



Шановні колеги!

Завершено третій рік діяльності Держфінмоніторингу України.

2005 рік став знаковим роком для Державного комітету фінансового моніторингу України. Держфінмоніторинг України від 1 січня 2005 року набув статусу центрального органу виконавчої влади, залишивши за собою повноваження органу виконавчої влади з питань фінансового моніторингу.

Відтак, у новому статусі Держфінмоніторинг України продовжував виконувати свої основні завдання, зокрема, ведення активного процесу відслідкування можливих фактів відмивання коштів та фінансування тероризму.

В цьому звіті відображено результати діяльності Держфінмоніторингу України (підрозділу фінансової розвідки) протягом 2005 року. Ми отримуємо від різних фінансових посередників (банківської, страхової сфери, сфери цінних паперів тощо) інформацію про фінансові операції, які згідно із законодавством підлягають фінансовому моніторингу.

Dear colleagues!

The third year of activity of SCFM of Ukraine is over.

Year 2005 became the significant year for the State Committee of Financial Monitoring of Ukraine. On January 1, 2005 SCFM of Ukraine acquired the status of the central agency of executive power, keeping the authorities of the executive power agency in the sphere of financial monitoring.

Thus, SCFM of Ukraine with new status continued to perform its basic tasks, namely, active process of tracing possible facts of money laundering and terrorist financing.

This report highlights the results of activity of SCFM of Ukraine (Financial Intelligence Unit) during 2005. We receive financial transactions reports which according to the legislation are subject to financial monitoring from different financial intermediaries (banking, insurance, securities etc).



Специфіка роботи підрозділу фінансової розвідки полягає в дослідженні фінансових операцій на предмет належності до відмивання та/або фінансування тероризму. Отож, Держфінмоніторинг України досліджує операції на наявність задіяних в них злочинних активів. Як правило, операції з "відмивання" знаходяться в межах правового поля, і є звичайними фінансовими операціями, проблема ж полягає в можливості кримінального походження коштів.

Процес легалізації брудних коштів часто є досить складною розгалуженою схемою "обороту" грошей, внаслідок якого приховується істинне походження капіталів. Тому дуже важливим у сфері запобігання та протидії легалізації (відмиванню) доходів, одержаних злочинним шляхом, і фінансуванню тероризму є процес налагодження взаємодії між різними органами влади в державі та за її кордонами.

Ми відкриті до співробітництва з відповідними державними органами, які функціонують в сфері протидії відмиванню злочинних коштів та фінансуванню тероризму, як в Україні, так і за її межами. Держфінмоніторинг України налагодив конструктивну співпрацю з підрозділами фінансових розвідок багатьох держав світу.

Сьогодні дуже важливим є обмін знаннями та вміннями у сфері протидії відмиванню коштів, адже типові схеми відмивання коштів різних країн, методи їх виявлення та протидії не можуть мати меж і кордонів, а тому досвід, набутий кожною із держав та переданий іншим країнам, сприятиме успішній боротьбі з новими викликами та загрозами.

**Голова Державного комітету
фінансового моніторингу України**

Сергій Гуржій

The specifics of FIU's work is the check-up of financial transactions with the view of their relation to money laundering and/or terrorist financing. Thus, SCFM of Ukraine analyses transactions in view of the possible criminal funds there. As a rule, ML-related transactions comply with the law and are usual financial operations, the problem is in possible criminal origin of the funds.

The process of money laundering is often very complicated branched scheme of money circulation and as a result the true origin of funds is hidden. Therefore, the process of cooperation between different authorities inside the state and abroad is very important to prevent and counteract the money laundering and terrorist financing.

We are open to cooperation with appropriate state agencies that act in the AML/CFT area, both in Ukraine and abroad. SCFM of Ukraine established constructive cooperation with Financial Intelligence Units of many countries.

Nowadays the exchange of AML/CFT knowledge and skills is very important, because typical schemes of money laundering in different countries, methods of their detection and counteraction cannot have limits and borders, that's why, experience of every country shared with other countries will promote effective combating new challenges and threats.

**Head of the State Committee
for Financial Monitoring
of Ukraine**

Serhiy Hurzhiy



Foreword	
1. About SCFM of Ukraine	7
1.1. SCFM of Ukraine Status	7
1.2. Structure and human resources	7
1.3. Financing	9
1.4. Public relations	13
2. Development of the AML legislation	19
3. Statistics of received reports	29
3.1. General dynamics of received reports	29
3.2. Dynamics of received reports from financial sectors	31
4. Analytical Activity	39
4.1. The process of analysis	39
4.2. Laundering schemes	45
4.3. Typologies	57
5. Case referrals	59
5.1. Consideration of case referrals by law enforcement authorities	59
5.2. Example of court decision	67
6. Development of information systems	71
6.1. Development of IAS of SCFM of Ukraine	71
6.2. Unified Information System Development	71
6.3. Establishment of secure multi-service automated corporate system FINNET	75
7. Interagency cooperation	81
7.1. Interaction with regulators and other state agencies	81
7.2. Coordination of activity of financial monitoring entities	85
7.3. Activity of Interagency Working Group	85
7.4. Methodological provision, training of financial monitoring entities	87
7.4.1. Training-Methodical Centre	91
8. International cooperation	95
8.1. Cooperation with international organizations	95
8.1.1. Cooperation with FATF	97
8.1.2. Cooperation with Egmont Group	97
8.1.3. Cooperation with the Council of Europe/European Commission	99
8.1.4. Cooperation with the Eurasian Group	105
8.1.5. Other international events	107
8.1.5.1 Providing Technical Assistance to foreign FIUs	111
8.2. Information exchange with FIUs	111
9. Perspectives for 2006	115
List of abbreviations	116

1. About SCFM of Ukraine

1.1. SCFM of Ukraine Status

On January 1, 2005 SCFM of Ukraine acquired status of the central agency of executive power with special status¹.

Due to change of its status SCFM of Ukraine as Financial intelligence unit (FIU) of Ukraine is guaranteed with maximum independence in decision taking.

The functions of SCFM remain unchanged:

- participation in implementation of the state policy in the AML/CFT sphere;
- collection, processing and analysis of the information on the financial transactions subject to financial monitoring;
- creation and provision of functioning of a unified state information system on prevention and counteraction to the legalization (laundering) of the proceeds from crime and terrorist financing;
- cooperation, interaction and information exchange with the state authorities, competent agencies of foreign countries and international organizations in the AML/CFT sphere;
- representation of Ukraine, according to the established procedure, in international organizations dealing with AML/CFT issues.

1.2. Structure and human resources

As of January 1, 2005 FIU of Ukraine's staff was 338 persons, including 164 - in regions.

In May for the execution of the Resolution of the Cabinet of Ministers of Ukraine # 179 of March 12, 2005 "On Managing of Structure of Central Agencies of Executive Power, Their Regional Divisions and Local State Administrations" the structure of SCFM was changed, and in June the same year the list of staff members was changed. (Staff number of FIU of Ukraine remained unchanged).

¹ According to the Law of Ukraine "On Introduction of Amendments to the Article 4 of the Law of Ukraine "On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime" of May 18, 2004 and the Decree of the President of Ukraine # 1144/2004 of September 28, 2004.

As of January 1, 2005, 90 persons worked in the FIU of Ukraine.

During the reporting year the number of employees doubled, as of January 1, 2006 were 191 persons (including 155 in central office, 36 - in regions). Average age of employees is 35 years.

117 men and 74 women work in SCFM. 19 women are within the managerial staff.

Staff of SCFM is formed from high skilled experts, all with higher education, mostly economic.

5 top executives of SCFM and 3 heads of divisions have state awards and honorary titles (two - "Honored Economist of Ukraine", one - "Honored Lawyer of Ukraine", six persons have orders "For Achievements" III degree, medal "For Perfect Service" III degree and "For Work and Courage".)

Appointment of persons on work positions in SCFM is carried out through a competitive selection according to the Provision on conducting competition.

Information about competition and its terms is published in mass media and on the webpage of SCFM of Ukraine.

In 2005 8 meetings of the competitive commission for vacant seats of civil servants were carried out in SCFM, 142 persons participated in competition, as a result of the competition 110 persons have been employed, 13 civil servants were promoted to higher positions in the Committee.

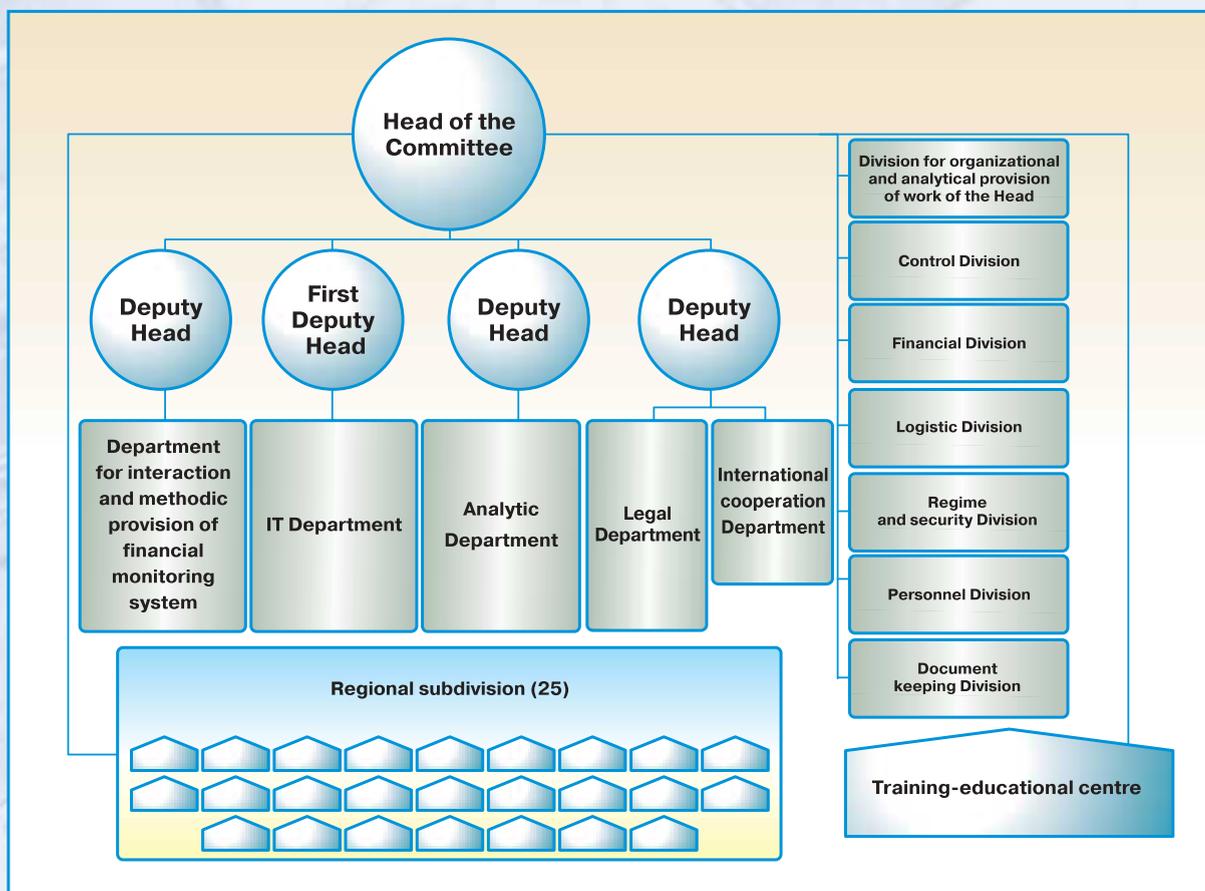
The probation of civil servants was carried out in SCFM to gain practical experience, examine the professional level, and also with the purpose of career development, after its results 38 employees of the Committee were promoted to higher positions.

1.3. Financing

Financing of SCFM of Ukraine expenses in 2005 was carried out by the Ministry of Finance of Ukraine from the State Budget within the limits of the assignments adopted by cost estimate.

In 2005, according to approved estimate of SCFM of Ukraine, funds in amount 40 582.6 thousands UAH were assigned from the State Budget, which were used for:

- wages and wage upholding - 7 904.2 thousands UAH;
- paying for public utilities and energy consumption - 57.4 thousands UAH;



- payment of expenses, related to creation of Unified Information System - 4 712.1 thousands UAH (including for purchase and renewal of software - 1 415.5 thousands UAH, purchase of hardware - 1 458.2 thousands UAH);
- creation and maintenance of Training-Methodical Center for Retraining and Professional Development of Experts on Financial Monitoring Issues in AML/CFT sphere - 232.3 thousands UAH;
- other expenses for providing of activity and functioning of SCFM information-analytical system - 5 061.2 thousands UAH;
- expenditures for capital renovation of building where SCFM of Ukraine has located since the end of 2005 - 22 615,4 thousands UAH.



Building of the State Committee for Financial Monitoring of Ukraine

1.4. Public relations

With the purpose of creation additional conditions for fulfillment of citizen's constitution rights for information and participation in administration of state affairs, SCFM of Ukraine has started and continues active dialogue with public.

To ensure consultations with public on the issues of forming and fulfillment of state policy in the AML/CFT sphere, SCFM of Ukraine is creating the Public Board, which is to act under the Head of SCFM of Ukraine².

Continuing the practice of public consideration, taking into account the public opinion while forming and fulfilling work plans of SCFM of Ukraine, Draft work plans of SCFM, in particular, for 2006 and for quarters of 2005 and 2006 were published on the official web-site (URL

² Decree of the President of July 31, 2004 #854/2004 and Resolution of the Cabinet of Ministers of Ukraine of October 15, 2004, #1378 and of May 18, 2005 #356 "On additional measures for involvement of citizens in participation in administration of state affairs"



address - www.sdfm.gov.ua, section "About the Committee" - "Plans of activity" - "Public opinion").

During the month from the date of publishing of respective drafts of Work plans of SCFM of Ukraine proposals on their improvement were obtained from the public. These proposals were taken into account in the work plans of SCFM of Ukraine.

By now SCFM of Ukraine has developed the mechanism of taking into account the public opinion and discussion of plans of work of the Committee with representatives of the Public Board³.

To study the public opinion about the activity of executive authorities, SCFM of Ukraine conducts systematic survey of public by means of publishing the questionnaire on the official web-site of SCFM of Ukraine (subsection "Public opinion" of the section "Public relations")⁴.

³ Order of SCFM of Ukraine of November 29, 2005 #229 "On procedure for planning of work of SCFM of Ukraine and preparing reports on the conducted work".

⁴ Paragraph 5 of the Instruction of the Cabinet of Ministers of Ukraine of September 24, 2005 #48164/1/1-05 to the Article 5 of the Decree of the President of Ukraine of September 15, 2005 #1276/2005 "On ensuring of participation of public in forming and fulfillment of state policy".

Citizens of our state have possibility to access the web-site of State Committee for Financial Monitoring of Ukraine and express their opinions by filling the survey.

Questioning started in October 2005 and is periodically systematized and generalized.

On the site of SCFM of Ukraine there is a section "Public relations", subsections of which are "Public Board", "Schedule of reception of citizen", functioning of which ensures bilateral connections between SCFM of Ukraine and public and taking into account public opinion.

The section of the site "Questions-Answers" enables interactive communication of specialists with citizens, non-governmental organizations, financial monitoring entities, law enforcement authorities, as well as everyone involved in counteraction to money laundering and terrorist financing in Ukraine.

With the purpose of obtaining and taking into account public opinion while forming the state policy in the AML/CFT area, as well as development of stable system of financial monitoring in Ukraine, draft regulations, elaborated by State Committee for Financial Monitoring of Ukraine, are published in the respective section on the web-site of SCFM of Ukraine.

In November 2005 SCFM of Ukraine organized a workshop in Lviv. The theme of the round-table discussion was "Improvement of legal provision of the national AML/CFT system". The purpose of the round table was to establish effective mechanisms of partnership with civil society institutions and ensuring participation of public in executing of the state policy .⁵

In particular, the following issues have been discussed - distant training of AML experts, following reporting to the public on activity of SCFM via mass-media and other issues in this area.

⁵ Decree of the President of Ukraine of September 15, 2005 #1276/05 "On ensuring of participation of public in forming and fulfillment of state policy"

2. Development of the AML legislation

During 2005 SCFM of Ukraine conducted active work on improvement of AML/CFT-legal base, in particular regulation on conducting financial monitoring by entities of initial financial monitoring.

During the reporting year 1 Law, 1 Joint Resolution of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine, 2 Resolutions and 3 Directions of the Cabinet of Ministers of Ukraine, 1 Resolution of the Board of the National Bank of Ukraine, 1 Resolution of the Plenum of the Supreme Court of Ukraine, 13 Orders of SCFM of Ukraine were adopted and 2 Draft Legal acts were elaborated⁶. Among the main normative-legal acts were the following:

- **January**

On January 31, 2005, State Committee for Financial Monitoring of Ukraine and The General Prosecutor's Office of Ukraine adopted a Joint Order #35/6 "On introduction of changes and amendments to the Procedure of SCFM submitting of case referrals on financial transactions that might be related to the legalization (laundering) of the proceeds from crime and terrorist financing and receipt of information on the status of consideration of these case referrals", which improves the procedure of submitting case referrals to the General Prosecutor's Office of Ukraine.

- **March**

At the beginning of March, 2005, SCFM of Ukraine drafted and coordinated with authorities concerned and had it approved by the Cabinet of Ministers of Ukraine the Draft Law of Ukraine "On introduction of changes to some legislative acts of Ukraine in the sphere of counteraction to the legalization (laundering) of the proceeds from crime and terrorist financing", registered in the Parliament of Ukraine of March 14, 2005 #7180.

⁶ In 2005 SCFM issued a total of 257 Orders and 107 Directives in the sphere of its main activity

On March 2, 2005 the Cabinet of Ministers of Ukraine issued the Directive #48 "On introduction of changes to the Annex to the Directive of the Cabinet of Ministers of Ukraine of July 17, 2003 #419". This Directive, according to the FATF Decision, excluded Indonesia, Cook Islands and the Philippines from the national NCCT list.

The Order of SCFM of Ukraine of March 31, 2005, #82 approved the Reference Book of the error codes in respect to automatic logical-semantic control over the reports on financial transactions from bank institutions which are sent electronically via the email of the National Bank of Ukraine.

- **April**

On April 5, 2005 the Plenum of the Supreme Court of Ukraine adopted the Resolution #5 "On practice of application by courts of legislation in the sphere of criminal responsibility for the legalization (laundering) of the proceeds from crime".

On April 15, 2005 State Committee for Financial Monitoring of Ukraine and Ministry of Interior of Ukraine adopted Joint Order #97/262 "On introduction amendments and changes to the Procedure of submitting by SCFM to the Ministry of Interior of case referrals on financial transactions that might be related to the legalization (laundering) of the proceeds from crime and terrorist financing and receipt of information on the status of consideration of these case referrals", which improves the procedure of submitting case referrals to the Ministry of Interior of Ukraine.

- **May**

Due to rejection on May 18, 2005 of the Draft Law #7180, SCFM of Ukraine prepared a new Draft Law of Ukraine "On introduction of changes to the Law of Ukraine "On prevention and counteraction to the legalization (laundering) of the proceeds from crime", which on September 2, 2005 was submitted to the Parliament of Ukraine and registered there under the #8066.

To improve the submitting of financial transactions reports to SCFM of Ukraine by entities of initial financial monitoring on May 16, 2005 the Order of SCFM of Ukraine #112 introduced changes to the Order of SCFM of Ukraine of 13.05.2003 #48 "On approval of some forms of registration and submitting of information related to conducting financial monitoring and Instruction on filling them".

On May 11, 2005 the State Committee for Financial Monitoring of Ukraine and State Tax Administration of Ukraine adopted the Joint Order #107/171 "On introduction of changes and amendments to the Procedure of submitting by SCFM of Ukraine to State Tax Administration of case referrals on financial transactions that might be related to the legalization (laundering) of the proceeds from crime and receipt of information on status of their consideration", which improves the procedure of submitting case referrals to the State Tax Administration of Ukraine.

On May 17, 2005 State Committee for Financial Monitoring of Ukraine and Administration of State Border Service of Ukraine adopted the Joint Order #114/373 "On introduction of changes to the Procedure of providing by the Administration of State Border Service of Ukraine to SCFM of Ukraine of data on crossing the Ukrainian border by citizens" to improve the interaction among authorities in the part of forming and sending requests.

The joint Order #121/281 "On amendments to the Procedure of submission by SCFM to Security Service of Ukraine of case referrals on financial transactions that might be related to legalization (laundering) of proceeds from crime or terrorist financing" was signed of May 25, 2005 between SCFM and Security Service of Ukraine. The Order improves the Procedure for submission of case referrals to Security Service of Ukraine.

- **July**

On July 17, 2005 the Cabinet of Ministers of Ukraine adopted 2 Resolutions, namely #571 "On amendments to the Resolution of the Cabinet of Ministers of Ukraine of October 2, 2003 #1565" (resulted in changes to the structure and statute of the Interagency Working Group on research of methods and trends in laundering of proceeds from crime) and #572 "On amendments to some Resolutions of the Cabinet of Ministers of Ukraine", which resulted in amendments to : Procedure of registration of transactions by the entities of initial financial monitoring; Procedure of registration of transactions subject to the obligatory financial monitoring by State Department for Financial Monitoring; Procedure of conduction of internal financial monitoring by business entities which carry out economic activity on establishment and maintenance of casinos, other gambling institutions and pawn-shops.

• August

With the aim of strengthening counteraction to legalization (laundering) of proceeds from crime and terrorist financing the Cabinet of Ministers of Ukraine has approved Concept for development of AML/CFT system on 2005-2010 (Directive of August 3, 2005 #315-p).

On August 10, 2005 the Joint Resolution of the Government and National Bank of Ukraine #736 adopted the Action Plan for prevention and counteraction to legalization (laundering) of proceeds from crime and terrorist financing on 2005.

On August 17, 2005 SCFM of Ukraine adopted three orders:

- #160 "On amendments to some orders of State Department for Financial Monitoring" (resulted in changes concerning providing information by separate branches of entities of initial financial monitoring to SCFM of Ukraine);
- #161 "On amendments to the Order of State Department for Financial Monitoring of May 13, 2003 #48" (resulted in changes to the Instruction on filling registration forms and providing information related to conduction of financial monitoring);
- #162 "On amendments to the Order of State Department for Financial Monitoring of September 28, 2004 #122" (resulted in changes to the Procedure of assigning of identifiers to the entities of initial financial monitoring in order to submit information).

On August 3, 2005 SCFM of Ukraine and General Prosecutor's Office of Ukraine adopted the Joint Order #156/35 "On introduction changes and amendments to the Procedure of submitting by SCFM to General Prosecutor's Office of Ukraine of case referrals on financial transactions that might be related to legalization (laundering) of proceeds from crime or terrorist financing and receipt of information on status of their consideration, which improves the procedure of submitting case referrals to Prosecutor's Office of Ukraine.

- **September**

By agreement with SCFM of Ukraine, the Board of the National Bank of Ukraine adopted Resolution of September 20, 2005 #341 "On adoption of changes to the Statute for conduction of financial monitoring by banks". The Resolution improves the procedure of conducting financial monitoring by banks.

- **October**

For developing the procedure of receipt and processing information received by SCFM of Ukraine electronically via the National Bank of Ukraine e-mail system, on October, 17, 2005 State Committee for Financial Monitoring of Ukraine adopted Order #195 "On processing of information received into the National Bank of Ukraine e-mail system".

- **November**

On November 30, 2005 the Order of SCFM of Ukraine #230 approved the Instruction on drawing up of materials on administrative violations, which regulates procedure of drawing up the materials on administrative violations and approves procedure of their registration.

- **December**

On December 1, 2005 the Parliament of Ukraine adopted the Law of Ukraine "On introduction amendments to some Laws of Ukraine improving legal regulation of international cooperation in the area of prevention of terrorist financing". The Law provides improvement of international cooperation procedure in AML/CFT sphere.

On December 21, 2005 the Cabinet of Ministers of Ukraine issued the Resolution #540-p "On amendments into Annex to the Resolution of the Cabinet of Ministers of Ukraine of July 17, 2003 #419". This Resolution according to the FATF decision excluded Nauru from the national NCCT list.

3. Statistics of received reports

3.1. General dynamics of received reports

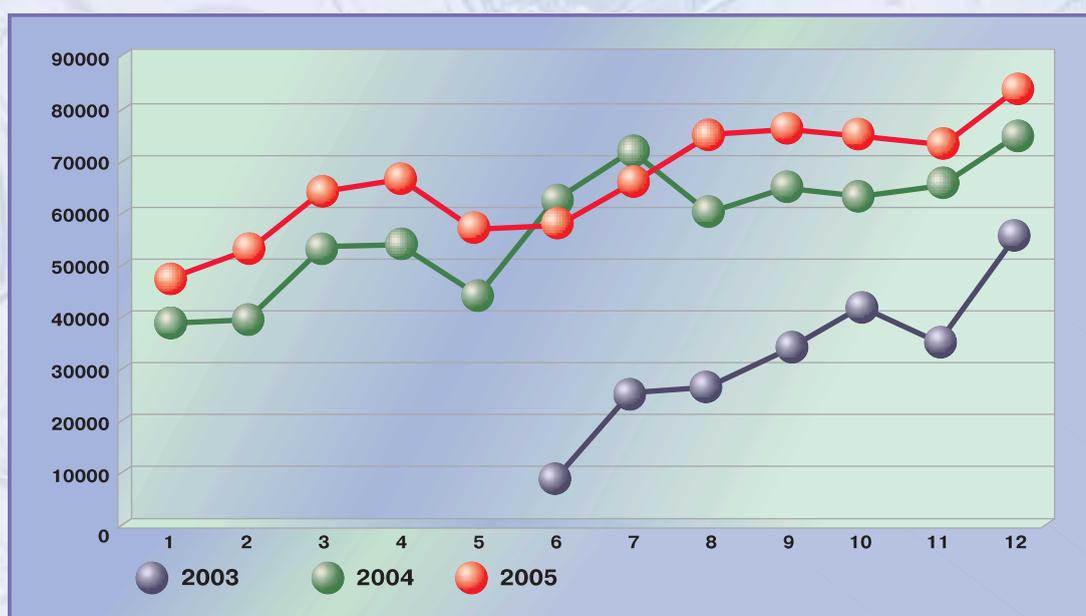
SCFM of Ukraine collects and processes information received from financial intermediaries concerning financial transactions subject to the financial monitoring.

During the reporting year 786 251 reports on transactions were loaded to the data warehouse for further analysis.

Comparing to 2004 the intensity of xTRs submission is still high. In particular, the monthly amount of received reports during 2005 (67 733) has increased in comparison to 2003 and 2004 in 1,87 and 1,12 times respectively.

The decreasing tendency of percentage of errors in the reports is similar to 2003-2004.

Monthly dynamics of reports on financial transactions loaded in 2003 - 2005



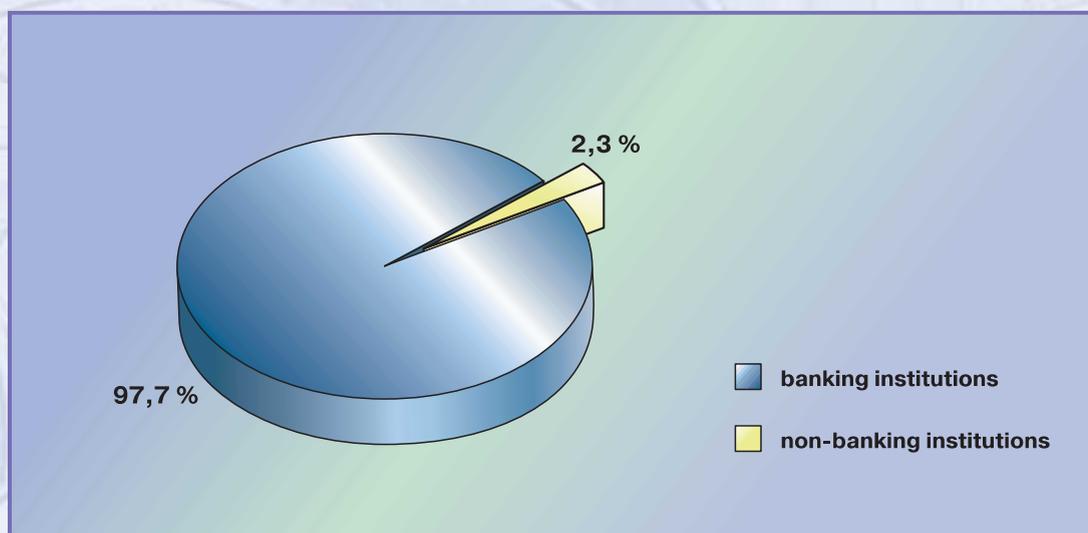
3.2 Dynamics of received reports from financial sectors

Concerning reporting breakdown by types of financial intermediaries in Ukraine, banks are the most active entities, which send considerable part of financial transactions reports.

During 2005 767 844 reports on financial transactions from banking institutions were loaded to the data warehouse. All the reports were received from banks electronically by means of secure electronic channels of the National Bank of Ukraine.

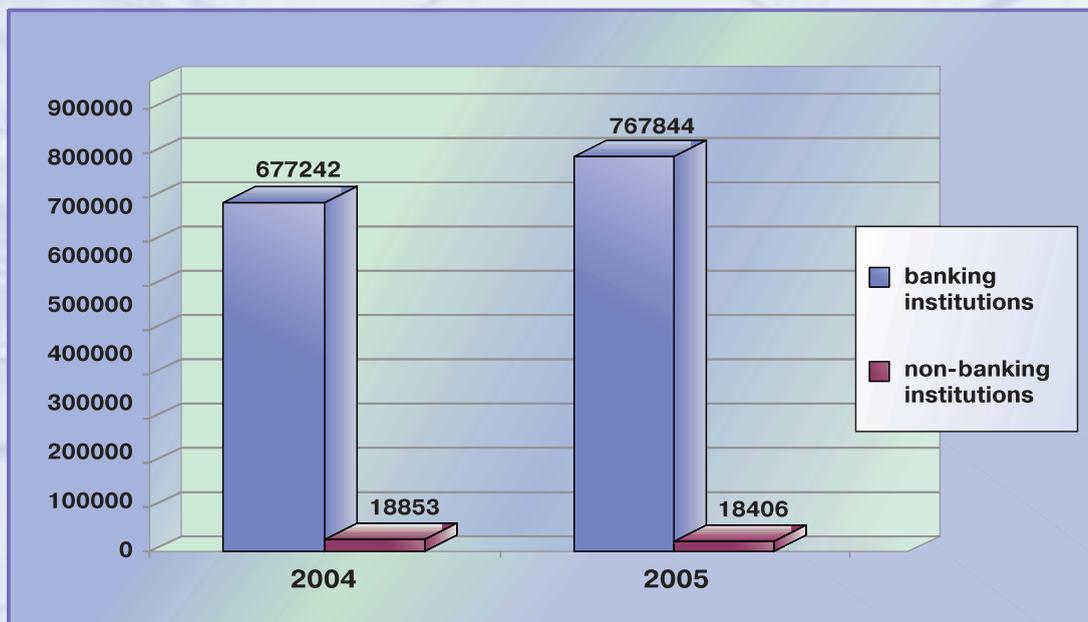
Also 18 406 reports from non-banking institutions were loaded to the data warehouse (of them 4 447 received electronically).

Amount of reports received from banking and non-banking institutions in 2005



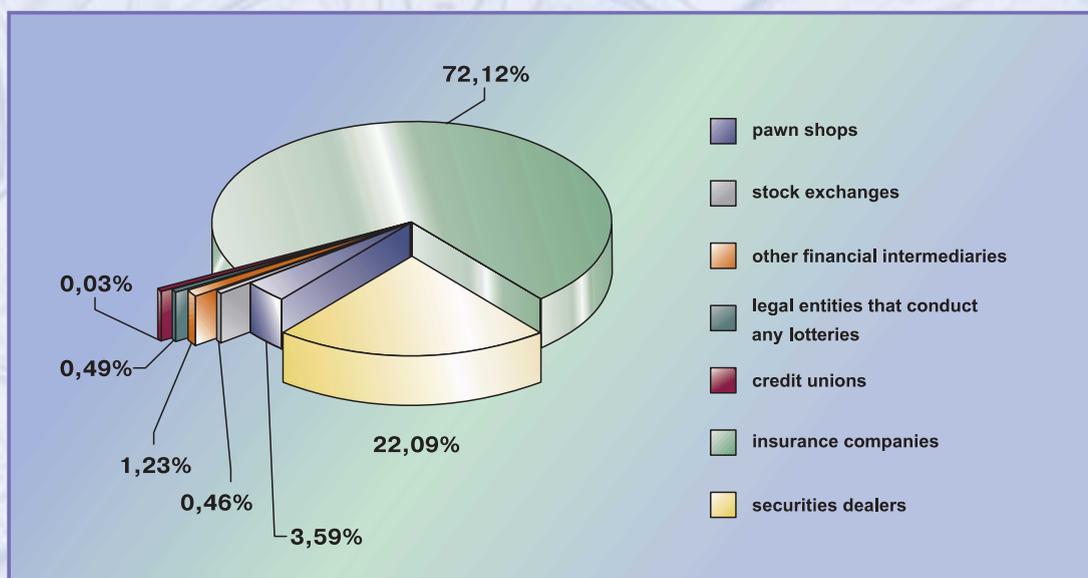
In comparison to the previous periods the percentage of reports from banking institutions is still high and has tendency to increase.

Dynamics of received reports from banking and non-banking institutions during 2004-2005

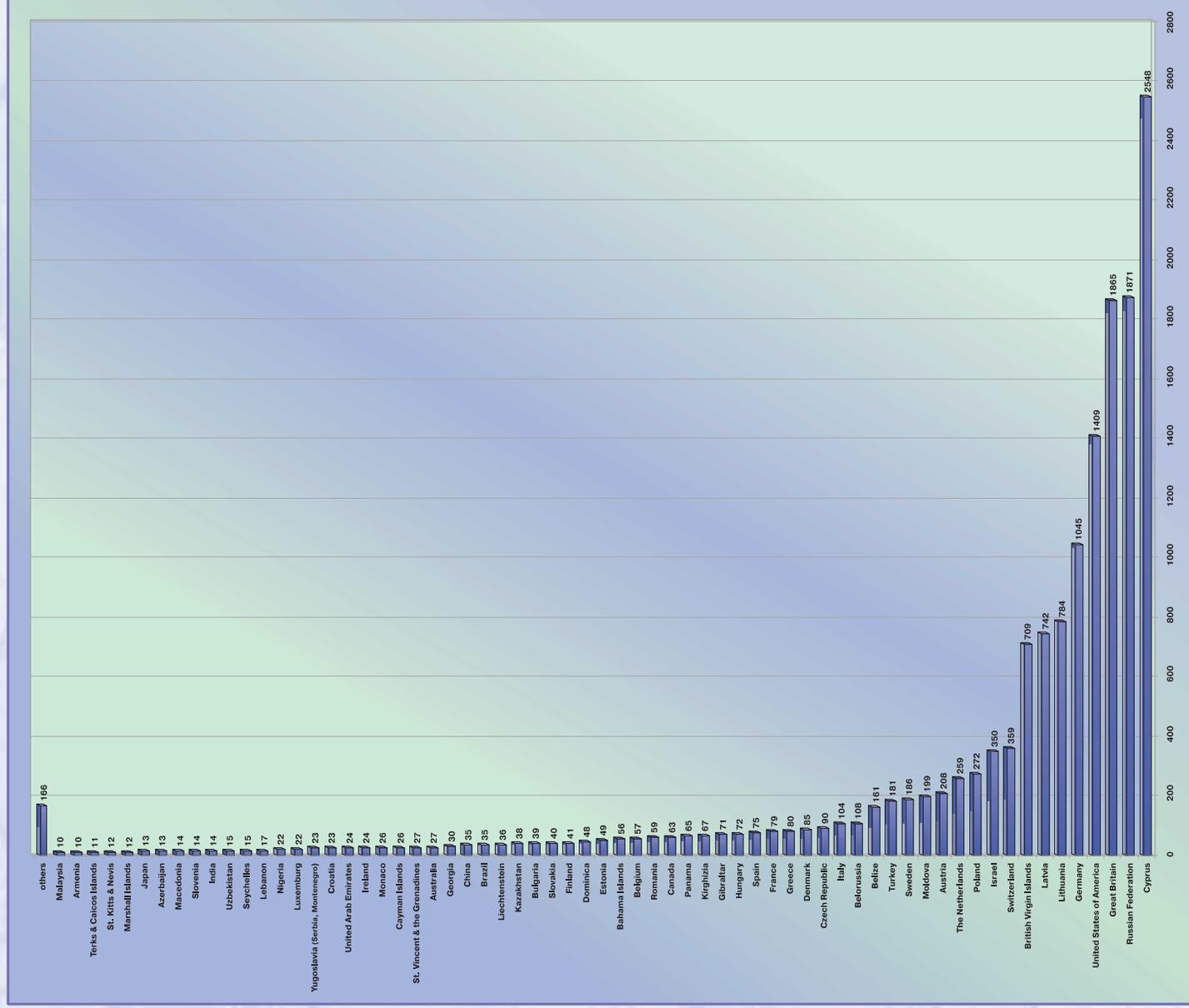


Among non-banking financial intermediaries the insurance sector is most active reports provider. Specifically, the percentage of their reports made up 72.12%.

Percentage of the reports received by SCFM from different non-banking financial entities in 2005

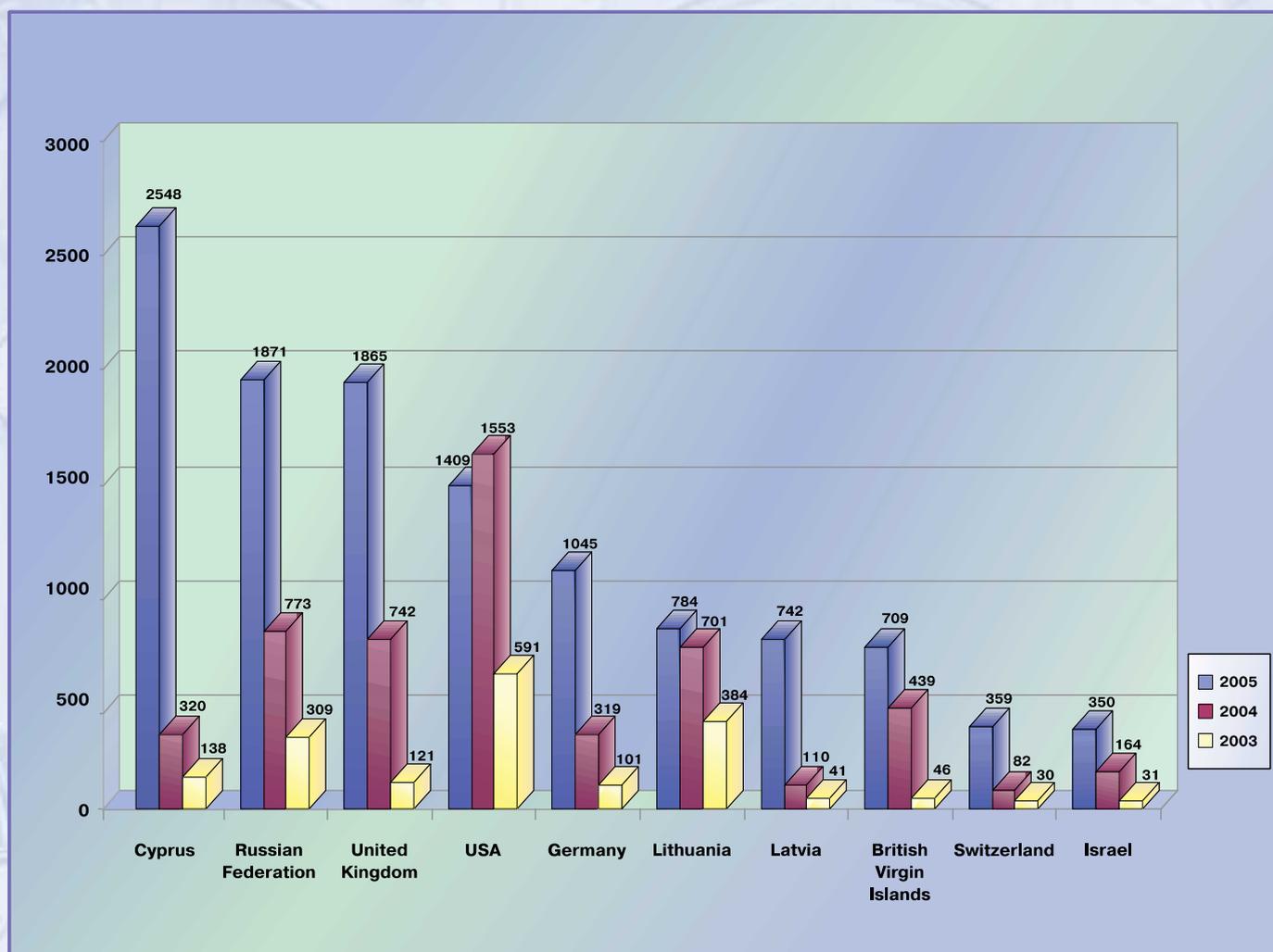


The amount of financial transactions subject to financial monitoring with residents of other countries during 2005



Statistics on submission on financial transactions in the context of resident countries involved in conduction of such transactions shows that in most cases such transactions took place with participation of: Cyprus, Russian Federation, United Kingdom, the USA, Germany, Lithuania, Latvia, British Virgin Islands, Switzerland and Israel.

The dynamics of financial transactions subject to financial monitoring with residents of "top ten" of countries-leaders in such transactions in 2003-2005



4. Analytical Activity

4.1 The process of analysis

The FIU of Ukraine carries out collecting, processing and analysis of information on suspicious financial transactions.

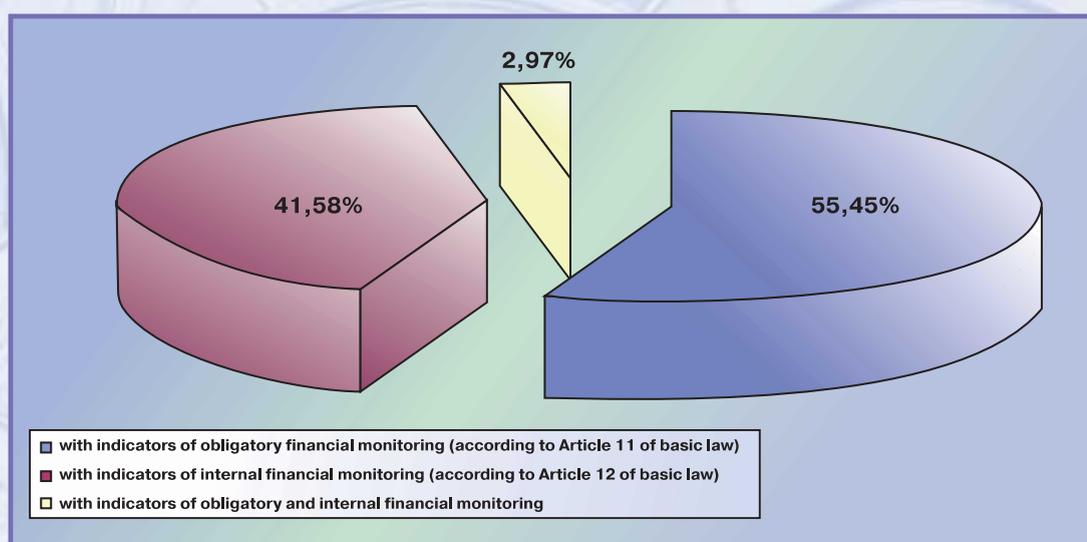
Information for analysis is received from:

- reporting entities;
- law enforcement agencies;
- regulators and other state authorities;
- FIUs of other countries;
- public sources (Internet, commercial data bases).

The analysts use such instruments in their activity:

- the OLAP tools (reporting in MicroStrategy, quick analysis and overview);
- visualization of links (financial transactions schemes analysis in i2);
- formation of own "black lists";
- formation of complex requests to data bases;
- development of own fuzzy logic rules⁷ (complicated rules on the basis of several informal criteria).

Distribution of reports by indicators of financial monitoring in 2005

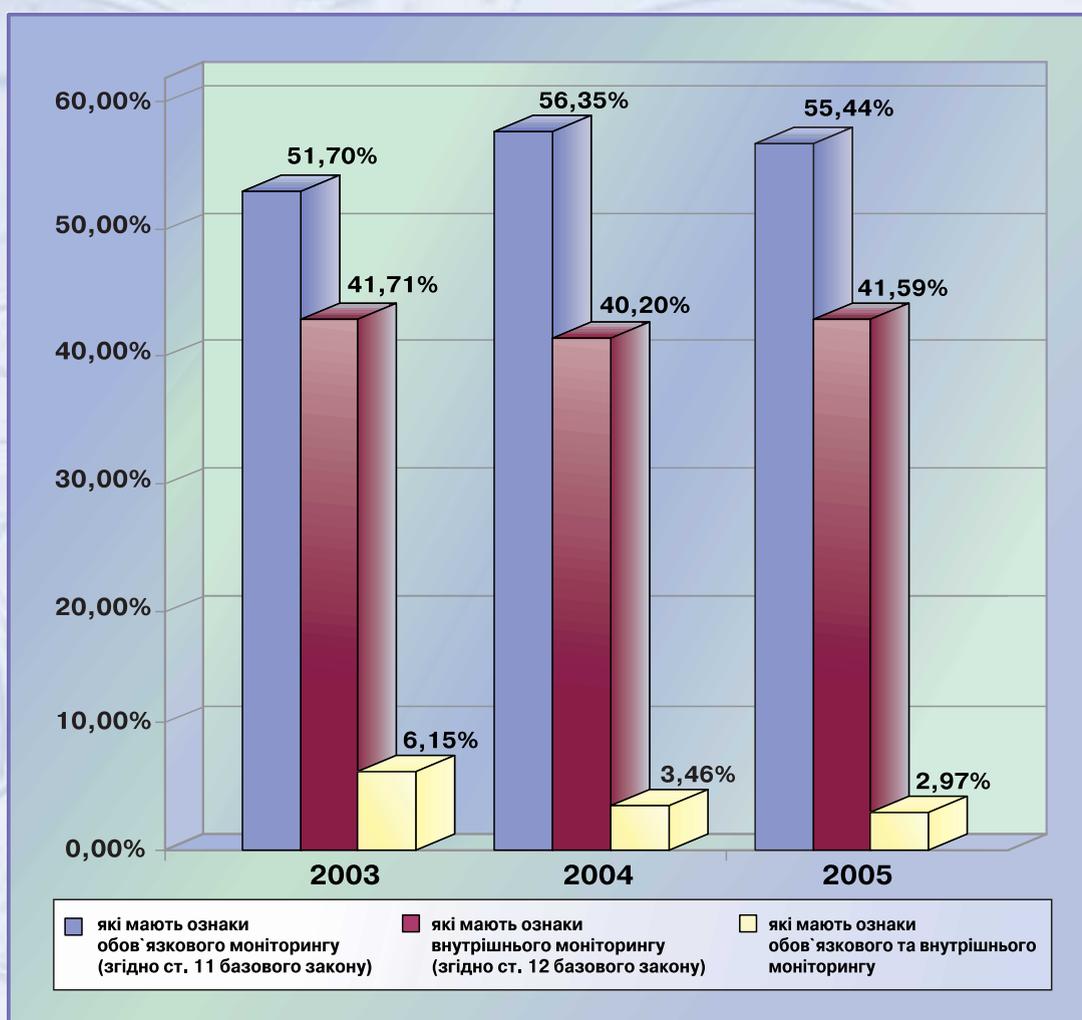


⁷ Using of fuzzy logic is one of mathematical methods most often used in algorithms of decision taking when input information contains uncertainty.

During 2005 - 785 942 financial transactions reports were registered. Breakdown of received reports in reporting year in the context of financial monitoring indicators is the following:

- with indicators of obligatory financial monitoring - 55.45%;
- with indicators of internal financial monitoring - 41.58%;
- with indicators of obligatory and internal monitoring - 2.97%.⁸

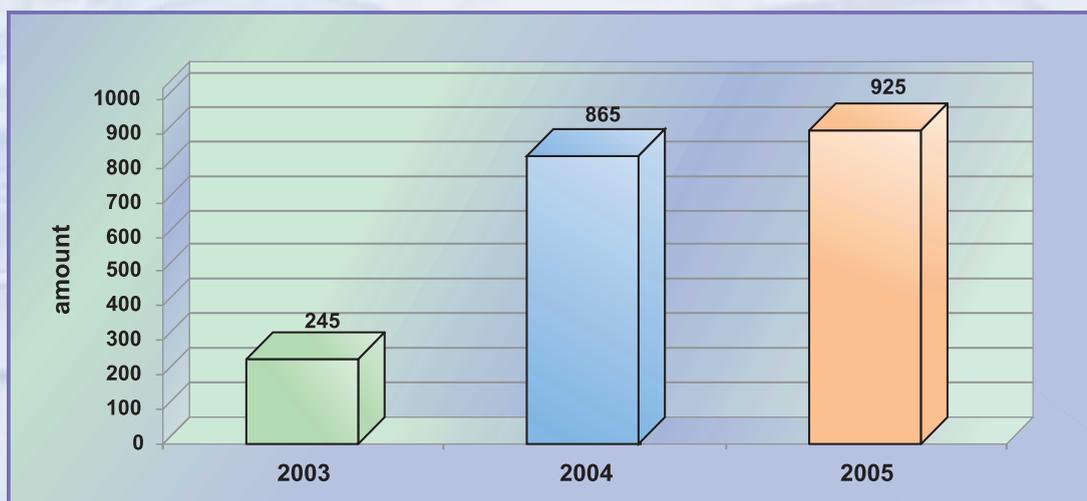
Dynamics of reports received in view of indicators of financial monitoring during 2003-2005



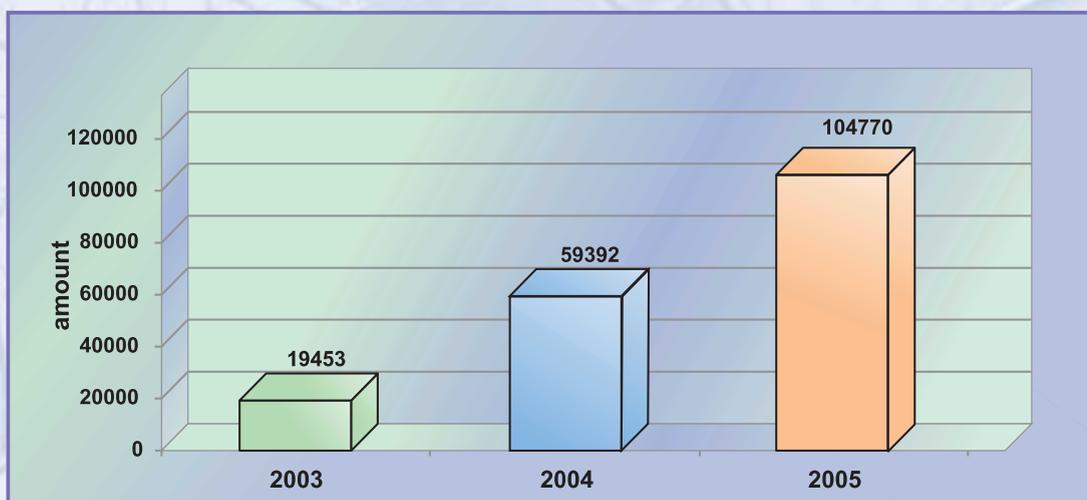
⁸ One report may have several indicators of monitoring at once.

During reporting period 10 4770 reports have been selected for active work and became a basis for 925 dossiers.

Statistics on created dossiers during 2003-2005



Statistics on financial transactions selected for active analysis during 2003-2005



During 2005 SCFM of Ukraine carried out a number of measures to improve the procedure for financial transactions information processing which concerns:

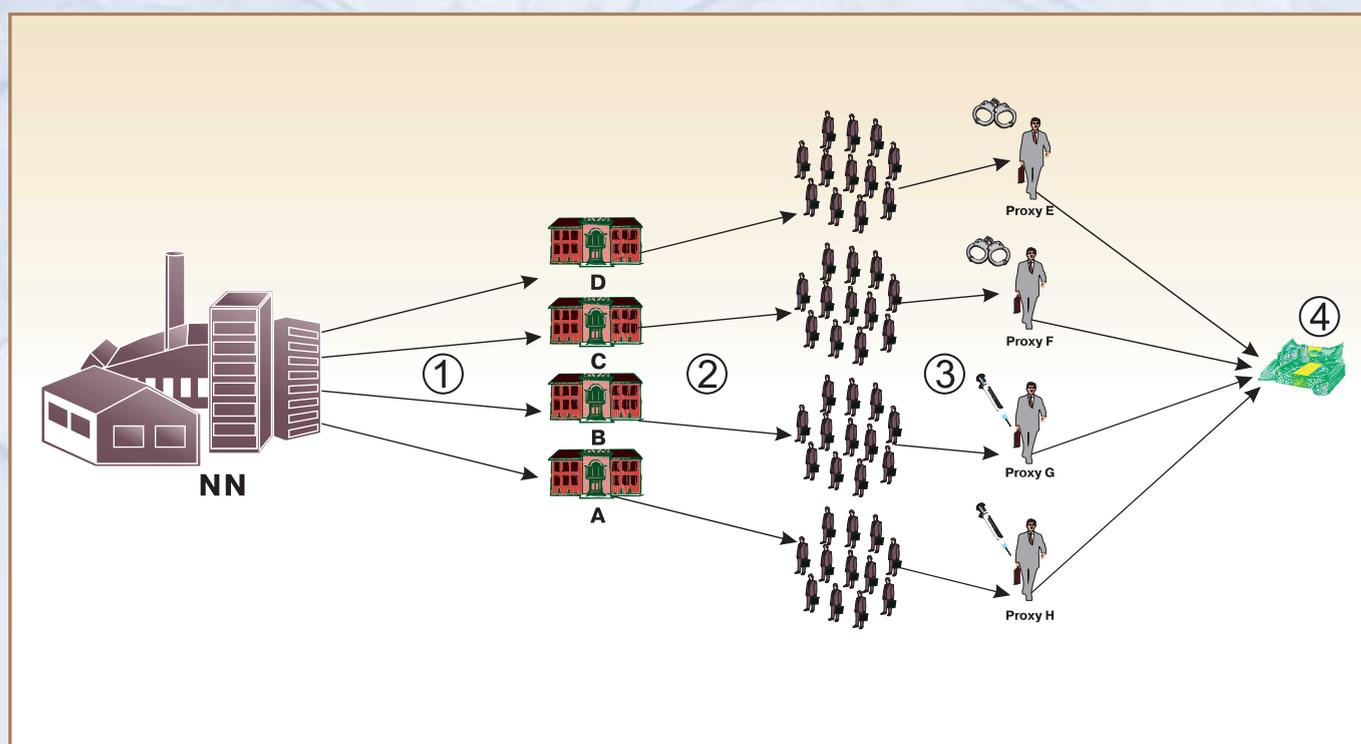
- data warehouse structure;
- algorithm for detection of reports on transactions performed by persons from "black list" of terrorist;
- systems of access to databases of other state authorities.

4.2. Laundering schemes

The main ways of laundering can be effectively used by criminals in all spheres of economy, especially in financial sector, foreign trade activity.

As for now one of the main channels of capital flow outside the country are foreign economic transactions. Criminals regularly change both currency used, as well as means of money legalization, and also use foreign financial organizations for laundering of illegal proceeds.

Scheme "Structured cash transactions" (picture 1)



Several Ukrainian business entities in certain chronological order transfer significant amounts of money to the accounts of private enterprises A, B, C and D.

- 1** During some period money is transferred through a newly opened account of recently registered enterprise A. Then financial transactions on this account are stopped, and money is transferred to newly opened account of recently registered enterprise B.

In the same way money was transferred through current accounts of enterprises C and D.

- 2** Henceforth money is transferred from accounts of private enterprises A, B, C and D to accounts of 87 natural persons under the guise of agricultural products purchase.

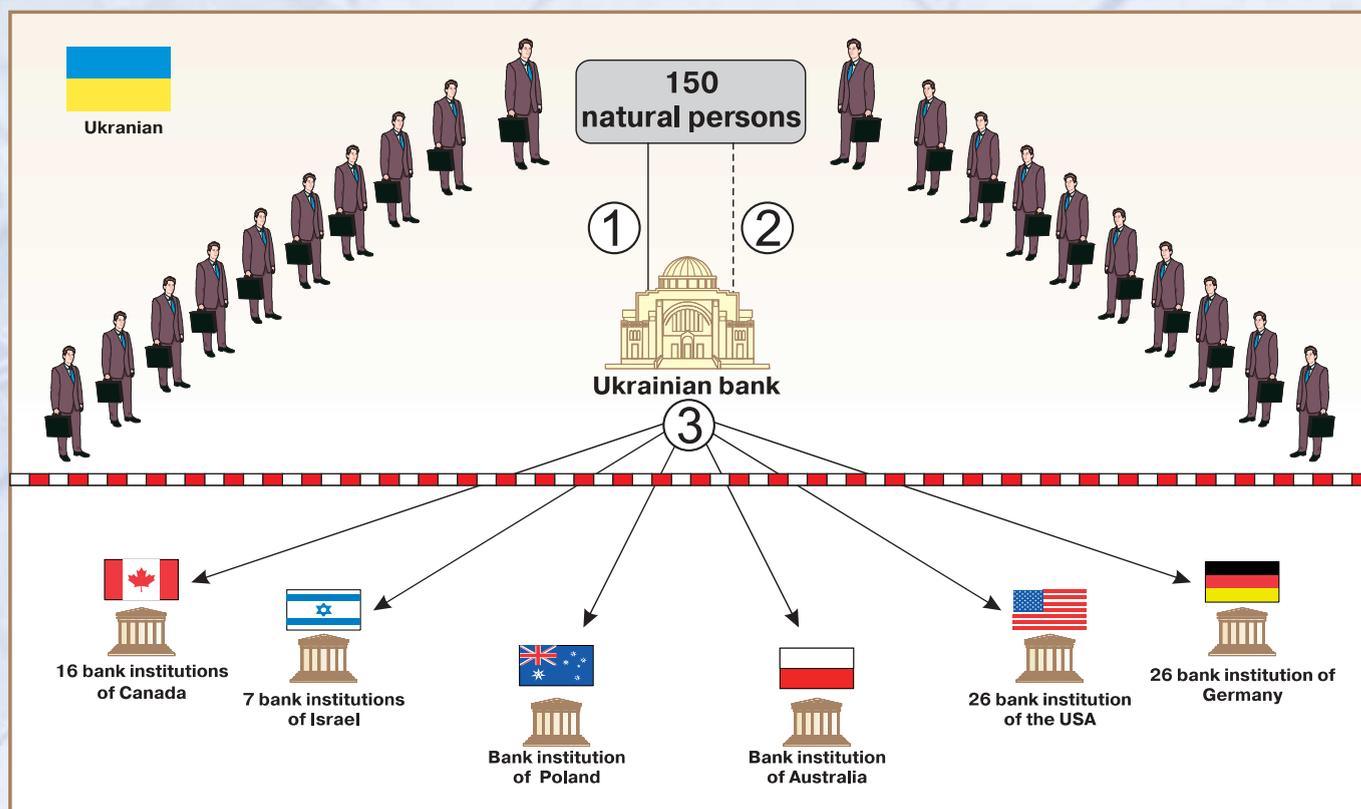
Among indicated natural persons there are two persons registered in law enforcement authorities as drugs consumers, one person imprisoned and one person convicted for severe crime. 4 accounts were also opened with the use of passports considered to be lost.

- 3** Proxies E, F, G and H stand on behalf of the group of natural persons on the basis of agreement and are authorized to represent them in relations with third parties on issue of the control of money on bank accounts of these natural persons.

One of the proxies was convicted for severe crime, and is the founder and director of several Ukrainian business entities, which transfer money to private enterprises A, B, C and D.

- 4** Proxies E, F, G and H on behalf of natural persons receive cash from their accounts through cash desk of bank institution.

Scheme "Money transfer with the use of forged documents" (picture 2)

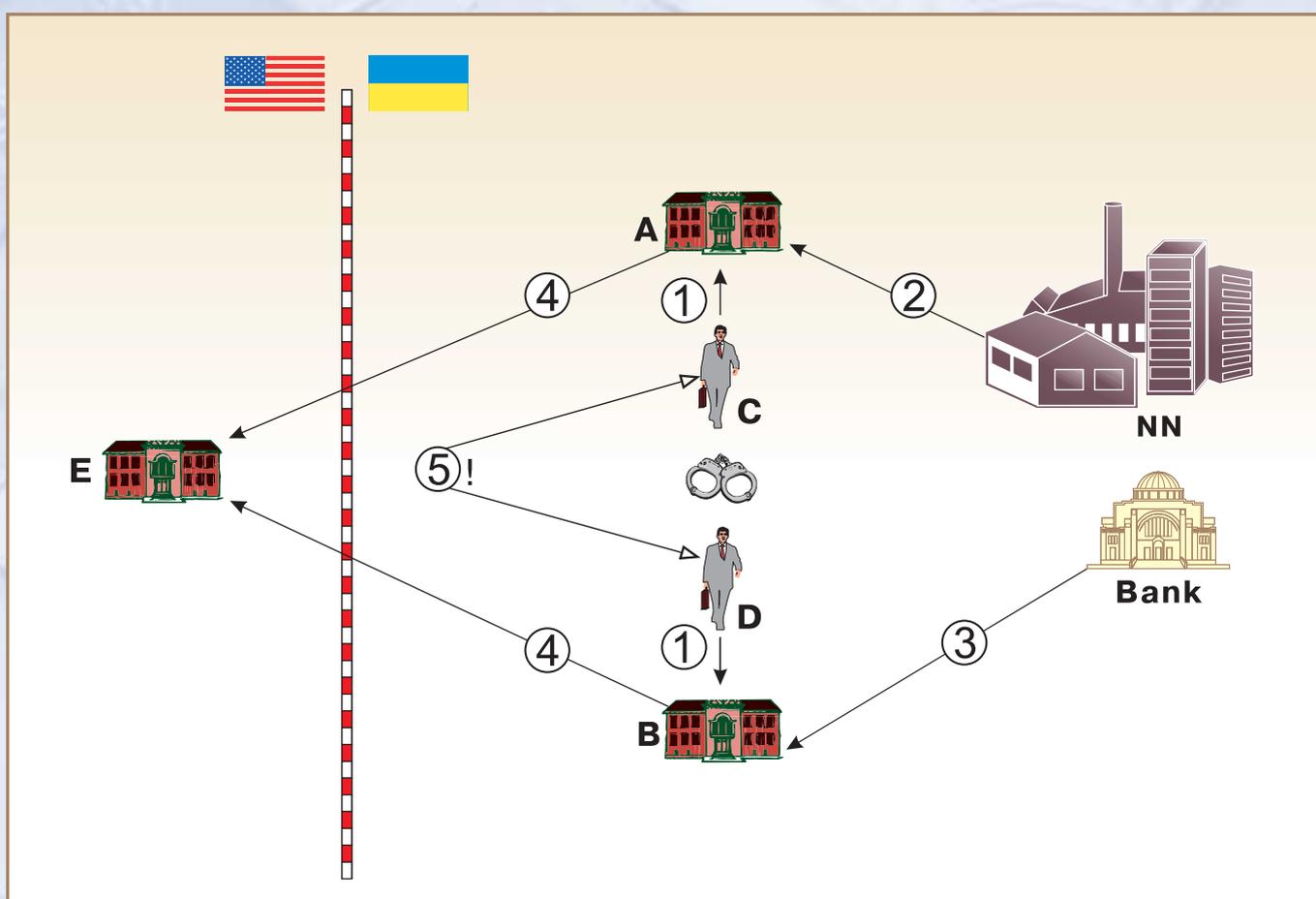


- 1** Group of natural persons consisting of 150 Ukrainian citizens orders Ukrainian bank to transfer money from their current accounts to the accounts opened with foreign banks in favor of these persons.
- 2** When conducting financial transactions natural persons present to bank forged documents for identification purposes (foreign passports of citizens of Ukraine with a stamp for permanent residence abroad; tax numbers).
- 3** As a result of identification of financial transactions participants Ukrainian bank decides to transfer money to the accounts opened with foreign banks.

During nine months 150 persons made 240 transfers, with total amount of 18 507,4 thousand USD (or 98 627,6 thousand UAH) to the accounts opened with foreign banks.

Money was transferred to the accounts, opened with 77 bank institutions in 6 countries of the world.

Scheme "Import on behalf of non-existing company" (picture 3)



Money laundering was carried out through fictitious import with the use of forged documents with involvement of two Ukrainian enterprises, registered by persons with the criminal record.

- 1 Registration of enterprises A and B by persons with the criminal record C and D.
- 2 Money transfers from group of residents of Ukraine NN to resident A.
- 3 Transfers of loan from bank institution of Ukraine to resident B.
- 4 Money transfer abroad for "import" of goods by residents A and B to the accounts of nonresident E.
- 5 In order to conduct transactions foreign trade contract and customs declarations were presented to bank institution.

It was found out that nonresident was not registered at the moment of signing of foreign economic contracts; customs declarations have been never submitted to customs of Ukraine.

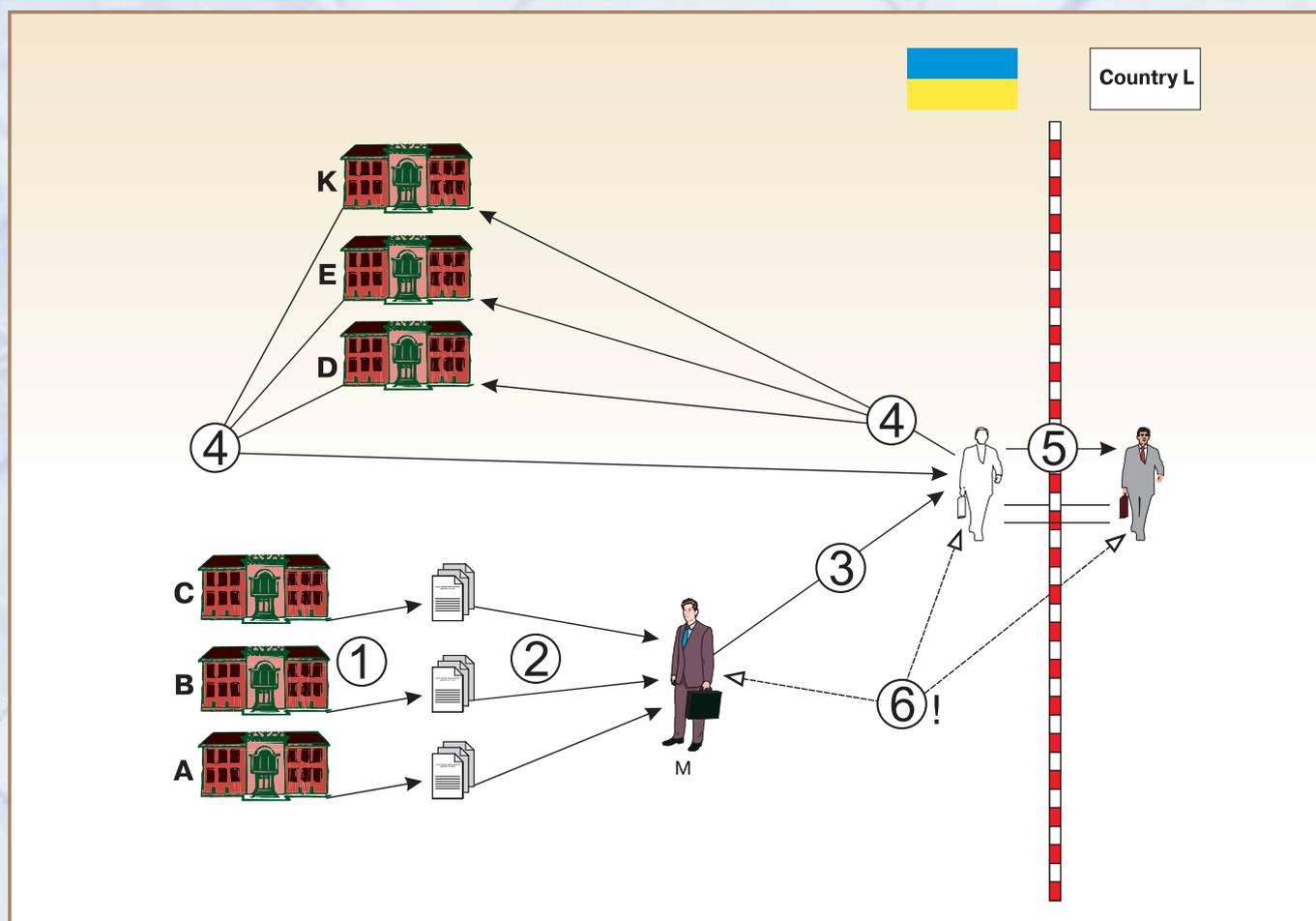
Two affiliated legal entities were used in the scheme: resident and nonresident. Source of origin of money may be both dirty money accumulated in other resident enterprises beforehand, as well as loans, which are further repaid by means of dirty money.

Money laundering was carried out through money transfer abroad under the guise of foreign investments return by natural person - non-resident.

- 1 Registration of residents as joint-stock companies A, B and C and issue of shares by them.
- 2 Share purchase at the nominal price by citizen of Ukraine M at enterprises A, B and C.
- 3 Sale of shares by citizen of Ukraine M to citizen of the country L at price 20 times higher than the nominal.
- 4 Citizen of the country L sells shares at price 20 times higher than the nominal to Ukrainian enterprises D, E and K that have indicators of fictitious nature.
- 5 Citizen of the country L transfers money to his own foreign account.

The check-up of scheme participants and their transactions has proven the following. Actions carried out on behalf of the citizen of Ukraine M involved the use of lost passport. Citizen of the country L did not cross Ukrainian border and at the time of conducting of the transactions his passport was also lost.

Scheme "Money laundering with the use of securities" (picture 4)



The basis of such scheme was thorough knowledge of nuances of Ukrainian legislation. Concealment of this scheme is made due to its separate elements do not arouse suspicion and only their comprehensive analysis makes possible to distinguish "pseudo reinvestment" transactions from the ordinary funds reinvestment. The use of lost passport of Ukrainian citizen can often be disguised as a result of transactions on securities exchange.

4.3. Typologies

At the end of the 2nd quarter of 2005 methodological manual "Combating money laundering: legal, organizational and practical aspects" was published. It contains description of money laundering schemes typical for Ukraine. This manual was forwarded to 534 organizations, including executive power authorities, their branches, commercial educational centers, libraries and other organizations and institutions.

In December SCFM worked up Money laundering typologies in Ukraine in 2004-2005, on the basis of which the printed edition will be composed in 2006.⁹

The named materials consider the most widespread trends and money laundering schemes for the period under review. In particular, results of researches of state authorities - participants of the AML system were inserted in typologies, including examples of real cases related to "laundering".

At the same time active participation in typologies researches within EAG and FATF is worth mentioning.

In particular, in the framework of EAG activity under the leadership of SCFM of Ukraine the typology research on the subject "Use of fraudulent schemes for illegal reimbursement of VAT from budget at export of goods (works, services) for obtaining illegal funds and their further legalization" was completed. Moreover, materials under the subject "Use of non-resident entities for reinvestment of the proceeds from crime into economy (on example of offshore companies)" were elaborated.

At the end of November on the joint FATF Experts Meeting on Typologies FIU of Ukraine presented results of its researches within the framework of the Trade-based Money Laundering Working Group.

⁹ In pursuance of the point 25 of the Action plan for prevention and counteraction to legalization (laundering) of the proceeds from crime and terrorist financing for 2005, approved by the Resolution of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine of August 10, 2005 # 736. Money laundering typologies in Ukraine in 2004-2005 were approved by the order of SCFM of Ukraine of December 27, 2005 # 249 and published at official Website of SCFM of Ukraine.

5. Case referrals

5.1. Consideration of case referrals by law enforcement authorities

According to the tasks established by the basic Law, SCFM collects, processes and analyses information on financial transactions subject to financial monitoring, and in case of reasonable grounds to suspect that the transaction can be related to legalization (laundering) of the proceeds or terrorist financing, submits relevant case referrals to law enforcement agencies according to their competence.

The procedure for submission of case referrals on aforementioned financial transactions by SCFM and receipt of information on their processing is regulated by joint orders of SCFM of Ukraine with the General Prosecutor's Office of Ukraine, the Ministry of Interior of Ukraine, the Security Service of Ukraine and the State Tax Administration of Ukraine.

Record of case referrals and status of their consideration is carried out through electronic Control card for registration of case referrals.

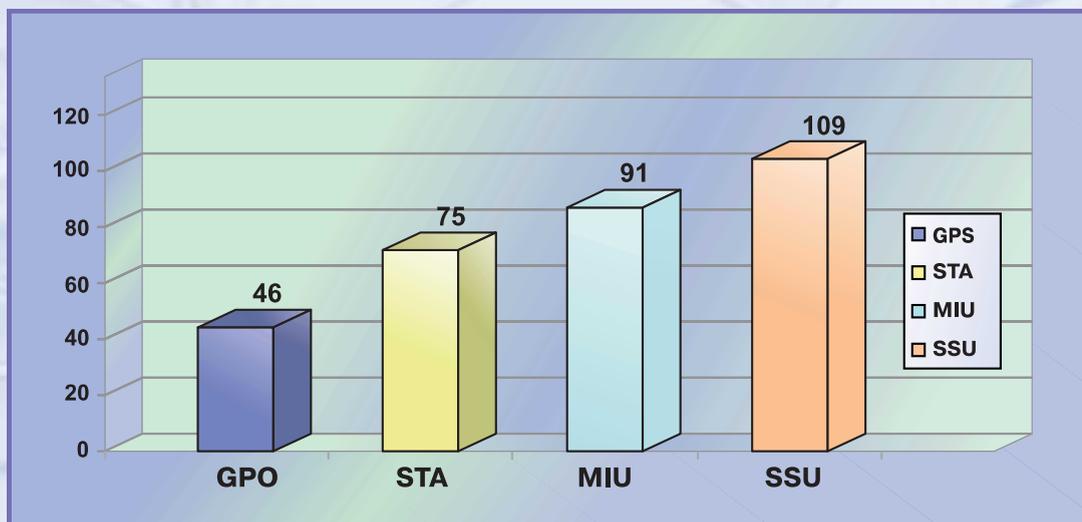
Besides, SCFM of Ukraine in conjunction with law enforcement authorities quarterly carries out revision of data on the results of case referrals consideration, and draws up reports under results of verifications.

In 2005 SCFM of Ukraine submitted 321 case referrals to law enforcement authorities, including to:

General Prosecutor's Office of Ukraine	- 46;
State Tax Administration of Ukraine	- 75;
Ministry of Interior of Ukraine	- 91;
Security Service of Ukraine	- 109.

Three case referrals were related to suspicions of terrorist financing.

Amount of case referrals submitted to law enforcement authorities in 2005

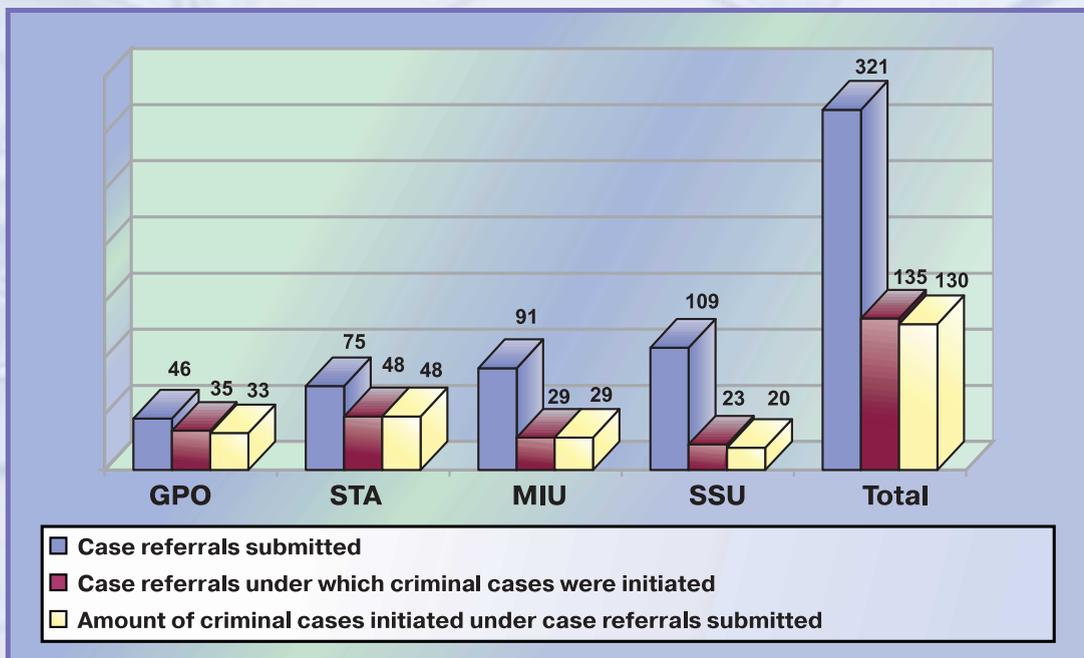


These case referrals were prepared on the basis of 87197 reports of financial intermediaries on financial transactions subject to financial monitoring.

Under the results of processing of 135 case referrals, 130 criminal cases have been initiated by law enforcement authorities, 9 of which were submitted to the court. Other criminal cases are being investigated.

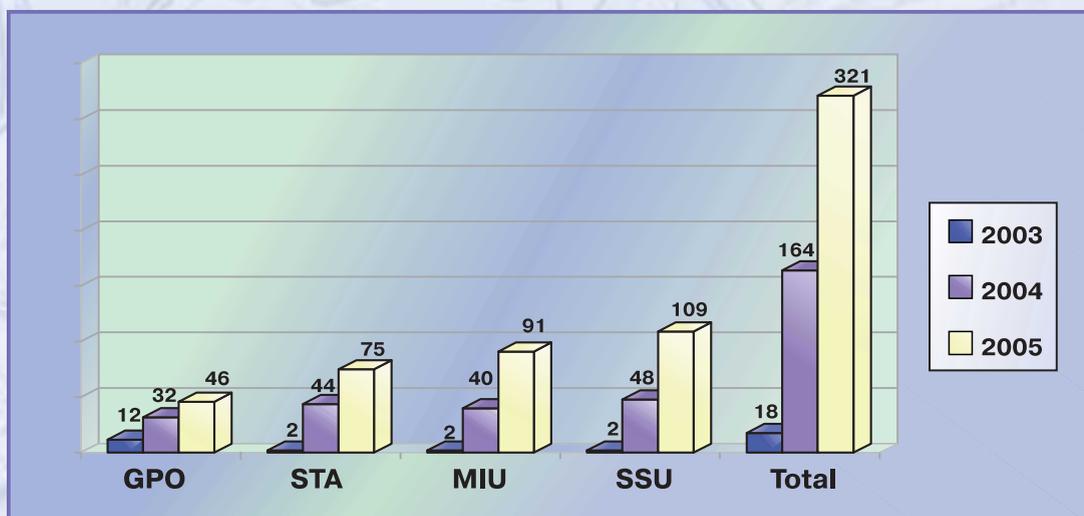
Indicator	GPO	STA	MIU	SSU	Total
Case referrals submitted	46	75	91	109	321
Case referrals under which criminal cases were initiated	35	48	29	23	135
Case referrals under which initiation of criminal cases was rejected	4	23	23	2	52
Amount of criminal cases initiated on the grounds of case referrals submitted	33	48	29	20	130
Criminal cases submitted to the court	3	3	3	0	9

Processing of case referrals by law enforcement authorities in 2005

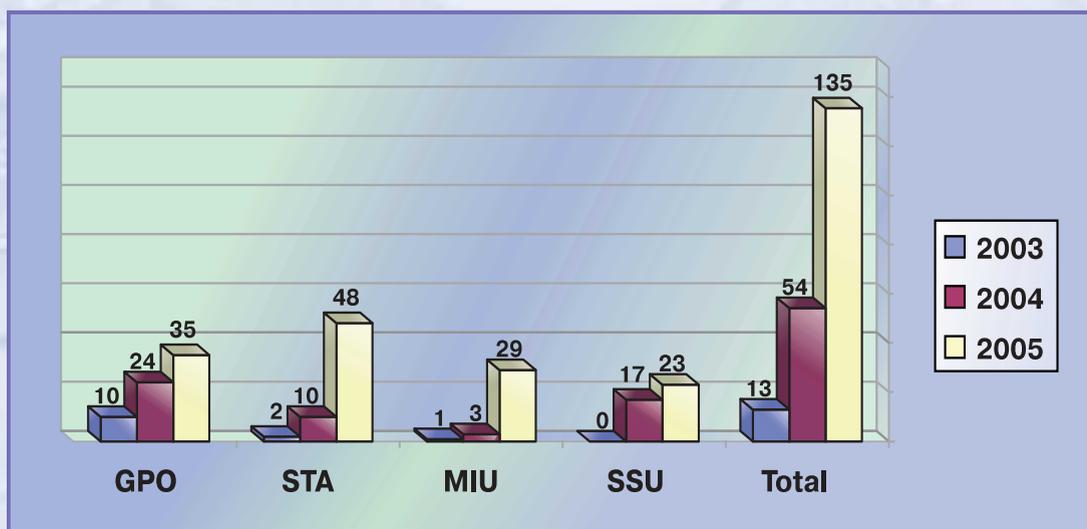


Processing of case referrals by law enforcement authorities in 2003 - 2005

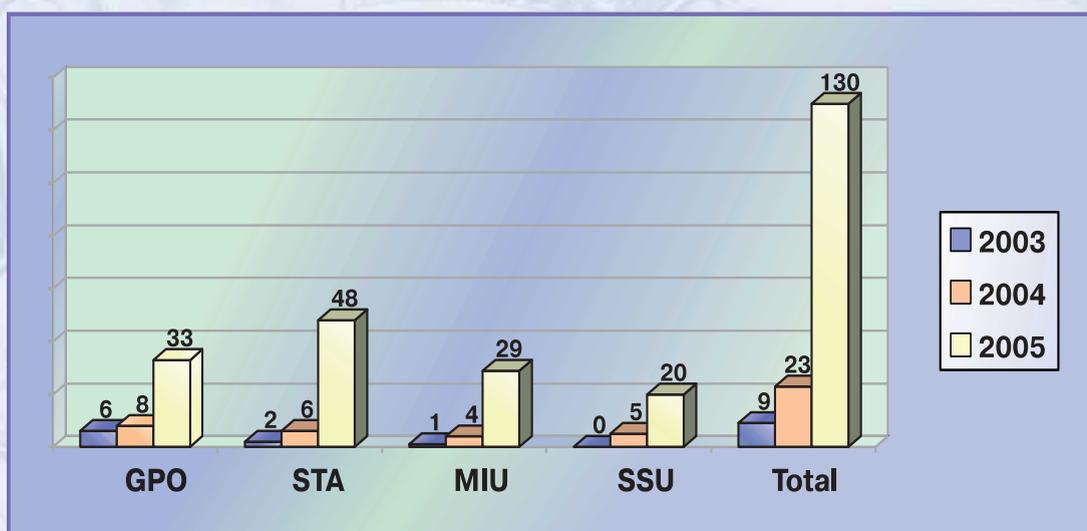
Case referrals submitted to law enforcement authorities during 2003 - 2005



Amount of case referrals under which criminal cases were initiated



Amount of criminal cases initiated on the grounds of case referrals submitted



Indicator	2003					2004					2005				
	GPO	STA	MIU	SSU	Total	GPO	STA	MIU	SSU	Total	GPO	STA	MIU	SSU	Total
Case referrals submitted	12	2	2	2	18	32	44	40	48	164	46	75	91	109	321
Case referrals under which criminal cases were initiated	10	2	1	0	13	24	10	3	17	54	35	48	29	23	135
Case referrals under which initiation of criminal cases was rejected	2	0	0	0	2	4	4	5	0	13	4	23	23	2	52
Amount of criminal cases initiated on the grounds of case referrals submitted	6	2	1	0	9	8	6	4	5	23	33	48	29	20	130
Criminal cases submitted to the court	0	0	0	0	0	1	1	1	0	3	3	3	3	0	9
Considered by the court	0	0	0	0	0	1	0	0	0	1	0	1	0	0	1

5.2. Example of court decision

The State Tax Administration of Ukraine submitted information that investigative department of tax police initiated criminal case on indicia of crime envisaged by part 2 of the Article 205, part 3 of the Article 209 of the Criminal Code of Ukraine concerning citizens of Ukraine K. and H.

In order to ascertain group of companies which constitute scheme for transferring dirty money, SCFM of Ukraine analyzed financial transactions of substantial amount of legal entities. The basis of the determined group consisted of companies established for a reward by the citizens of Ukraine K. and H. The volume of transactions of these companies aggregated 11.0 billion UAH. Information on 2 236 financial transactions related to transfer of funds obtained from repayment of certificates of deposit was submitted through case referrals.

Amount of funds suspected to be laundered aggregated 1.5 billion UAH.

Case referrals of SCFM of Ukraine were incorporated into the criminal case initiated, which was considered at open trial on accusation of citizen K. of commitment of crimes envisaged by Articles 205 part 1, 205 part 2, 209 part 3, 358 part 2, 358 part 3 of the Criminal Code of Ukraine.

According to the court decision, citizen K., acting intentionally by prior consent with the group of persons, executed financial transactions involving monetary funds, obtained through execution of illegal act, fictitious entrepreneurship, which preceded legalization (laundering) of the proceeds, at especially large rates - 2.7 billion UAH.

According to the court decision citizen K. was found guilty of commitment crimes envisaged by part 1 of the Article 205, part 2 of the Article 205, part 3 of the Article 209, part 2 of the Article 358, part 3 of the Article 358 of the Criminal Code of Ukraine and was sentenced to 56 months of imprisonment with revocation of right to carry out entrepreneurial activity, related to registration of legal entities, during three years along with confiscation of the proceeds from crime and confiscation of the whole personal property.

6. Development of information systems

6.1. Development of IAS of SCFM of Ukraine

In 2005 SCFM implemented system of electronic submission of information on financial transactions by non-banking entities of initial financial monitoring. The system applies modern algorithms of encryption of information and digital signature, which substantially raised efficiency of processing and analysis of information.

Within the framework of MOLI-UA Project and with assistance of the Council of Europe a node for access of SCFM of Ukraine to the European system for information exchange between financial intelligences (FIU.NET) was established and connected. Maintenance of its databases is carried out. SCFM of Ukraine in conjunction with FIU.NET Bureau organized a workshop for FIU.NET users. The workshop was held in Kyiv in December 2005 with participation of experts from the Council of Europe, Belgium, the Netherlands and Ukraine.

In 2005 establishment of complex system for protection of information, which provides protection of Internet node of IAS of SCFM was completed. The named system has undergone state examination and obtained Conformity certificate from the Department of special telecommunication systems and protection of information of the Security Service of Ukraine.

6.2. Unified Information System Development

In 2005 the activity on UIS establishment continued.

At the beginning of the year were conducted preliminary tests of the UIS functional subsystems software provision, the aim of which was to determine work capacity of the loading program complexes and functional subsystems database maintenance, which were created by the agencies of state power.

According to the tests results, functional subsystems of the State Property Fund, the Ministry of Economy, the Main Control and Audit Division, the Administration of State Border Service, the Ministry of Finance, the Security Service of Ukraine, the State Commission on Regulation of Financial Services Markets, the Securities and Stock

Market State Commission, the State Tax Administration, the Ministry of Interior, the State Customs Service and the State Committee for Statistics were launched to test exploitation. Thus, 12 functional subsystems are launched to test exploitation. In connection with unavailability of software, functional subsystems of the State Committee on Land Resources and the State Committee for Regulatory Policy and Entrepreneurship have not launched to test exploitation.

Complex systems for information protection are established for Financial Monitoring Information System (FMIS) user nodes, functional subsystems of the agencies of state power and the main control center. Preliminary tests of complex systems of FMIS user nodes information protection were conducted in the State Property Fund, the Ministry of Economy, the Main Control and Audit Division, the Administration of the State Boundary Service, the Ministry of Finance, the Security Service of Ukraine, the State Commission on Regulation of Financial Services Markets, the Securities and Stock Market State Commission, the Ministry of Interior, the State Customs Service and the State Committee for Statistics. The mentioned user nodes and the Main control center of the FMIS were launched to test exploitation.

Test exploitation of the Central subsystem of the UIS took place in 2005. In particular, there was conducted exploitation in different loading regimes for transport system, System of functional subsystems data processing, Center for data processing, Center for analytical data processing, Complex system of UIS FM information protection. 51 562 test requests (including batch) were sent in the course of test exploitation, in the result of which software and documentation of the UIS FM were improved.

UIS normative basis was worked through in the course of test exploitation. In particular, legal mechanisms for interaction with agencies of state power in the UIS framework were completed; model draft statute on UIS functional subsystems was elaborated. The draft determines division of functions of the SCFM of Ukraine and the entities of the UIS and provision of its functioning. Methodological assistance in error elimination and in conduct of functional subsystems test exploitation conduct was provided to the agencies of the state power - the participants of the UIS.

Together with UIS test exploitation conduct, the SCFM seriously studied information environment of the agencies of state power with the aim to disclose additional information resources, which are necessary for AML/CFT. The issue of the system information resources enlargement was put into consideration of the UIS steering committee.

It is expected that UIS will be launched to industrial exploitation in June 2006.

The main aim of the secure multi-service automated corporate system of the SCFM establishment is:

- On-line supply of the SCFM and its regional structural subdivisions with reliable information on the basis of creation and use of the unified information space applying automated program and information environments and modern information technologies;
- Support of centralized operational administration for subordinate subdivisions and effective supervision over activities;
- Provision of efficiency, reliability, availability and confidentiality of information of the SCFM central office and its regional structural units;
- Centralized information analytical support for the SCFM regional structural subdivisions activity;
- Supplementation of central database with necessary information located on the regional level and which can be found by the SCFM regional subdivision.

Special attention while establishment of the corporate system is paid to the measures for provision of confidentiality of information and prevention of unauthorized access to the data, which is solved by means of Complex system of information protection FINNET establishment.

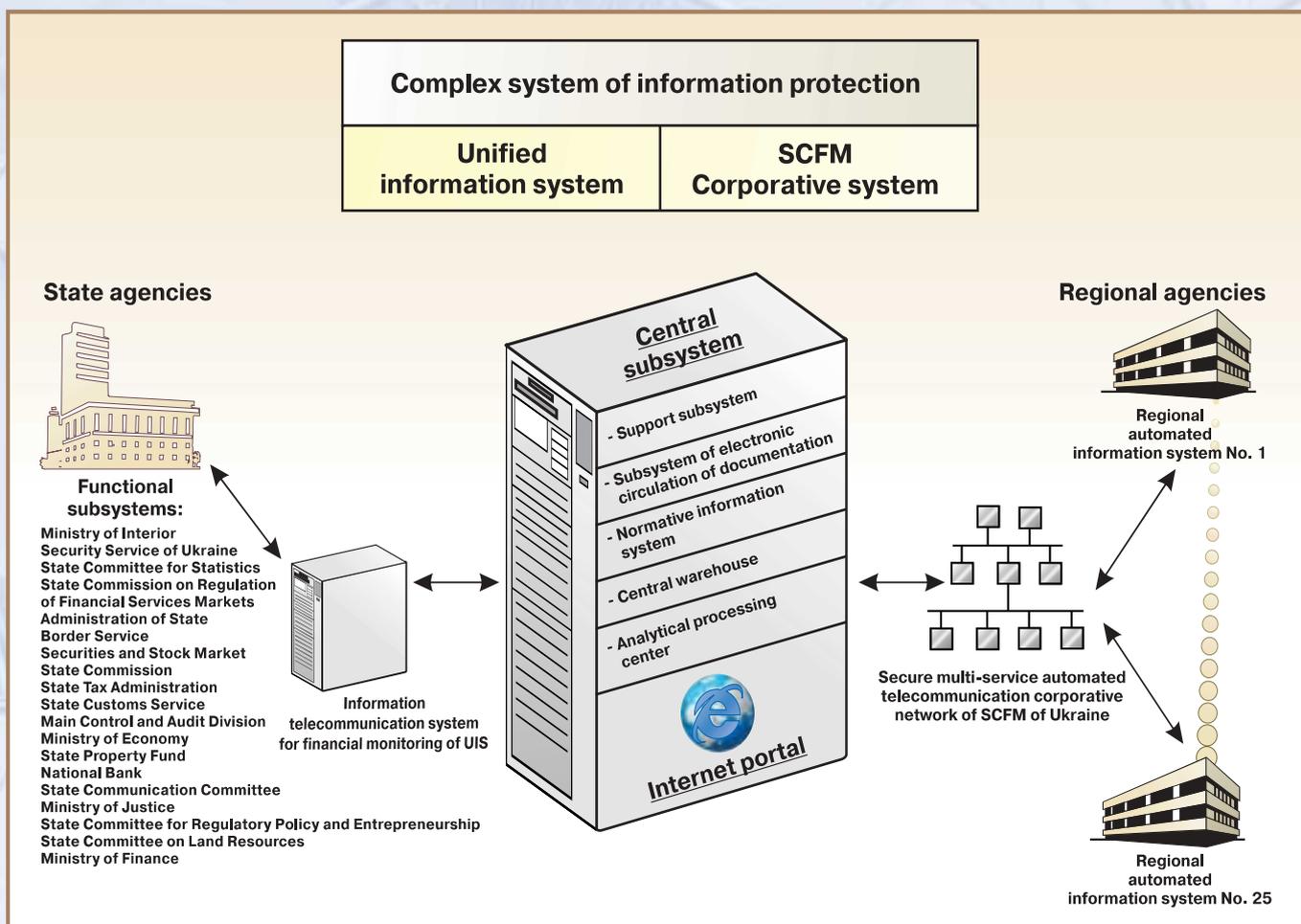
In 2005 experimental sample of the secure multi-service automated corporate system of the SCFM was created, and there have been worked out draft decisions concerning:

- draft design of the secure multi-service automated corporate network of the SCFM;
- draft design of typical automated information system of the SCFM regional subdivision;
- draft design of the Complex system of information protection of multi-service automated corporate network of the SCFM;
- draft design of the Complex system of information protection of typical automated information system of the SCFM regional subdivision.

Besides, technical economic grounds for establishment of secure multi-service automated corporate system of the SCFM were elaborated.

To realize draft decisions of the FINNET the SCFM acquired and launched equipment and software, and took measures on establishment of the first turn of the FINNET and regional automated information systems (RAIS) in regional subdivisions of the SCFM in such regions:

- Autonomous Republic of Crimea and Sevastopol' city;
- Volyn' region;
- Zaporizhya region;
- L'viv region;
- Odessa region;
- Poltava region;
- Kherson region.



7. Interagency cooperation

7.1. Interaction with regulators and other state agencies

During 2005 the FIU of Ukraine on the monthly basis informed the entities of the state financial monitoring on the general statistic data concerning xTRs submitted and information on possible cases of violation of AML legislation by the reporting entities.

In 2005 the SCFM of Ukraine introduced amendments to the joint orders with the Security Service of Ukraine, the Ministry of Interior, the General Prosecutors Office and the State Tax Administration concerning improvement of the procedure of submission of case referrals concerning financial transactions, which can be related to money laundering. Respective orders, in particular, determine that case referrals are submitted both on paper carriers and in electronic form.

In 2005 cooperation with the state agencies in the framework of signed bilateral documents continued.

Thus, in 2005 SCFM jointly with other state agencies signed the following documents:

- Protocol #2 to the Agreement of September 26, 2003 on general principles of cooperation between the SCFM and the National Central Bureau of Interpol, which determines persons responsible for information exchange of June 24, 2005;
- Amendments to the Joint Order of the SCFM and the Administration of Border Service of Ukraine on improvement of the Procedure of submission of information on crossing the state border of Ukraine by citizens of May 17, 2005;
- Protocol #4 to the Agreement of September 05, 2003 #19 between the SCFM and the Ministry of Interior on exchange of information concerning procedure of submission of reports in the framework of criminal cases, which are initiated on indicia of crimes, envisaged by the Articles 209, 2091, 306 of the Criminal Code of Ukraine and on predicate crimes;
- Amendments to the Protocol #2 to the Agreement on cooperation between the State Customs Service of Ukraine and the SCFM on the procedure of submission of information on regulation and improvement of supervision over completeness of receipt of reliable information and integrity of data according to cargo customs declarations of September 12, 2005;

- Protocol #1 on information exchange between the SCFM and the State Commission on Regulation of Financial Services Market of August 17, 2005. The Protocol determines requisite composition of information, which will be exchanged between the FIU and the State Commission on Regulation of Financial Services Market;
- Additional Agreement of November 29, 2005 to the Agreement #19 between the SCFM and the Ministry of Interior of Ukraine on exchange of information in the part of development of cooperation with regional subdivisions of the mentioned agencies.

Besides in 2005 the SCFM signed Memoranda for cooperation with:

- Professional Association of Registrars and Depositaries;
- National Association of Credit Unions of Ukraine;
- All-Ukrainian Association of Pawn-shops of Ukraine.

With the aim to improve interagency cooperation, the SCFM of Ukraine takes measures on establishment of Regional subdivisions.

There was commenced work in Regional Subdivisions in Autonomous Republic of Crimea and Sevastopol' city, Volyn', Zaporizhya, L'viv, Kherson, Odessa, Poltava, Zhytomyr and Zakarpattya regions.

Regional subdivisions carry out activity in the following directions:

- Arrangement of cooperation and interaction with regional agencies of state power and local self-governing bodies;
- Tracking of case referrals in regions;
- Working meetings with representatives of regional divisions of state agencies concerning arrangement of cooperation and information exchange;
- Analysis of completeness and timeliness of reports on financial transactions, subject to financial monitoring, by financial intermediaries in regions;
- Carrying out surveys of the entities of initial financial monitoring.

7.2. Coordination of activity of financial monitoring entities

SCFM as coordinator of activity of participants of the national AML system operates in three main directions:

- Organizational provision of functioning of Interagency Working Group on research of money laundering methods and trends;
- Provision of state regulators with information on possible cases of violation by entities of initial financial monitoring of legislation in the AML and with the list of entities which fail to submit SCFM with reports on financial transactions subject to financial monitoring;

During 2005 SCFM of Ukraine sent:

- 10 overviews to the State Securities and Stock Market Commission;
- 10 overviews to the State Commission for Regulation of Financial Services Markets;
- 12 overviews to the National Bank of Ukraine.

- Elaboration and coordination of normative-legal acts and methodological documents for entities of initial financial monitoring.

During 2005 SCFM of Ukraine agreed:

- 8 normative-legal acts of the State Securities and Stock Market Commission;
- 4 normative-legal acts of the State Commission for Regulation of Financial Services Markets;
- 3 normative-legal acts of the National Bank of Ukraine.

7.3. Activity of Interagency Working Group

In 2005 Interagency Working Group on research of money laundering methods and trends (IWG) held ten meetings which considered 44 issues.

First of all, in 2005 the IWG activity was directed on realization of tasks, with which group was entrusted, and based on coordination of state authorities activity and on administrating of their work in the following directions:

- analysis of effectiveness of measures, taken by state authorities in AML sphere;

- implementation of international standards in this sphere;
- development of normative acts on organization of executive power authorities cooperation in AML/CFT sphere;
- establishment of effective cooperation between state authorities, involved in AML sphere, including on regional level;
- examination of methods and trends in laundering of the proceeds from crime.

During the year IWG approved:

- Plan-Schedule for implementation recommendations of the Select Committee of Experts on evaluation of anti-money laundering measures (MONEYVAL);
- Plan for carrying out of MONEYVAL recommendations on amending legislation of Ukraine.

Among basic issues, subjects for discussions during IWG meetings, there is execution by state authorities of Program for counteraction to legalization of the proceeds from crime, and terrorist financing on 2005, and problem issues discussion and solving.

7.4. Methodological provision, training of financial monitoring entities

With the purpose of methodological provision of financial monitoring entities activity in 2005 the SCFM prepared and directed to financial intermediaries 95 recommendation letters, provided answers on 26 questions that were received on FIU mail box.

In the framework of "hot line" activity in 2005 the SCFM every day provided about 25 consultations to entities of initial financial monitoring on application of the AML/CFT legislation.

More over, the SCFM of Ukraine placed at official web-site 20 interpretative notes to AML legislation.

During the year the SCFM experts participated in organization and carrying out of 58 educational events (workshops, lectures, examinations, meetings, round tables), including international, 26 of all educational events were carried out directly by experts of the SCFM of Ukraine.

Basic educational events, in which the SCFM experts participated, were the following:

- international workshop, organized by IMF experts (May 16-17, 2005, Kyiv);
- "round table" "Application of education and science in counteraction to economic crimes" with participation of Ukrainian state authorities experts and partners from Chicago-Kent Law College of Illinois Technological Institute (USA) (June 3, 2005, Kyiv);
- workshop "Effective application of criminal justice measures in combating money laundering and counteraction to terrorist financing", organized by Legal Department of International Monetary Fund, UN Office on Drugs and Crimes, and General Prosecutor's Office of Ukraine (June 7-9, 2005, Kyiv);
- international workshop "Reduction of money laundering risks" in the framework of MOLI-UA Project, organized by the Council of Europe jointly with FIU of Ukraine (June 16, 2005, Kyiv);
- international regional workshop on counteraction to money laundering, organized with assistance of the Partners for Financial Stability Program, East-West Management Institute (September 29-30, 2005, Kyiv);
- regional educational workshop for experts in the sphere of financial monitoring and "round table" "Improvement of normative-legal provision of the national AML system" for representatives of Public Board of the SCFM, public organizations, mass media and other concerned parties (November 3-4, 2005, L'viv);
- regional educational workshop for experts in the sphere of financial monitoring on AML/CFT issues (December 7, 2005, Poltava).

7.4.1. Training-Methodical Centre

The Training-Methodical Centre for Re-training and Professional Development of Experts on Financial Monitoring Issues in the AML/CFT sphere was established under the Ukrainian FIU administration as state educational institution.

Basic activity of the Centre is:

- provision of re-training and professional development services to experts on financial monitoring issues in the AML/CFT sphere;
- provision of expert, consulting, informative-analytical, scientific-methodical and other services on issues of organization and conducting of financial monitoring;
- carrying out of researches and participation in development of methodologies on money laundering schemes detection, considering specific character of certain financial intermediaries activity;
- drafting proposals on legislation improvement, assisting in development of legal education in the AML/CFT sphere, organization of respective training programs, workshops and conferences;
- cooperation with educational institutions, (including foreign) in the AML/CFT sphere aiming at sharing of positive international experience.

On April 18, 2005 the structure of Training-Methodical Centre was adopted, on June 30, 2005 was adopted its Charter, and approved by the Ministry of Education and Science of Ukraine.

On August 5, 2005 Training-Methodical Centre state registration was carried out and certificate on state registration was received.

On September 2005 Programs of professional development on training course "Combating Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing" were developed and approved by the Training-Methodical Centre of Higher Education of the Ministry of Education and Science of Ukraine.

8. International cooperation

8.1. Cooperation with international organizations

One of priority directions of FIU of Ukraine activity is establishing and enhancing of international cooperation with foreign financial intelligence units, as well as with international organizations involved in combating money laundering.

During 2005 the SCFM of Ukraine actively cooperated with such international institutions and organizations:

- Financial Action Task Force (FATF);
- Egmont Group of Financial Intelligence Units;
- Council of Europe/European Commission;
- Council of Europe Select Committee of experts on the evaluation of anti-money laundering measures (MONEYVAL);
- Eurasian group on counteraction to the legalization of criminal proceeds and terrorist financing (EAG);
- International Monetary Fund and World Bank.

Representatives of the SCFM of Ukraine carried out 42 business trips abroad, 27 of which with the purpose of participation in working groups meetings, international workshops, conferences and forums; 2 trainings and 13 working visits on practical experience exchange.

During 2005 activity on organization and maintenance of 9 visits of foreign FIUs delegations and 16 visits of representatives of other foreign institutes and international organizations to the SCFM of Ukraine was carried out. More over, workshop on technical and practical issues of FIU.NET functioning was organized and carried out in the SCFM of Ukraine premises.

8.1.1. Cooperation with FATF

On February 7, 2005 the FATF Plenary meeting took place, when The Progress Report of the Government of Ukraine on progress of national AML/CFT system after exclusion Ukraine from the NCCT-list was presented.

During the meeting were discussed issues first of all concerning National AML/CFT system improvement; appropriate legislation; activity of state authorities on regulation and supervision over financial sector; law enforcement and judicial authorities activity; progress on FIU of Ukraine development.

During the period from November 26, 2005 to December 2, 2005 was organized visit of the SCFM delegation to Rio de Janeiro, Brazil with the purpose of participation in Joint meeting of FATF/GAFISUD experts on money laundering and terrorist financing typologies, as well as in Workshop on money laundering and tax crimes issues.

8.1.2. Cooperation with Egmont Group

- **April**

SCFM representatives took part in meetings of Outreach working group, IT working group, Operational working group and Training working group of Egmont Group. During the discussion of agenda issues, the attention was paid to the issues of Ukraine's sponsorship for Azerbaijan and Kazakhstan to join the Egmont Group.

- **June**

Delegation of SCFM took part in the Tenth Egmont Plenary and meeting of Egmont working groups.

- **October**

SCFM delegation took part in meetings of Egmont Group working groups and meeting of Egmont Group Committee.

The special attention was paid to the results analysis of participation of SCFM representative on behalf of Egmont Group in the national seminar on the issues of creation and functioning of financial intelligence unit in Uzbekistan Republic, Kazakhstan, Kirghiz Republic.

8.1.3. Cooperation with the Council of Europe/European Commission

Implementation of the Project against Money Laundering in Ukraine (MOLI-UA) (from February 2003 till June 2005) became the confirmation of fruitful cooperation between Ukraine, the Council of Europe and the European Commission.

The promotion to creation of the National AML System and assistance to the Ukrainian state agencies in development and improvement of international cooperation in AML sphere in accordance with international standards were the primary objective of this Project.

Within MOLI-UA Project a broad range of activities were implemented to assist in organizational structure formation, creation of SCFM regional divisions, development of normative legal acts in the AML/CFT sphere, establishment of constructive international cooperation with foreign FIUs, international and profile organizations, improvement and strengthening of interagency cooperation of Ukrainian state authorities etc. With assistance of MOLI-UA Project, the SCFM succeeded to create one of the most modern and sophisticated information-analytical systems of FIUs.

MOLI-UA Project became the considerable step forward of SCFM of Ukraine, central agencies of power and other concerned institutions in the process of formation and improvement of the National AML System in Ukraine.

On August 2, 2005, the European Commission adopted the National Action Plan TACIS for Ukraine on 2005, in which the follow-up Project against money laundering and terrorist financing (MOLATEFI-UA) that is a continuation of MOLI-UA Project was included.

Assistance in prevention and control over the money laundering and terrorist financing in Ukraine in accordance with European and international standards is the general purpose of the follow-up MOLATEFI-UA Project.

Project is targeted on the subsequent improvement of the mutual understanding and cooperation between state authorities of the National AML/CFT System, as well as subsequent increase and improvement of employees' qualification of institutions concerned.

Representatives of SCFM of Ukraine on permanent basis participate in MONEYVAL meetings (Council of Europe Select Committee of experts on the evaluation of anti-money laundering measures), where they present interests of Ukraine.

During a year within the framework of cooperation with the Council of Europe and the European Commission, international seminars, trainings and working visits, as well as visits of SCFM experts to FIUs of European countries were conducted.

- **January:** Participation in the 16th Moneyval Plenary meeting, where the Report of Ukraine under the 2nd round of mutual evaluation was considered and positively perceived by Moneyval Committee.

- **February:**

- participation in training for the representatives of financial sector of Ukraine, at the assistance of Grand Duchy of Luxembourg ("Anti-Drug Trafficking Fund ") and the Council of Europe;
- work consultations and meetings of SCFM administration with representatives of the European Commission in order to discuss issues of next MOLI-UA Project implementation.

- **March:**

- carrying out the 4th meeting in Kiev of the Steering Committee on implementation of the Mutual cooperation program between the European Commission and the Council of Europe for strengthening democratic stability in Ukraine (March, 18, 2005).
- participation in the workshop "Cooperation between Financial Intelligence Units, the Police and the Public Prosecution", organized by Directorate for Prevention Money Laundering of the Republic of Macedonia within the framework of the Project against money laundering in the Republic of Macedonia (MOLI-MK).

- **April:** visit to FIU of Czech Republic aiming at learning of features of the AML System of Czech Republic, functioning of FIU, regulatory and law enforcement authorities.

- **May:**

- participation in International Conference "Ways of Strengthening Cooperation between Ministry of Interior of Russian Federation and Other State Institutions in Anti Money Laundering Sphere" in the framework of Project against Money Laundering in Russian Federation (MOLI-RU).
- participation in the 17th MONEYVAL Plenary Meeting.

- **June:**

- a final seminar within the MOLI-UA Project "Decreasing money laundering risks" took place in Kyiv. During the seminar, the experience and results of implementation of Projects against money laundering in Ukraine, Russian Federation and Republic of Macedonia, procedural-legal principles of money laundering risks decreasing, role of law enforcement authorities in the legal system of prevention to money laundering, issues of counteraction to using bank system of Ukraine in money laundering were discussed.

Under results of this meeting, the Address of the International seminar participants "Decreasing money laundering risks" was adopted, where the main achievements of the MOLI-UA Project were mentioned and the necessity of continuation of SCFM and the Council of Europe cooperation within the next MOLATEFI-UA Project was emphasized.

- participation in final seminar in the framework of MOLI-RU Project, during which 2 years activity on the Project was summarized and the necessity of proceeding implementation of such projects was expressed.

- **September:** negotiations and correspondence with the European Commission, during which the issues of the National Action Plan TACIS for Ukraine on 2005 and MOLATEFI-UA Project adoption and implementation were clarified and discussed.

- **October:** participation in the Octopus Interface on Combating Economic Crime (Octopus Interface Conference), organized by the Council of Europe in Lisbon, with the purpose of discussion of economic criminality in Europe issues.

- **December:** visit of experts of European Union evaluation mission on justice, security and freedom issues to SCFM to discuss the issues concerning measures which SCFM implements in the AML sphere in the context of fulfillment of the EU Action Plan in the sphere of justice and home affairs in Ukraine.

SCFM experts permanently provide assistance and consultative support to AML/CFT system development in Macedonia, within the MOLI-MK Project of the Council of Europe.

8.1.4. Cooperation with the Eurasian Group

Representatives of SCFM of Ukraine on the permanent basis take part in working groups meetings and Plenary meetings of the Eurasian Group on combating money laundering and financing of terrorism (EAG).¹⁰

Within 2005 the SCFM experts took part in the work of the following EAG Working groups:

- working group on legal issues;
- working group on technical assistance;
- typologies working group.

In particular, in 2005 the SCFM experts took part in the following EAG international activities:

- **March:** first meeting of EAG working groups, when the organizational meetings of working groups were conducted and, in particular, the recommendations on FIU creation issues were developed (Moscow, Russian Federation).

- **April:** second EAG Plenary Meeting and meeting of working groups (Shanghai, Peoples Republic of China).

- **November:** first EAG seminar on AML/CFT typologies (Moscow, Russian Federation).

- **December:** third EAG Plenary Meeting and meeting of working groups, conference of donating organizations and countries (Moscow, Russian Federation).

As a result of that meeting, typological research "Use of fraud schemes of illegal VAT compensation from the budget, at export of goods (works, services) for acquisition of criminal assets and its further legalization" was completed, that was carried out under the leadership of SCFM of Ukraine.

During the Conference of organizations and donor states delegation of SCFM of Ukraine expressed its willingness to become one of the donors for Belarus, Kazakhstan, Kirghizia and Tajikistan in order to provide these states with technical assistance with regard to establishment and improvement of information-analytical system and strengthening organizational basis of FIU.

¹⁰ In accordance with the Decree of the President of Ukraine "On Participation in the Eurasian Group on combating money laundering and financing of terrorism" of September 30, 2004 #1156/2004, SCFM of Ukraine was designated responsible for cooperation with the Eurasian Group on combating money laundering and financing of terrorism and for presentation of Ukraine's interests in this organization.

Moreover, assistance in creation of FIUs in the states where such agencies have not been established yet was also suggested. In particular, Ukraine offered its expert assistance in elaboration of concepts for development of FIUs of the said states, provision of consulting and methodological assistance, and training of staff and exchange of experience.

8.1.5. Other international events

At the same time during 2005 other working visits of SCFM delegations took place and were aimed at realization of the following:

- **January:** Participation in the 10th Euromoney Central & Eastern European Forum, which was held in Vienna (Austria) in January 11-12, 2005;
- **February:**
 - Visit to the Kingdom of Saudi Arabia, Riyadh, for participation in International conference on combating terrorism;
 - Within the framework of regular Ministerial Meetings of Justice and Home Affairs between Ukraine and EU, delegation of Ukraine participated in next meeting in Brussels (Belgium).
- **May:**
 - participation in the training course "Combating money laundering" organized by Egyptian fund for technical cooperation with CIS states under the program of technical cooperation between Ukraine and the Arab Republic of Egypt, which took place in Cairo.
 - participation in the Second FIU Meeting "Open House" in Bogota, Republic of Columbia.
 - participation in regional seminar "Problem of Money Laundering using Reinsurance", carried out in cooperation with World Bank, US Department of Justice and Prosecutor Office of Georgia.
- **October:**
 - participation in expert group meeting on revision and approving of draft AML/CFT Agreements of Commonwealth of Independent States participants in Minsk, Republic of Belarus.
 - visit to FIU of Georgia to discuss real money laundering cases, as well as strengthen cooperation and working communication between FIUs of Georgia and Ukraine.

- **November:**

- active work and presentation during IT Seminar in the area of AML/CFT, organized by IMF and Joint Vienna Institute, which took place in Vienna, Austria.
- participation in the 7th World Summit on combating money laundering and transnational crime, which took place in Monaco.
- participation in international Conference on combating terrorist financing, organized by OSCE in cooperation with US Government, under support of NATO and UN Office on Drugs and Crime (November 8-12, 2005).

- **December:** SCFM expert provided presentation to the FIUs of Balkan countries during the videoconference organized by World Bank.

During 2005 Memoranda of Understanding concerning cooperation in the area of combating money laundering and terrorist financing with FIUs of the following countries were concluded: Bulgaria, Lithuania, Albania, Peru, Mexico, Thailand, Republic of Korea and Guatemala.¹¹

In February 2005 Memorandum of Understanding between FIU of Ukraine and ICC - Commercial Crime Services was signed.

Work is proceeding on drafting and signing of Memoranda of Understanding with FIUs of 12 countries.

Moreover, during the year SCFM carried out activity on preparation and generalization of following documents for international organizations:

- for FATF Plenary Meetings: reports of Government of Ukraine on development of National AML/CFT System as for February;
- for MONEYVAL: Report of Ukraine on results of second round of evaluation of Ukraine; working documents for 17th MONEYVAL Plenary Meeting.
- for international organizations - information on legislative initiatives of Ukraine: Draft Law of Ukraine "On Introducing Amendments to the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime", Concept for Development of AML/CFT System for 2005 - 2010, Resolution of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine "On Approving AML/CFT Action Plan for 2005", as of August 10,

¹¹ Totally, during 2003-2005 27 Memoranda of understanding concerning cooperation in the sphere of combating money laundering and terrorist financing were signed.

2005 No. 736, Statute on conducting financial monitoring by securities market participants, the Law of Ukraine No. 3163 - IV "On Introducing Amendments into Certain Laws of Ukraine on Improvement of Legal Regulation of International Cooperation in the Area of Prevention of Terrorist Financing".

8.1.5.1 Providing Technical Assistance to foreign FIUs

Within support of MOLI-MK Project, experts of SCFM of Ukraine provided assistance to Macedonian FIU:

- in workshop "Future computerized system of data analysis and information exchange in the area of anti money laundering" (Skopje, Macedonia).
- in workshop "Role of international cooperation in combating money laundering: experience of technical assistance projects" (Ohrid, Macedonia).

At the same time, delegation of Macedonian FIU visited SCFM of Ukraine with purpose of discussing issues of bilateral cooperation and experience exchange.

In the framework of Technical Assistance AML/CFT Program in Central Asia, and on the invitation of the World Bank, UN Office on Drugs and Crime and International Monetary Fund, SCFM of Ukraine experts presented speech on behalf of the Egmont Group in seminars "Creation and Operation of Financial Intelligence Unit" in Republic of Kazakhstan, Kyrgyz Republic and Uzbekistan.

8.2. Information exchange with FIUs

SCFM is very active in establishing partnership and cooperation with FIUs of different countries. Such cooperation is continued in different directions, the main is - exchange of information on ML/TF cases with other FIUs.

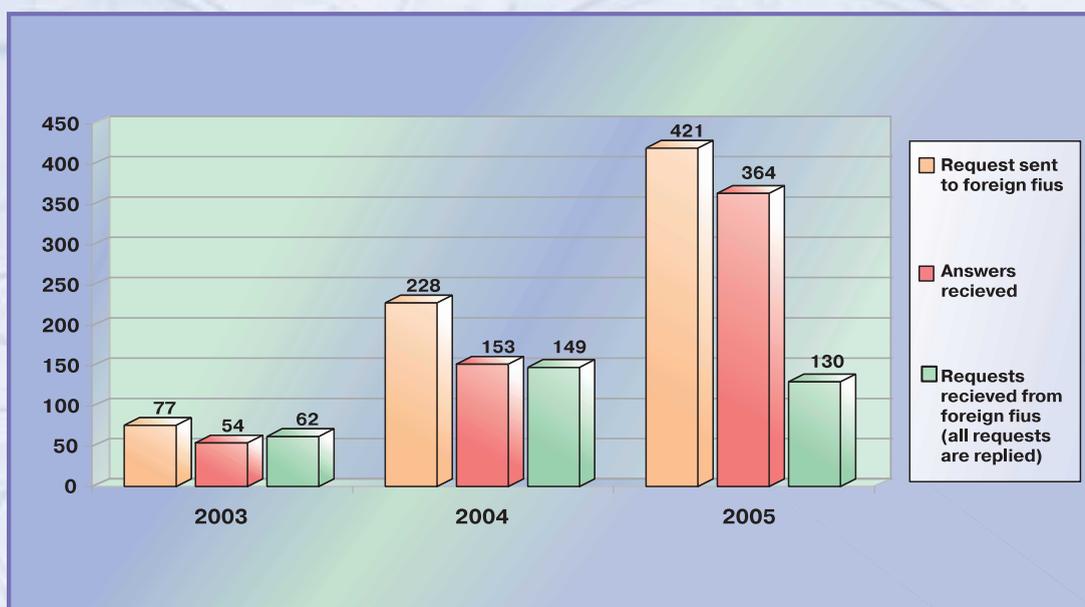
Information exchange is based on best practices and recommendations of the Egmont Group. Main principles of requests processing are efficiency and confidentiality.

During 2005, SCFM cooperated with more than 60 FIUs. Most active information exchange was carried out with FIUs of Latvia, the USA, Germany, Moldova, Republic of Belarus and Russian Federation.

During the year FIU of Ukraine:

- sent 421 request to 60 foreign FIUs, and obtained 364 replies;
- received 130 requests from 37 foreign FIUs (all requests are replied).

Interaction with foreign fius in 2003-2005



Moreover, in 2005 INDECCS project started, in particular participation in working meeting of participants in Moscow. The aim of this project is elaboration of modern software for automation of information exchange between FIUs. Such project will enable measurement of exchange efficiency of each FIU, and compliance with FATF 40 Recommendations and Egmont best practices of information exchange.

9. Perspectives for 2006

Principal tasks of SCFM of Ukraine for the next year remain:

- Collecting, processing and analysis of information on financial transactions, subject to obligatory financial monitoring.
- Preparation and submission of case referrals to law enforcement authorities.
- Establishment of more efficient cooperation with regional SCFM subdivisions and improvement of cooperation with law enforcement authorities with purpose of preparation and submission of case referrals.
- Industrial exploitation of UIS and improvement of IAS.
- Determining non-compliant with reporting requirements financial intermediaries and taking measures envisaged by legislation for bringing guilty persons to responsibility.
- Carrying out of typological research on basis of materials of 2006, as well as in the framework of international organizations tasks laid on SCFM.
- Participation in Egmont and EAG working groups, Moneyval meetings.
- Creation list of persons related to terrorist financing and immediate processing of reports of financial institutions on suspension of such persons transactions.
- Signing of international Memoranda of Understanding concerning cooperation in the AML/CFT sphere.

Перелік скорочень

FATF - Група з розробки фінансових заходів боротьби з відмиванням коштів;
MOLI-UA - Проект технічної допомоги Європейської комісії/Ради Європи з питань боротьби з відмиванням доходів, одержаних злочинним шляхом, в Україні;
MONEYVAL - Спеціальний комітет експертів Ради Європи з взаємної оцінки заходів протидії відмиванню коштів.
базовий Закон - Закон України "Про запобігання та протидію легалізації (відмиванню) доходів, одержаних злочинним шляхом";
ГПУ - Генеральна прокуратура України;
Держфінмоніторинг - Державний комітет фінансового моніторингу України;
ДКРРФП - Державна комісія з регулювання ринків фінансових послуг України;
ДКЦПФР - Державна комісія з цінних паперів та фондового ринку;
ДПА - Державна податкова адміністрація України;
ЕАГ - Євразійська група з протидії легалізації злочинних доходів і фінансуванню тероризму;
ЄІС - Єдина державна інформаційна система у сфері запобігання та протидії легалізації (відмиванню) доходів, одержаних злочинним шляхом, і фінансуванню тероризму;
ІАС - Інформаційно-аналітична система Держфінмоніторингу України;
МВС - Міністерство внутрішніх справ;
МРГ - міжвідомча робоча група з дослідження методів та тенденцій у відмиванні доходів, одержаних злочинним шляхом;
НБУ - Національний банк України;
ПФР - підрозділ фінансової розвідки;
СБУ - Служба безпеки України;
СПФМ - суб'єкт первинного фінансового моніторингу;
УМ - узагальнений матеріал.

List of abbreviations

Basic Law - Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime";
EAG - Eurasian group on combating money laundering and financing of terrorism;
FATF - Financial Actions Task Force;
FIU - Financial Intelligence Unit;
GPOU - General Prosecutor's Office of Ukraine;
IAS - Information Analytical System;
IWG - Interagency working group on research of money laundering methods and trends;
MI - Ministry of Interior;
MOLI-UA - Project Against Money Laundering in Ukraine;
MONEYVAL - Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures;
NBU - National Bank of Ukraine;
SCFM - State Committee for Financial Monitoring of Ukraine;
SCRFSM - State Commission for Regulation of Financial Services Markets;
SSMSC - State Stock Market and Securities Commission;
SSU - Security Service of Ukraine;
STA - State Tax Administration of Ukraine;
UIS - Unified State Information System in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime and terrorist financing;
xTR - financial transaction report of any type (STR, CTR, UTR, threshold report etc.).