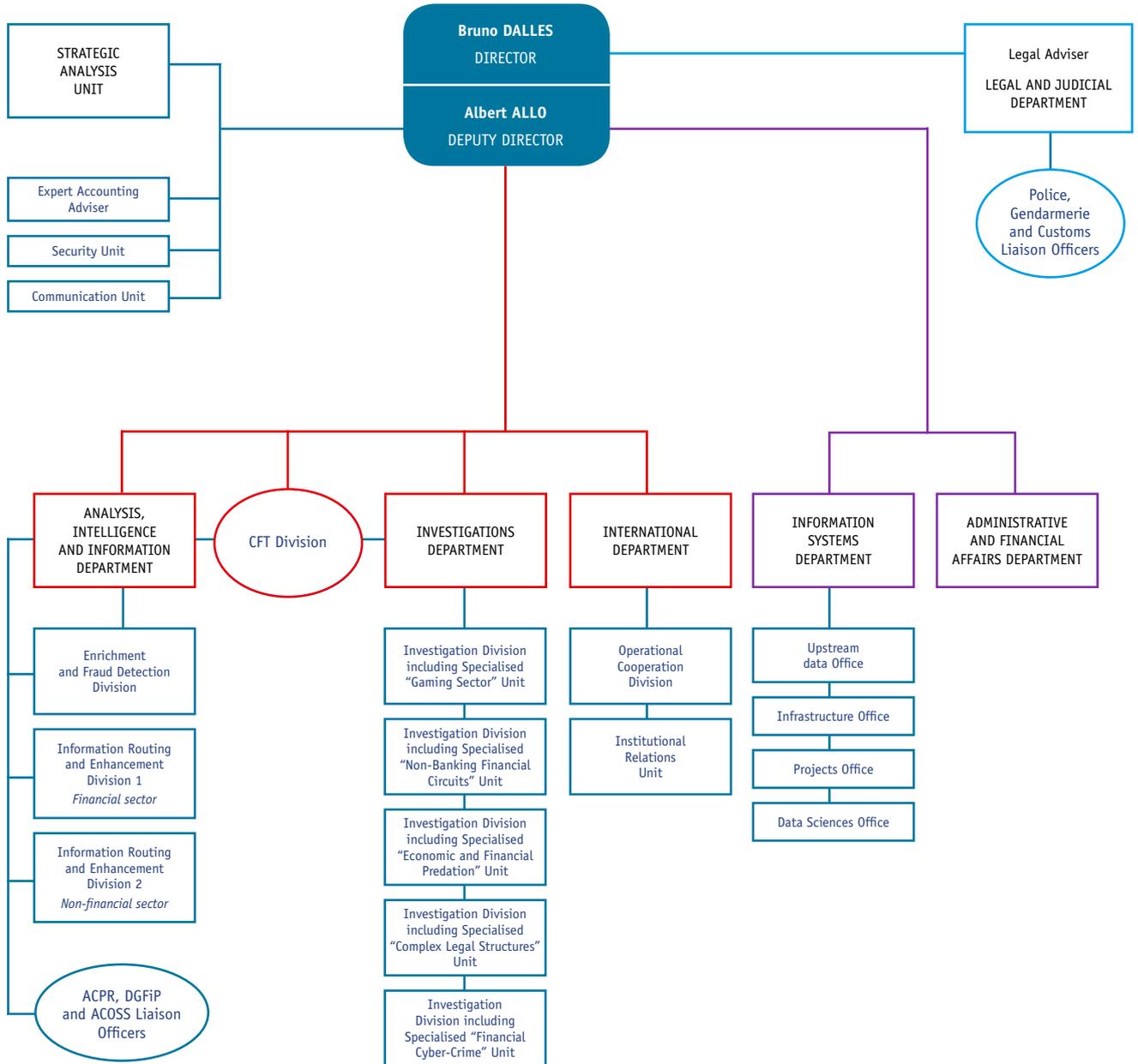
Council Decision no. 200/642/JHA of 17 October 2000 introduced the concept of appropriate and protected channels of communication between European FIUs. The FIU.net network was set up in 2002 by five countries, including France, with all the European FIUs gradually being connected as from 2004.

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. It enables the recovery or automated sending of structured data and provides an effective interface between the FIUs' databases. Processing European requests, the Unit's replies, requests sent by Tracfin and the replies received are all paperless. In 2018, 748 requests or spontaneous reports were received via this channel.



ABOUT TRACFIN

ORGANISATION CHART - December 2018



The Unit's operational wing is organised around three departments and a division:

- **The Analysis, Intelligence and Information Department** is composed of three divisions. It is tasked with initial analysis of STRs and information, the operational analysis of financial intelligence and relations with reporting entities subject to the fight against money laundering, and with government departments. One division has special responsibility for processing the information which could be disclosed to the social security and tax authorities. Three liaison officers (DGFIP, ACPR and ACOSS) work in this department.
- **The Investigations Department** consists of five divisions which conduct in-depth investigations, when a case so requires, and for all types of money laundering. Each division within this department has its own specialised unit: gaming sector, non-banking financial circuits, economic and financial predation, complex legal structures and a new unit dealing with financial cyber-crime

In April 2018, Tracfin set up a new Investigations Division to focus on financial cyber-crime and boost its investigative capabilities for analysing crypto-asset transactions.

This dedicated team has three goals:

- Developing its ability to analyse transactions registered in public blockchains
- Strengthening ties with the leading investigative departments in this area, primarily French Customs (Cyberdouanes) and the French Gendarmerie (C3N)
- Forging international partnerships, since the specific environment for crypto-asset products and the foreign location of many of this sector's stakeholders require enhanced cooperation with other FIUs

- **The International Department**, which was established in autumn 2018, is tasked, in particular, with the groundwork for the upcoming FATF assessment of France's national AML/CFT system. The Department has two main objectives: the heightening of bilateral operational relations with foreign FIUs, with a special division tasked with this cooperation, and active involvement in the work of the international institutions that tackle financial crime, an assignment that is monitored by a special unit with two expert advisers.

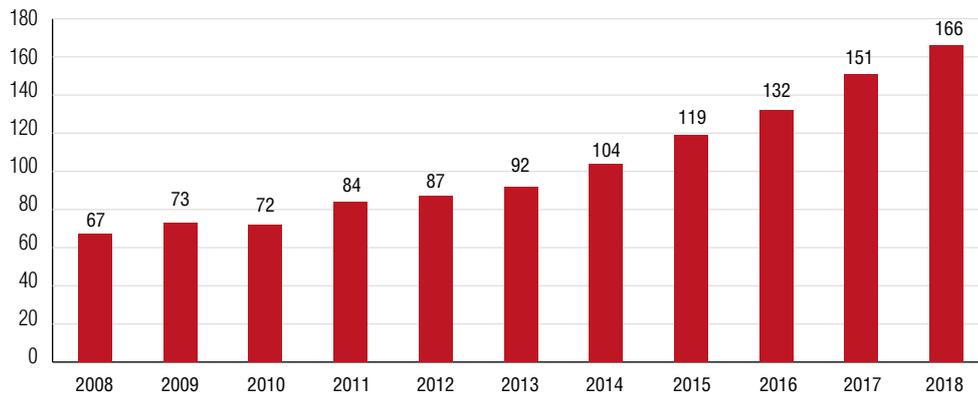
- **The CFT Division**, which came into being in October 2015, is staffed by 14 employees

The Legal and Judicial Department provides legal and judicial expertise and support for all cases that fall within its remit. The Legal Adviser is tasked with providing a consultative opinion, independent of Tracfin's Director, as to whether the evidence provides sufficient proof of money laundering. Four liaison officers (national police force, national gendarmerie, Central Office for the Prevention of Serious Financial Crime and Customs) work for this department.

The Information Systems Department manages Tracfin's IT system. It has four offices: an Infrastructure Office tasked with maintaining workstations, systems, the network, and providing user support, a Projects Office that designs and rolls out changes to the information system, an Upstream data Office in charge of the standard of data and its integration into the system and a Data Sciences Office (see box). An Information Systems Security Manager works in the Department.

The **Data Sciences Office** is responsible for leveraging the Department's data by big data processing for data quality assurance, reconciliation or enhancement, and visualisation. The processing covers both textual and structured resources and is increasingly part of a global approach to fraud detection and support with decision-making for the Unit's operational teams. It can involve advanced methods for network analysis (charts), artificial intelligence (machine learning) or natural language processing.

Tracfin's staffing levels between 2008 and 2018



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

Support services are provided by the Administrative and Financial Affairs Department (DAAF).

A high-level expert adviser was hired in 2018 to provide accounting expertise and support to all the operational departments.

On 31 December 2018, Tracfin had 166 staff members, including eight liaison officers seconded from their original government departments.

The headcount jumped by 10% in 2018

In 2018, the Unit's staffing levels again rose significantly to 166, up from 151 in 2017 (up 10%). This means that staffing levels have increased by 80% since 2013.

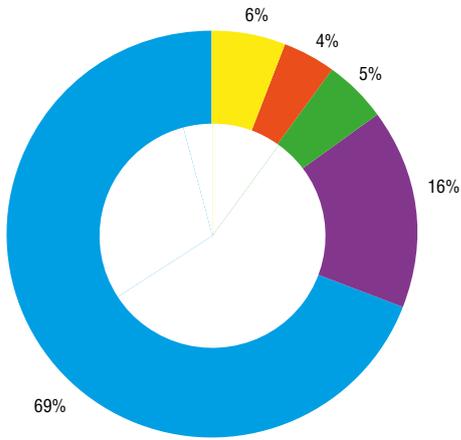
The administrative background of the 2018 recruits continues to bear witness to the Unit's diversity requirements in terms of profiles and skillsets. Although there are many contract staff amongst the new recruits, a large proportion have arrived from other ministries or government departments, for instance the intelligence services or prime minister's departments. Within the Unit, a majority of staff originally worked for either the Directorate General of Customs and Excise or the Public Finances Directorate General (28% in both cases).

2018 also witnessed a substantial renewal of the Unit's executives.

Tracfin continued to expand its training offering in 2018

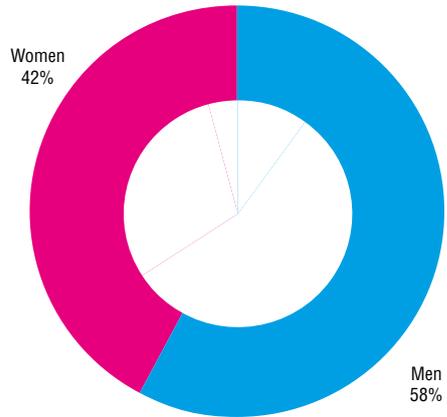
Training is vital for the Unit and staff were given 852 training days in 2018. Training is offered to all the Unit's staff irrespective of whether they have established or non-established status. In 2018, Tracfin continued to marshal its institutional partners and in-house resources, and to offer training courses around specific themes. Besides the training provided to staff due to the fact that they work for Tracfin (provided by the Institute for Public Management and Economic Development, the National School of Public Finance and the Intelligence Academy), the Unit leverages relations with various partners to offer its most experienced staff training courses with high value added such as those given by 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 Financial Criminal Analysis in Strasbourg. The Unit has executed an agreement with the National Magistrates Academy under which its staff can take some of the Academy's training courses free-of-charge in return for its executives acting as trainers for other courses.

Breakdown of Tracfin's headcount



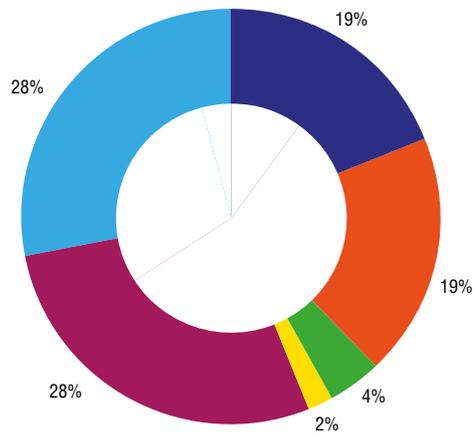
- Management
- Administrative and Financial Affairs Department
- Legal and Judicial Department
- Information Systems Department
- Operational Departments

Breakdown of headcount by gender



Average age: 42.7 years

Breakdown of headcount by original department



- Central government
- Contract staff
- Seconed officers
- Directorate General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF)
- Directorate General of Customs and Excise (DGDDI)
- Public Finances Directorate General (DGFIP)

ACRONYMS

AACOSS	Central Agency for Social Security Bodies
ACPR	Prudential Supervision and Resolution Authority
AFA	French Anti-Corruption Agency
AGRASC	Agency for Managing the Recovery of Seized and Confiscated Assets
AMF	Autorité des marchés financiers
AML/CTF	Anti-Money Laundering and Combating the Financing of Terrorism
ARJEL	Online Gaming Regulatory Authority
CARPA	Lawyers' Financial Settlement Fund
CIF	Financial investment adviser
CIP	Crowdfunding adviser
CMF	Monetary and Financial Code
CNAF	National Family Allowance Fund
CNAJMJ	National Association of Court-Appointed Receivers and Trustees
CNAMTS	National Health Insurance Fund for Employees
CNCC	National Company of Auditors
CNHJ	National Chamber of Bailiffs
CNRLT	National Intelligence and Counter-Terrorism Coordinator
CNS	National Enforcement Commission
COSI	Systematic Information Disclosure
CSN	National Association of Notaries
CSOEC	Governing Council of Chartered Accountants
CVV	Voluntary Auction Council
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 for National Security
DGT	Directorate General of the Treasury
DNLF	National Anti-Fraud Office
DNRED	National Directorate for Customs Intelligence and Investigations

DRM	Military Intelligence Directorate
DSS	Social Security Directorate
EMI	Electronic money institution
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
ML/FT	Money laundering/Financing of terrorism
OCBC	Central Office for Countering the Trafficking in Cultural Goods
OCRGDF	Central Office for the Prevention of Serious Financial Crime
PEP	Politically Exposed Person
PSD2	Second European Directive on payment services
PMU	Urban mutual betting
SCCJ	Central Racing and Gaming Unit
SGP	Investment management company
SNDJ	National Customs Judicial Department
STDR	Offshore Disclosure Unit
STR	Suspicious Transaction Report
SYMEV	French Union of Voluntary Auction Houses
SYNAPHE	French Union of Company Hosting Professionals
TGI	Court of First Instance
UCLAT	Antiterrorist Action Coordination Unit
URSSAF	Unions for the Collection of Social Security Contributions and Family Allowances



Tracfin

TRACFIN – France's Financial Intelligence Unit (FIU)

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